Conference Call Transcript
Banco PAN (BPAN4 BZ) – 3Q20 Results
November 5, 2020

Operator:

Good afternoon, ladies and gentlemen, and welcome to Banco PAN's conference call to discuss the 3Q20 results.

This event is also being broadcasted simultaneously on the Internet, both audio and slide show, which can be accessed on the Company's IR website, www.bancopan.br/ir, and MZiQ platform, with the respective presentation.

We would like to inform you that all participants will be in listen-only mode during the Company's presentation. After the Company' remarks are completed, there will be a question and answer session. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Forward-looking statements are subject to known and unknown risks and uncertainties that could cause the Company's actual results to differ from those in forward-looking statements. Such statements speak only as of the date they are made, and the Company is under no obligation to update them in light of further future developments.

With us here today, we have Mr. Mauro Dutra, Banco PAN's CFO and IRO, and Mr. Inácio Caminha, Head of Investor Relations and Funding.

Now I will turn the conference over to Mr. Mauro Dutra, who will begin the presentation. Mr. Mauro, please, you may begin your conference.

Mauro Dutra:

Good morning. Thank you all for being here with us, in name of Banco PAN, to talk about the results of the 3Q20 and our presentation.

We are, in a general way, very satisfied with the overall performance of the Bank during this quarter. As we manage the bank conservatively, we advanced on our digital strategy, and we also delivered very consistent results in our view.

I will start on slide two, where you can see the highlights of the 3Q. Starting with the average monthly origination, we originated R$2.3 billion per month in this quarter, which represents a 30% growth when compared to the same quarter of 2019.

Our credit portfolio reached R$25.3 billion, with a very good performance that we will give you some details during the presentation. Our earnings before taxes reached in the quarter R$259 million, and in the 9M20, R$677 million, which represents 40% more than we have at the same period of last year.

With these earnings before taxes, we reached a net income of R$170 million in the quarter and R$485 million in the 9M20, which also represents almost 40% growth when compared to 2019.

With such net income, we reached 21.5% adjusted ROE in the quarter, in line, 21.6% ROE in the 9M20, and the accountant ROE was 13.2% in the quarter, 12.7% in the 9M, compared to 10.4% in the 9M19, which is an important improvement in such metric.

Our equity reached R$5.2 billion to rise in September, compared to R$4.8 billion in September 2019, and our Basel ratio reached 16.5%, which is fully comprised for core Tier 1 capital in this indicator.

Moving on to slide three, we will then talk about the quality of our portfolio, the performance of our credit portfolio. Starting with the default ratios, the over 90 ratio decreased from 7% in June, at the end of the 2Q, to 6.7% in September, the end of the 3Q, and the early indicator, the over 15 to 90 days ratio, also improved from 8.9% to 7.3%.

For this early indicator, you have some details at the bottom of the slide, where you can see this improvement has been consistently on a monthly basis, since the peak in April 2020.

Also important to mention, the ROE kept our very conservative approach in terms of credit deferment. We only postpone two installments of 13,500 clients, which represents almost 1% of our portfolio, and 92% of the subsequent overdue installment has already been paid, showing the quality of the credit we postponed.

Our credit policy remains conservative in terms of credit metrics, and we are comfortable with such policy to face the crisis and the economy looking forward.

When you move to slide four, you can see that the delinquency ratios are bringing lower provisions on our results. So we had the provision expenses compared to the portfolio of 4.8 in the 3Q, compared to 5.9 in the 2Q. It happened because not only the provision expenses themselves decreased, but also the credit recover was also better in the quarter, indicating that our portfolio is performing pretty well. Also worth to mention that our portfolio was kept at 94% in payroll loans and collateralized loans, which is mainly represented in our vehicles financing business.

Talking about our digital strategy on the next slide, slide five, we have our three pillars here. The first one is the digital formalization, in which we reached almost 70% of the payroll loans transactions formalized using digital tools. And for the vehicles business, we reached 96% in the quarter. We can say that 82% of all the transactions we made in these two businesses in the month of September were formalized digitally.

