International Conference Call
Banco Pan (BPAN04)
4Q24 Earnings Results
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Operator: Good afternoon, everyone. Welcome to Banco Pan's conference call to discuss the results for the 4Q24.

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The presentation will also be available for download after the event. We would like to inform everyone that this event is being recorded, and all participants will be in listen-only mode during the presentation. Once the presentation concludes, there will be a Q&A session during which additional instructions will be provided.

Before we proceed, we must clarify that any statements made during this conference call regarding Banco Pan's future outlook, projections, and operational and financial goals are based on the beliefs and assumptions of the company's management, as well as on currently available information. Forward-looking statements are not guarantee of future performance. They involve risks, uncertainties, and assumptions as they refer to future events and therefore depend on circumstances that may or may not materialize.

Investors and analysts should understand that general economic conditions, industry conditions, and other factors may impact the bank's future performance and lead to results that will materially differ from those in the forward-looking statements.

Joining us today are Carlos Eduardo Guimarães, Chief Executive Officer of Banco Pan, and Inácio Caminha, Head of Investors Relations.

I'll now turn the floor over to Mr. Guimarães, who will begin the presentation. Cadu, you may go ahead.

Carlos Eduardo Guimarães: Welcome to another presentation of Banco Pan.

I'm starting with slide two, the highlights for 2024, portfolio growth by 20%. Two factors explain that: First, origination, which was stronger by 22% in 24 compared to 23; and also, the credit assignments were lower by 40% when compared to 2023.

Delinquency stayed at the same level, even with a higher share in the vehicle's portfolio inside our mix. The margins of the cost of credit continues to improve with very robust levels. Our app evolved in a relevant manner along the year. And I would like to highlight three points here: In sales, all our credit products are already available for sale on our app; and for after sales, we have more services being made available, thus reducing our cost of service; and in addition to that, both for sales and after sales, we had a significant improvement in the customer experience of our app.

Now I'm going to move on to page three. We closed 24 with 31.5 million clients, considering half with credit exposure with us. The credit portfolio closed at R$52.7 billion, even with the significant drop of the origination of payroll and of workers' severance guarantee funds. We stopped that in the channel of B2B because of the economic difficulties of the ceiling.

We reached 855 million of net income with a return on equity of 11.7%. Two additional comments here: First, is that we expect for 2025 a return of profitability of payroll from the INSS and therefore higher origination compared to the 4Q; and another important comment is the private payroll loans. We're very excited with the potential of this market. Obviously, there are still some definitions to be made, but we expect the product to be launched in the 1H of this year. And I'm certain that we are going to be able to capture a very interesting opportunity coming from our customers.

Now I'm going to turn to Inácio that will give you a bit more color on our numbers.

Inácio Caminha: Okay, then. So, moving on to slide number five. Here we have engagement. So we have here activation of our clients of 61% of 31.5 million clients. We evolved naturally along the year in engagement as a whole, and I think the main highlight is the transaction volume that grew 36% in 12 months. And this shows how we want to grow in customer relationship and engagement, enhancing the number of transactions, having a stronger banking, and a better experience, as Cadu mentioned, with all our evolution with the app.

So the transaction volume closed at close to 35 billion the last quarter. Well, origination more specifically, which is really the driver of the bank, on slide six, that was clearly impacted by the shutdown that we had for the INSS, but all the others continue strong, especially vehicles. We closed the year with record origination the last quarter in vehicles, R$5 billion that were originated. We are still leaders with motorcycles with 33%, also a very important share with light vehicles at about 9%. Payroll is a bit more difficult now because of the ceiling and the two-year interest rates that we observed in the 4Q.

And in the beginning of 25 in January, we are more or less at the same pace in terms of standing, but along the year, this will probably pick up, as Cadu mentioned. We are originating from our own channels but also signing other partnerships with 2.2 billion in the 4Q.

And 600 million of the workers' severance guarantee fund with 300 million of personal loans. And in addition of the 300 million in personal loans, there is another part that we have been enhancing and exploring are, you know, installments with interest rates that we do not see in this indicator, but in our portfolio, we can see how this has been evolving with the expansion of clean credit. So it's a slow move, but we think it's very important, especially with regards to profitability.

