International Conference Call
Banco Pan (BPAN04)
2Q23 Earnings Results
August 3rd, 2023

Operator: Good morning, ladies and gentlemen. Welcome to Banco Pan's conference call to discuss the results for Q2 2023.

The audio and slides from this conference call are being broadcast simultaneously over the Internet on the company`s IR website? www.bancopan.com.br/RI and on the webcast platform. The presentation is also available for download.

All participants will be listening to the teleconference during the presentation, and then we will start the question-and-answer session when further instructions will be provided. Should any of you require any assistance during the conference, please request the help of an operator by dialing star 0.

We'd like to inform you that forecast of future events are subject to risks and uncertainties that may cause these expectations not to be fulfilled or to differ materially from those anticipated. These forward-looking statements speak only as of the day they are made, and the company undertakes no obligation to update them.

Present with us today are Mr. Carlos Eduardo Guimarães, CEO of Banco Pan, and Mr. Inácio Caminha, Head of Investors Relation and Fund Raising.

I'd now like to give the floor to Mr. Carlos Eduardo, who will begin the presentation. Please, Cadu, you may proceed.

Carlos Eduardo Guimarães: Good morning, everyone. Welcome to yet another earnings release of Banco Pan.

We're going to start on slide 2. Our NIM to credit cost increased because lower provision in the conventional card and an increase in the spread of vehicles, regulatory impacts led to a temporary decrease in pay loans market and INSS, changing our portfolio mix. With the increase rate where we're going to have our delinquency rates, we're going to go to our payroll loans through historical performance.

Our delinquency rates to higher vertical shares on the portfolio mix and lower payroll loans origination as expected, we continue with a conservative strategy in the credit origination, very much focused on guaranteed products with a good credit. Our conventional portfolio dropped 13% in this quarter. We had relevant improvements in UX with our apps.

Moving to page 3 now, we closed the quarter with 26 million clients, more than half have credit exposure with us. Our portfolio closed at 38.1 billion with a small reductions explained by less origination of payroll loans, we have stable net income and a very challenging scenario.

I turn over to Inácio, who is going to give further details on our numbers.

Inácio Caminha: Moving on to slide 4, we have the evolution of our clients' base. We have a focus of growing this number that reached 26 million clients with great focus on engagement, and we've been following at a moderate pace on purpose considering the current scenario.

On slide 6, we have our engagement data. We see here overall stability very much to the conservative attitude we have in terms of cards and if we notice, well, with clients with Pix keys, we have a slight increase and we expect this to continue very much due to the improvements. The features we've been launching on our app, we've launched in this quarter the best user experience on the market, I invite you to open an account and test it, any client can simply copy a text message and then we identify, well, in terms of amount and key automatically and the client only confirms to proceed with the transaction. This is an example as to how we've been working the experience to make it frequently more fluid within our applications in our platforms.

Speaking of origination, on Slide 7, as Cadu mentioned, we had a second quarter impacted by the suspension of LOAS, started in early March, beginning of March there was something that twitched to the ceiling and went into open conditions, were different, we saw in practice the whole market slowing down 30% in the second quarter regarding the first quarter, and so, we have an important portfolio on our payroll loan and we notice these numbers now.

General portfolio, we're going to recover it at the end of the month, as Cadu mentioned, and, well, we'll keep on growing. Other products we may remain stable originating 1 billion a month in vehicles, and approximately 400 million in FGTS loans (or workers compensation fund), and this origination that was more combined with our assignment portfolio, we totaled 38.1 billion, changing the mix. We see here clearly that vehicle grew to 49% of the portfolio, payroll and FTS dropped 40% in the quarter, cards totaled 2.7 billion, slowing down in the quarter and the year, showing very well how we have this conservative attitude.

And on slide 9 we give sequence to that. We kept on expanding slightly the percentage of the portfolio with collateral, 92%, adding vehicles and payroll and FTS. And this change in the mix and behavior of vehicles pulled naturally the delinquency rates to 9%. When we see in the chart below the NIM and ex-assignments after credit cost, literally is checking what is the carryover that address to 9% and we have another factor that is extremely important feature of our operations, the percentage of renegotiated portfolio is very small. We have a posture that is very disciplined regarding collection for the numbers depict the behavior of our customers.

Speaking of clients on slide 10, we see 13.3 million clients with credit, we always mention that credit is the main tool for engagement and monetization, we are growing the base without diluting the percentage, and we have an offer that is very complete in our app and the idea is to work on the app and all the channels to bring those clients and engage them increasingly further.