The second pillar of the digital strategy is our digital bank, which is already a very complete experience for the client, and we are launching new features on a quarterly basis, as we are talking with few investors.

For this quarter, we launched Poupa PAN, which is a time deposit with daily liquidity, pretty much in line with our clients' needs, and we are very satisfied with that. And we also started the registration of the instant payment, PIX, which in our view will bring very much better user experience for our clients, which will allow us to engage more clients in our digital bank.

Talking about our partnerships, we would also like to mention our diversification in terms of products and channels. And in the diversification of channels, we are increasing the number of total partnerships we have here in the digital bank, reaching 46 in September, in the end of the 3Q.

So we are very happy with our digital banking, our digital strategy. We are advancing as we expected, and we are seeing the clients and partners more engaged with the bank and with our tools.

I will then let Inácio go through our detailed figures, and then we can talk about any questions you may have.

Inácio Caminha:

Great. Moving on to slide six, we have the quarter results, the main numbers and indicators. In the upper left corner, we see the chart showing the net interest margin, which totaled R$1.4 billion, 20.5%, advancing due to the increase in the core portfolio, also associated with strong spread levels. In this quarter, we assigned lower volumes than we did in the 2Q.

We already talked about credit provisions that decreased in the quarter. The other expenses totaled R$715 million this quarter, increasing mainly due to origination expenses related either to greater volume or to different mix, but including, as well, the effects of the digital bank.

In personnel expenses, collective agreements also had an impact. So we got to earnings before tax of R$259 million, R$170 million net income, and finally, the 21.5% adjusted ROE, a very robust level.

The next slide brings the accumulated figures for the 9M. Net interest margin got to R$3.8 billion, increasing 28%, credit provisions increased 19%, totaling R$1.1 billion, other expenses also increased 19%, totaling R$2 billion. And these levels of expenses, in the end, they reflected the Bank that changed in these 12 months. So not only about growing origination, but also more investments in technology, and obviously, the digital bank, which had no effect in the 9M19, for instance.

Even so, we saw an important evolution in the earnings before tax, reaching R$677 million, 41% above the same period of 2019. And we keep seeking more efficiency gains. Net income was R$485 million, and the adjusted ROE, 21.6%.

Speaking about the adjusted ROE, on slide eight, we have the composition based on the accounting ROE. So this metric has basically two adjustments: in the net income and also in the equity. The adjusted results, the adjusted net income is calculated by excluding the excess of financial expenses from the legacy deposits, so that we would have, instead of the R$170 million, R$223 million in the quarter and R$647 million in the 9M. It is very important to mention that in this 4Q20, approximately 1/3 of the deposits mature, so they will have the accounting results.

In the second adjustment, we exclude the excess of DTA from the legacy tax losses, which does not allow us to leverage our balance. So we compare that adjusted profit with R$3.9 billion of adjusted equity. Therefore, we come from this 13.2% accounting ROE to the 21.5% adjusted ROE in the 3Q, for example. These are two simple adjustments, simple to understand and better translate to the Bank's return in the margin.

About origination, on the next page, we show the evolution. We see a record of R$2.3 billion in the 3Q, advancing 29% in 12 months, totaling almost R$7 billion in new credits in this quarter.

In payroll loans, we originated R$1.2 billion per month, keeping the same level as we saw in the last quarter, which was already a strong quarter. In vehicles, we generated R$672 million per month in the quarter, increasing 61% over the 2Q, with a very conservative origination, maintaining a better performance than observed by the market.

In credit cards, we also advanced significantly, reaching R$511 million per month, reflecting here not only the partnerships, but also the first signs of the digital bank.

With that origination, we got to the credit portfolio, on the next slide, which increased 7% in 12 months, totaling R$25.3 billion. Structurally, the distribution of products remains similar, with payroll representing 52%, R$13.3 billion. Vehicles portfolio ended the quarter at R$9.8 billion, or 39% of the total. Credit cards reached R$1.4 billion, also advancing, representing 6% of the total.