And talking about the credit portfolio now on slide seven, we see an important growth of 26% in the year. And again, as Cadu mentioned, part because of a stronger origination, lower credit assignment compared to 23, vehicles with 30 billion, growth of 365 in the year, payroll plus the workers' severance guarantee fund with 19 billion, slightly lower growth, 115 in 12 months. But when we see credit cards and personal loans together, they were about 5% and now they are 6% of the portfolio and they grew very strong, especially in the last quarter.

So if we compare to all our products, they were the ones that grew the most. Of course, it's still a small volume, but little by little, we get more room for this kind of products. And all together, the 52.7 billion that we have in our balance sheet.

On slide eight, this is even clearer. So you see the subtle change that started to happen in vehicles and in personal loans. So you see 15-90 went up by 20 bps and over 90, about 10 bps. So we do have the appetite to continue originating credit. In the end of the year, we increased the margins, so we are talking about a more challenging scenario in 25, so we increase margins to cope with a potential delinquency rate increase and we are very confident with the evolution of our results. So, over 90 close, that's 7%, and 15 to 90 in 8.6.

On slide nine, we talk a lot about credit. So we do see the bank as a complete platform of credit to our customers. This is essential not only as a tool of engagement but also of monetization. Half of our customers have some kind of exposure. In previous quarters, we saw constant growth of the amount of customers with credit. In this quarter, we do see a small retraction, but it's very, very small. And the main reason is the amortization that we had, the last payment of the Auxílio Brasil product. This was a product that we launched at the end of 22 with the maturity of 2 years, it finished in 24, it was a very good operation, both for our clients and for the bank, and we also did see a lower contribution given the lower amount of new payroll loans.

But for the future, again, we want to pick up growth and continue growing the number of customers with credit, not only in terms of amount, but also share of wallet. That is how much credit we have with our customers. And the idea is to have an increasing share.

Talking a bit of services on slide 10, we did have an important increase in the quarter, and naturally in the year. Origination of vehicles does contribute a lot for that. In the third quarter, we had an adjustment in the insurance commissions and that obviously had an impact in full in the 4Q. That was expected and we know there is also a seasonal effect in terms of marketplace. So, stronger vehicle origination, growth in services, and marketplace again with the seasonality. And for the future, we already expect continued growth, except for the seasonality, of course.

And talking about cards, on slide 11, we did increase the number of plastics, getting to 193,000. We want to continue growing our client base, always with the approach of build-your-credit. So we start with lower volumes, as the client behaves well, we give them more. And the idea is always to have a combo with the clean credit. So not only have the transactional card but also have this complement of revenues with interests in its several forms. So engagement, we also see with an increased TPV already showing a more important advance. And these are the lines that we believe we are going to see an evolution for 25.

Insurance, on slide 12, we reached 270 million in premium, 4.2 million clients with current policies, active policies. This is a very important product for cross-selling and it does complement our grid of products. And also, we want to continue expanding that for 25.

Financial highlights, net margin specifically on slide 14. We continued with a NIM that's very important. Without the assigned, the credit assignments, that is ex-credit assignment, stayed at 17.5% and that is then after credit costs going to 10.7%. So this is a movement that we have been doing along the quarters consecutively for the bank.

And the results of the quarter, more specifically for slide 15, we had a lower assignment of the credit, we had a result close to zero here. So what you see are phenomenal growth here and increases of the portfolio that is growing with higher margins. In this quarter, we also joined the Zero Litigation program, a very good economic opportunity where you kill any potential tax discussions for the future. And with that, we had the opportunity of activating and using tax credits from tax losses. Without this effect, we had 340 million for the bank, a very important evolution compared to the 3Q that was 267.

And then we close the results with 211 million. So in the combo you see margin growing up strongly, net provision expenses are very stable at about 5.1, expenses as a whole also very well-controlled and the result of 211 million with the return on equity of 11.3. So, annual results, we see the net interest margin again, exception for the period growth and credit assignment grew by 17.1%, more than the portfolio, but because we had less credit assignment, it grew 18%, from R$7.6 to 9 million.