Speaking on fee revenues on slide 11, we had a slight slowdown in the quarter, the great impact deriving from the marketplace, very much linked to retail events that we've seen early this year. In the part of cards, we've seen a change, also slight change in the mix, more use and debit because of more restricted credit card, this shows more transactions as clients have been using the platform, and vehicles obviously with the strong origination, especially with motorcycles gaining more space. And we had an increase in the others totaling 283 million in the quarter.

As for cards on slide 12, we continue keeping this conservative attitude, 130,000 cards were originated in the quarter. We have TPV stable with 1.8, with the change in the mix we had a decrease in revenue to 59 million in the quarter.

In terms of insurance on slide 13, we also observed the effects of origination in the vehicle mix despite vehicles having been stable, and we had greater stake of motorcycles and since they have a smaller ticket than the light vehicles, the premium naturally are reduced slightly, but we assume there should be a development of this total further ahead, and we closed the quarter with 2.4 million customers with outstanding insurance policies.

Speaking of our marketplaces, we start on slide 14 speaking of Mosaico, we've seen a slight slowdown of GMV and some changes in the dynamics of prices with retailers after the January event totaling 670 million of GMV and 7.1 of take rate with 49 million in revenue. But I think it's interesting to notice that the greatest value we see coming from Mosaico is customer capture with higher income, and with that we can offer more products of the bank, especially credit.

So, it's extremely important pillar to engage more customers with really cool experience, we launch on the app the same experience we have on Mosaico standalone, it will be in the bank's website, and we believe this will be an important movement to have customers using things in our bank increasingly more.

Speaking a bit about Mobiauto, we've been improving the experience constantly, there's been an improve in penetration, indication of customers, how many customers go through Mobiauto and actually start loans with us. We've been using Mobiauto in a very interesting way to differentiate ourselves in the market because there is a better and more complete experience.

In the motorcycle segment, the general vehicle marketplace is focused much more on light vehicles than motorcycles, and then we gained more space, and we increased our market share of motorcycles that keeps increasing. We exceeded to 32%, it's an operation with great margins and we like this segment very much, we've been operating on it for many years, and we see a reflex of these vehicles that have been announced that are increasing to 130,000, and revenue of Mobiauto almost 719 million in the quarter.

Speaking of our financial highlights on slide 17, we had a longer evolution of the margin, financial margin. When we look to more recent data, the first and second quarter, we see a drop in margin as a whole in terms of NIM after credit cost, so we have the portfolios with different profiles that have been sold and they consequently added bit less results than we were used to, but it's interesting to notice the blue line the improvement we've had in terms of carryover, coming from 8.7 to 9%, showing a bit of repricing that we've been applying to vehicles.

On slide 18, again we have financial margin, we see this reduction to 16.7 on the general margin result of this signed portfolio. Excluding assignments, we have an improvement of 10 bps, when we look at net provision expenses, we had a retraction in the quarter, main reason is that we actually, as we have been saying since the beginning of the year, that we expected an improvement in the behavior of cards. We've been observing that month after month and naturally the second quarter we had less provisions, and in the first one or fewer provisions in the first and speaking of other expenses because of the smaller origination of payroll and the smaller customer base, we had fewer expenses with origination totaling 400 million within total 995 million in expenses. We closed the quarter stable at 191 million, results with 11.2% of ROE adapting the… well, ex-goodwill of Mosaico.

And to conclude our presentation, we have the slide on capital. We have a strong Basel level, or capital level, and sustainable levels for our growth strategy closing at 15%, and we see overall that we had major advances in the user experience and also delivering a platform that is increasingly more complete of banking and consumption for our customers, and we have been focusing on product diversification in accounts, directionality with more customized services with the intent of earning the journey increasingly more fluid and intelligent.

With this, we close our presentation, and we open up for questions.

Question and Answer Session

Operator: We will now start the Q&A session for investors and analysts. If you wish to ask a question, please type star 1. If your question is answered, you can leave the queue by typing asterisk 2, or star 2.

Our first question is from Gustavo Schroden, from Bradesco BBI.

Gustavo Schroden: Good morning. Good morning, everyone. Thank you for the call, for the opportunity. I'm going to ask two questions. The first is related to the credit portfolio. We've seen a drop that is sequential, yearly growth seems to be a bit lower, and we see something in the payroll loan portfolio, we understand the regulatory issues in March. I'd like to understand the dynamics of commission, if you think that the fact that you've lowered commissions to complete the cap that has been changed to payroll loans and FGTS, does it have any effect or does it have any competitive dynamics that is a bit different from before?

Again, we understand the March regulatory issue, but it seems to me that, well, I'd like to understand a bit more the drop in payroll loans.