And then we have the runoff portfolios that retreated significantly. So if we look at the core portfolio, which excludes these runoffs, we had a greater increase. So 4.4% in the quarter and 11% in 12 months.

It is also worth mentioning that the relevance of payroll loans and collateralized loans accounts for 94% of the portfolio, and renegotiated loans are very small, only 0.6% of the portfolio. We also see here the originated portfolio, which includes the portfolio assigned to controlling shareholders, which ended the quarter at R$32.6 billion.

Talking about payroll, on slide 11, we continue as a very relevant player, with focus on federal holds. In this quarter, we originated R$1.2 billion, R$3.7 billion in total, out of those 94% regarding loans and 6% on credit cards.

We maintained a very strong level of production in line with 2Q, when we had these regulatory changes that allowed a greater volume back then. And then, we also saw 59% of total origination made through our digital platform, which has been a very strong differential in the market, bringing more efficiency. Also, it will allow us to scale the B2C business.

The origination remains concentrated in federal agreements, representing 95%, out of those being 84% of the Social Security program.

We saw an increase in both portfolios, not only in the loans, but also in credit cards, totaling R$13.3 billion, and we have seen recently other regulatory changes that will likely generate more opportunities in the short term, as we have already seen.

Moving on to vehicles, on slide 12, the portfolio increased 20% in 12 months, reaching R$9.8 billion, with a very adequate level of loan to value and also churn in these loans. The table shows an interest increase, reaching R$572 million per month, a record in origination. If we compare to the market, the performance in light vehicles remained above, even with a recovery made by the market recently. But in motorcycles, the difference is very strong. We see a relevant growth, gaining market share and maintaining absolute leadership for several months.

It is also worth mentioning that our main objective here in this business is to originate with quality and profitability. So market share is only a consequence.

And as I mentioned before, the digital formalization platform also advanced significantly in vehicle financing. We got to 96% of everything originated without paper, and this has been benefiting a lot the operation, when providing a better experience not only for the partners, but also for the for the clients.

Moving on to credit cards on slide 13, transactions increased very significantly, 64% in 12 months, reaching R$1.5 billion in total, and here we see the impacts of greater issuance of cards sold through multiple channels, and we also see the first signs of the digital bank. We are very satisfied and see a lot of opportunities ahead.

Another very interesting aspect is that our customers are increasingly digital, whether in hiring the credit card, or servicing, or even receiving invoices, which brings more efficiency and better experience for everyone.

On page 14, we see the evolution of insurance premiums. We originated R$35 million in premiums per month in the quarter, recovering significantly following the performance of vehicle origination, but also with the beginning of new types of insurance, for example, mechanical assistance, that has been advancing.

To promote more opportunities in insurance sale, we have started to offer payroll loan insurance, with great potential for growth, and we also see the digital bank as an important tool to leverage this sale of other types of insurance.

On slide 15, we see the evolution of funding, which closed the quarter at R$25.5 billion, increasing 10% in 12 months. Deposits as a whole increased participation, contributing to the to the spread of our funding, diversifying through direct customers, and also independent distribution platforms, including, as well, institutional investors.

And on slide 16, to conclude, we have the capital. We ended the quarter at 16.5%, entirely comprised by CET1, showing a very strong level of capital that will allow us to move forward with our growth plans. Our strategy remains the same, to be a complete banking solution platform, focused on credit for low income population, digitalization and diversification of products and channels. In addition to everything that we already do, the PIX and open banking will contribute to our growth and assertiveness in customer relations.

With that, we conclude the presentation and open the line for questions.

Operator:

Since there seems to be no further questions, I would like to turn the floor over to Mr. Mauro Dutra for his final remarks. Sir, you may proceed now.

Mauro Dutra:

Thank you, everyone online for being here with us. Just reinforcing, we are pretty confident with our strategy, and very excited with the opportunities we see ahead. And see you next quarter to talk about the results of the 4Q. Thank you.

Operator:

This concludes Banco PAN's conference call. You may now disconnect, and have a good day.