The change of mix did pull out the cost of credit, but you see that the margin is better, as we mentioned before. Expenses as a whole, we see especially expenses with origination that is related to what is originated go up, but other expenses, admin and personnel, grew by 2% a year, less than the rate. And we do expect even a contraction for 25 on this line.

And then profitability in the year as a whole, at the end of the day, net income adjusted by spread went to 855 compared to 775 compared to a return on equity of 11.7. So robust results, preparing the year for an even better 2025.

And to close, on slide 17, we have equity and capital, 8.4, 14.25 Basel ratio. That is managerial. Remember, this is pro forma for regulatory purposes. What is really counted is the capital of the whole Holding, of BTG Pactual. In the last quarter, we talked about that three months ago, we talked about the impact of 4669 that was about 1 billion, and it was close to that, some 900 million.

And we do bring a simulation considering the phase-in of this regulation that was allowed, our managerial capital would change very little. So we would consider the same data of last year, but one day ahead, we would have a drop in equity to 7.4-7.5, but capital changes very little because of the phase-in. And we are quite comfortable and with the capacity to grow in our balance sheet and deliver a year of 25 very strong.

With that, we close our presentation, and we are going to open for your questions.

Question and Answer Session

Pedro Leduc, from Itaú BBA (via webcast): “Origination of payroll loans, there was a low in the 4Q. Now that the curve is better and the ceiling is higher, how do you see any possible recovery? The second question, vehicles had very healthy numbers for 24, what is the outlook for 2025?”

Carlos Eduardo Guimarães: Thanks for your questions, Leduc. I'm going to start with payroll loans. It's true, when you compare to December, the interest for two years, which is the interest rate that we price, had an important drop and we did have an increase of the cap of the payroll loan, and we expect to have two more for the future, and that obviously improves our margins and also our potential to pick up growth in this product.

And here we have a very clear definition in the bank: We are going to originate, one, whatever is good for the client; two, if it is profitable for the bank. So in December, we had a point in time that was not profitable. Now profitability is low, but we do expect for the next 15 to 20 days to resume origination at higher levels. Obviously, that depends on the increase of the ceiling or the cap and also the behavior of the future interest rate for the two years.

Vehicles, yes, an excellent year, very high origination and good profitability. For 25, we are watching out for the macro scenario, but we still believe there is room to continue originating at a very good profitability level. So watching out because of the scenario, not only in Brazil but worldwide, but this is a product we are very knowledgeable about, we've experienced different times in last years, we knew how to drive those products even in more turbulent waters and the macroeconomic scenario. But we continue to be optimistic about this business for 25.

Antonio Ruet: Good morning, everyone. My question is to try and understand a bit better your civil contingencies. This is something that has shown in the last quarter. It did show again in this quarter. So I wanted to understand it a bit better.

I know you have already explained, but if you can go over it again, the reason for them to be higher now, and also your prospect for the coming quarters, perhaps even 2026 as a whole, because as we see it, they in a way offset part of the operational improvements that you are delivering and the improvement of provisions and credit assignment. But bottom line, we see the result being offset by that. So a bit more color would be highly appreciated. Thank you.

Carlos Eduardo Guimarães: Thanks for your question, Antonio. Well, contingencies, not only as a contingency model, but also in all our models, we continue updating things with recent data to know if they are the best way for us to make our provisions. The matter of the fact is that along 24, we decided to reinforce our balance sheet with civil contingencies. This is basically the payroll loan business, payroll and credit cards. We know there is a very predatory litigation in this area, and that had been growing along 24.

So not only an increasing lawsuits, but also the amount of the lawsuits. So, both increased along time, and then that is something that we decided to mirror in our balance sheet in 24. This is part of the business. You have to price contingencies, especially for payroll loans in our origination.

What we expect for the future, for this year, is a number that is reasonably below that of 24, and this reduction is going to show along the next quarters, little by little. So it is an important business. It's a large business. We are very much focused on that. This is not something that happens only to Banco Pan; all retail banks in Brazil do suffer from the amount of litigations. That is really hazardous, especially in payroll loans.

Again, they went up in 24, we are always revisiting our models, more and more, we are using artificial intelligence to try and predict these kind of things and better defend our actions. But the matter of the fact is that it was high in 24, given all that I said. And for 25, we do expect a reduction on this line, which is a very important line in terms of cost for the bank.

Antonio Ruet: Very well. So for 25, perhaps it would make sense to assume the close to 1 billion in 24. For 23, it was 300 million. So should we have something like in between?

Carlos Eduardo Guimarães: No. I would say it would be closer to 24 than it was in 23. Indeed, from then on, we did have changes, not only in the amount of lawsuits, but also increased dollar amounts. So I think it's going to be closer to 24 than 23, but still lower than 24. Okay?

Antonio Ruet: Very clear. Thank you very much.

Brian Flores: Hello, everyone. Can you hear me?

Inácio Caminha: Yeah.

Brian Flores: Okay, great. Thanks, Cadu, Inácio and the team for taking my question. This has to do a bit with all the components. First, growth. I know you're going to grow above the market. But part of the large banks that reported are starting to be a bit more cautious about growth. So, are you going to continue at that pace of growth you had of 20% for 25%? Just for me to understand the magnitude of growth.

And also follow up with private loans, because, Cadu, you did talk about private loans connected back to INSS, but if you could talk a bit about the personal loans, what kind of opportunity you see, and if it has the right economics, as you mentioned, could be a game changer, especially for the component of growth.

And then I would like to talk a bit of cost of funding. With interest rates going up, should we consider a tighter scenario for that?

Carlos Eduardo Guimarães: Thanks for your questions, Brian. I'm going to start by talking about we paying attention to the macroeconomic scenario. We expect for 2025 vehicles with very good profitability, still lower growth than what we had last year in the vehicle portfolio though.

Part of the increase of better results that we expect for 25 has to do more than the piling of better periods, especially with vehicles, than compared to three, four years ago, than a substantial growth of vehicles or personal loans or credit cards in 25.

And why am I saying that? Because again, given the macroeconomic scenario, the growth of these portfolios is not going to be as big as 24. And obviously, we have to monitor that as time goes by. So better results but coming more than the piling up of previous periods with higher profitability than a substantial growth in the credit portfolio, especially with a risk of credits, that is vehicles, cards, and personal loan, than it was last year.

Two, private loans. Well, today, this is a market of approximately 40 billion. We think that we can multiply that by 3 or 4, once the marketplace of origination of personal loans is stablished, we know the connections of this kind of products. And why? Because this is going to be based on the payroll loans of INSS, Auxílio Brasil, and the Workers Severance Guarantee Fund. And we know how this works.

So we don't have anything that is predefined about this product in our budget. It has not been launched yet. We believe it will be launched, and it will be a great opportunity for us to offer to our clients.

Again, remember, the two major products that were launched in the market recently were the Workers Severance Guarantee Fund and the other, the benefit card in the payroll loans. And in these two examples, we positioned as leaders in the launch of these products. We had a leading role in these launches, and this what we expect for personal loans to be really taking a leading role for this product because it has to do with our clients.

And you are going to have some credit risk because it's not as standard. In fact, it's not standard at all when you compare to the INSS because an employee that has been working for one or 10 year in company, or an employee that is working for a very large or medium-sized company has limits of risk and prices that are completely different. And we have the knowledge to be assertive, to be right in pricing this product. So we are very encouraged with the possibility. It is a possibility. We thought that the product was going to be launched in 24. It was not. But for 25, it is an important opportunity.

And the last point was about the cost of funding. I'm going to split cost of funding in two chapters: One, how the cost of funding affects our balance sheet. It does not, because we work 100% on hedge. So the cost of funding going up or down does not affect our results. It should affect our new originations, especially for those products that do have some kind of ceiling or cap. And this is why we are suffering a bit with the payroll loans of INSS because interest rates were up, and we do have a cap that is quite squeezed now. So this is how we see that; and there is another point, a third point that is very important to mention, more and more we are centralizing our capitation with BTG and then we pay less spreads to the market.

So in terms of spread over CDI, we are getting more and more competitive because we are centralizing everything with BTG. So I think I have answered your questions.

Brian Flores: Oh, you did. Thank you very much, Cadu.

Olavo, UBS BB: Hi Cadu and Ansu. Thanks for taking my question. I have two. The first, Cadu, I would like to explore the litigation program a bit better. I tried to do the math just to try and understand the level of profitability the bank would be running given that the negotiation has been done and you're going to follow with compliance and other.

So if you see the net impact that the litigation program generated, and if you think of the DTA of 125 million that you unlocked, you're getting to a net profit of 222 million with a rate close to 34%, so a bit more normal. So if we fit the tax benefit, you would be getting to a very high income for this quarter. Do you think these numbers make sense?

Carlos Eduardo Guimarães: Well, the effect of Zero Litigation, so remember, the Zero Litigation program was a contingency, a tax contingency, thinking of expenses of banking correspondence as the calculation base to reduce the base of PIS-COFINS. There was a legal discussion back then. And along time, we decided that that was not going the right way, so we did have this government program and we decided to join. And so this effect was above LAIR, so it did affect our LAIR.

So if we were removing this effect of Zero Litigation in the 4Q, our LAIR would be R$340 million, reasonably higher than what we had in the 3Q. So that is an effect above LAIR. And that program also had an impact in LAIR – and remember that LAIR is the acronym in Brazil for profit before corporate income tax –, and we used that amount to pay part of the litigations.

So indeed, the variation was only R$10 million. But I think the easier way for you to analyze that, in our opinion, would be considering the LAIR effect and then considering also a tax profit close to 25-27%, which is something that we expect to have that for the year of 25. So I think that is the easiest way to explain it.

Olavo, UBS BB: Okay, it makes sense. But Cadu, if you allow me, just a follow-up before I ask my second question. So given everything that you mentioned and what you even made available in your release. Why didn't you consider having this as non-recurrent and having the disclosure of all the adjustments? Why didn't you consider this so that we could see the reported profit without the litigation effect? Because the litigation effect, if you think of it, is one-off.

Carlos Eduardo Guimarães: Well, this is precisely what we are trying to do now, just to make these movements clear. So we had the litigation program, its size, why it was a very good economic transaction. And so that's the objective, to make it clear the magnitude of the program, that it was It was one-off, and it contributed to the level of results that we had, and we continue to grow.

So, this is the objective. This is the objective of the call. Perhaps in the material, Inácio, we could have made it clearer, but this is exactly what we're trying to convey to you right now.

Olavo, UBS BB: Okay. Yes, because in the morning I did talk to investors to try and understand the point. But after what you said, I think it is very clear. Thank you very much.

And if you allow me just my second question, talking a bit about the pricing in terms of credit assignments, we did notice that the profit accrued in credit assignment almost dropped by half this quarter. And if we add performance bonuses, we did have a drop. And also, the portfolio also went down from 2.2 billion to 1.5 billion, not as much, but there's still a drop.

And I think probably you had a difference because of the deferment for the accrual. But anyway, just to try to understand the drop itself. My question is, are you having a lower yield of sales now than what you had in the past? And if yes, if that's the case, why is it so? Because I understand that the payroll loan market is hard. Anything else that we are not seeing?

And if it's not the case, even with the sale of a lower volume of portfolio in the future, perhaps close to this 1.5 billion per quarter, we should see assignment fees showing better numbers, just to try and understand the dynamics of credit assignment as a whole.

Carlos Eduardo Guimarães: Thanks for your questions, Olavo. Well, first, credit assignment, you have two chapters as well. We have on-day and NPL. In the 4Q, we had a lower credit assignment for the on-day portfolio. With that, a lower origination of the payroll loans. And for the future, in 25, we expect to continue having a substantial drop in the amount of portfolio assigned. Remember, vehicles we never assign. It is payroll loans, credit card loans, and Workers' Severance Guarantee Funds. INSS, very tight margin. We are not going to have room for the assignment.

So we believe 25 is going to be a year with another important reduction in the amount of the credit assignment portfolio. More and more we are increasing our retained portfolio, and we are going to use assignment less and less as a mechanism for the use of capital and funding. Even because today with BTG, we are a lot more mature in the management of capital and funding. And we don't have as much need for credit assignments.

So when you put together these three effects, one is the mix, again, credit assignments on-day and in arrears, then we are retaining more portfolio. We have capital and funding to continue addressing growth without the need to reach new goals that was not possible in the passing funding, but only in credit assignments. So, all that together, we see 25 as a year with lower credit assignment and growth of portfolio, but not as much as we saw in 2024.

But again, less to do with the reduction of profitability of credit assignments, especially for on-day assignments. INSS, yes, because we are originating with lower profitability.

Olavo, UBS BB: Very clear. Thank you very much, Cadu.

Neha, HSBC: Hi, thank you for taking my question. A quick one on asset quality. Could you give us some sense of how you're seeing the asset quality evolved in the key segments where you operate?

I understand that at the end of last year, more as a cautionary behavior, you kind of increased prices for some of the products where you saw more risk. How is the process going and how has the quality evolved versus expectation?

And my second question is, we talked a lot about loan growth and across different segments. Could you give us some numbers what kind of loan growth we can expect for 2025, at least for some of the key segments? Thank you so much.

Carlos Eduardo Guimarães: Ok, thank you, Neha, for your question. First of all, I would say that we've been flat in terms of delinquency rates when considering our different products. The mix of our portfolio has been changing, vehicle loans has been increasing, and payroll loans has been decreasing. But looking at each product, we've been almost flat in terms of delinquency rates.

Talking about loan growth, we believe that we will grow our portfolio for 2025, but I'd say more than the market, but less than we grew in 2024.

Eric: Thanks for taking my last question. It's a quick one. Two questions really. First, a follow-up, especially for long growth focused on vehicles. I think there is a concern of deceleration of this portfolio for 2025. We had gross data for the sale of vehicles for this year a bit lower. So if you could give us a bit more color how confident you are with the extension.

And second, if you could talk a bit about your ROE. You had an expectation for improvement for this year and 26. I hear you had a bit of funding. So to try and understand, just a bit more color for ROE for 26, just big numbers.

Carlos Eduardo Guimarães: Thanks for your questions, Eric. First, about the vehicles market in three segments: First, light new vehicles. We don't work with light new vehicles. Used light vehicles, I'm sorry. This we work. And comparing January to December, the market did have a drop of 5%. Maybe it's a seasonal effect, maybe it's not. But in our best forecast, we do not expect that this market of used light vehicles will go down in 2025 compared to 2024. We do expect growth of 10%.

In motorcycles, that we have more than 30% market share, both for new and used, in both segments we do expect growth above 10 to 15% this year. So the market will grow. Now, when we compare our production, origination of vehicles expected for 2025 against 2024, then I would say that we are going to be close – this is what to expect right now – that was originated on average in the 2H24, and the 2H24 all over again for 25.

Obviously, if conditions do improve or deteriorate, we are going to adjust the original budget, quote, unquote. You know that we don't give guidance, but what we do expect is important growth in the return on equity for 25 compared to 24.

Obviously, the change, because in the accounting for 4966 has negative and positive impact, in terms of results, it's slightly negative, in terms of provision and equity, as Inácio mentioned and we disclosed the number about a billion reals for the beginning of the year, so it's slightly negative, but still considering that, we do expect a significant growth in the bank's profitability for 2025.

Even with a more cautious scenario, we are going to have better profitability coming from better fees, delinquency over control, but also gains of cost. And as Inácio mentioned before as well, except for origination costs, we are going to have lower costs, absolute numbers, than we had last year with a larger portfolio. And the same applies for expenses with contingencies, as I mentioned before.

So putting all this together, these different aspects, even in a more adverse scenario, we believe we can have growth in profitability that is quite fine for 25. Of course, this is just the beginning of the year, there is still a lot to happen and there are things that can affect the capacity of our clients to pay.

Eric: Okay, very clear. Thank you very much, Cadu and Inácio.

Operator: So there are no further questions now, and I'm going to turn the call to Mr. Guimarães for his final comments.

Carlos Eduardo Guimarães: Well, thank you all for joining us. I hope to see you back next quarter. And again, if you have any questions, just contact us. Thank you very much.

Operator: Banco Pan's conference call is now closed. We thank you very much for joining and wish you a very good day and an excellent weekend.