And the other question is regarding portfolio assignments. The bank continues to have high assignments if we consider level of portfolio origination, this quarter the result has not been so good. I'd like to understand the spread in the grounds or signs haven't been so good, if the bank will continue with this strategy of portfolio assignment. I know it's always been done it, if it will continue this percentage level vis-a-vis the origination of portfolio. To me, this is a high point, and, in the quarter, it impacted NIM (the net interest margin) in the consolidated.

I'd like to understand the two dynamics so that we can better analyze the bank. Thank you.

Carlos Eduardo Guimarães: Thank you. Good morning, Gustavo. Thank you for your questions. Regarding the first question, when you see the payroll loan market as a whole, not only what was originated by the banking correspondent, but the non-banking correspondent branches, you see that the payroll market has dropped in the second quarter, so it hasn't been something necessarily related to a reduction of the ceiling, and also, a reduction to the commission that you pay to the banking correspondent, the market as a whole has dropped, and quite a lot, and not necessarily it's a competitive market as always, several players have been here for many years, few new relevant players in this market for the time being, so it's been more a matter of the market as a whole being impacted by the ceiling and also impacted by the lowers, as we mentioned previously, but not necessarily linked only to the corresponding banking channel, and it dropped in a relevant way overall.

Second question, well, portfolio assignment. Our profitability in this quarter was worth because we assigned a portfolio that is more with lower results, so to speak, this explains so that was the longer term. So, this explains the drop in the assignment results or granted. Obviously, this is a consequence of a smaller origination, we believe the origination will be recovered with few reasons, the main is that LOAS will be back on the 25th, everything has been approved, so this will be back, an important share of the payroll loans that we've had in the market had last year. So, this is the first point.

The second point, also, future interest rates have been dropping. We have a bit more margin in the payroll loans product and it benefits profitability and the growth of the product further ahead.

Gustavo Schroden: Thank you, Cadu. Pardon my ignorance, what do you mean by this "*decorrida*" (in Portuguese) portfolio?

Carlos Eduardo Guimarães: Well, it works as following, we have a portfolio 3 months after it's been originated. Assuming you have a timeline of 84 months, you have 81 months of interest to accrue, obviously, adding provisions of future commissions doing everything properly. When you assign a portfolio with 12 months that have gone, the result of the assignment reduces because you have fewer future interest on what you're assigning.

Gustavo Schroden: Perfect. Very clear. Thank you very much.

Operator: Our next question is from Pedro Leduc, Itaú BBA. You may proceed, Pedro.

Pedro Leduc: Thank you very much for taking my question. Good morning, everyone. They're two very much related questions. Trying to better estimate the trajectory of ROE from now onwards, starting with the pace of origination that has been mentioned here, I'd like to understand how the second quarter started very weakly and then improved as things settled in terms of change and 6.3 of total origination, that was still quite good, may have been the low in the year payroll, LOAS is back, vehicle, etc.

A second part also related profitability of what you are originating now in terms of the portfolio, I assume DI lower curve is increasing the spread of your new origination, this may help you in a carryover of also the assignment. The market is very competitive. I'd like to understand your positioning if it makes sense for me to think about the low of the year in terms of origination and from now onwards you will be able to absorb better spread in the new seasons or if you have to carry it over. Thank you.

Carlos Eduardo Guimarães: Thank you for the questions, Leduc. Well, the first one, our origination in June was higher than the origination in April, OK, especially in terms of payroll loans. Actually, it has improved over the quarter and from September fall because of the return of LOAS at late August, we expect that origination will increase in the third quarter compared to the second quarter. For the fourth quarter even more because we have a quarter filled with LOAS. So, our expectation that we have for now.

As to profitability in origination, actually, there are several effects that impact origination. I'm going to talk about payroll loans and vehicles. For payroll loans, we have approximately 30% of our origination of payroll loans that is B2C, we do not depend on commission payment and 70% was still do, only for payroll loans. When future interest drops, so you increase the profitability. Obviously, we are in a competitive environment, it depends on what competitors do, but I believe profitability, putting everything in the bucket of payroll loans, it tends to increase slightly for the third and fourth quarters. That is my view, obviously, thinking about positive and negative things that we should have in profitability, future interest dropping, we increase profitability, competitive environment and increasing commission profitability is worth.

Well, so I believe that the origination of the payroll will have better profitability in the third quarter compared to the second quarter. This for payroll loans.

For FGTS, that we have 65% B2C, 35% B2B, well, the funding improved, we have to check on commission and competitiveness, especially in the B2B channel. And in terms of vehicles, it's a business with origination that is much more diversified, we have 15,000 sellers of vehicles, so we have no ceiling there, and then basically, obviously we have competition, but we have more freedom in terms of pricing the product, and actually, for you to be able to set up some kind of buffer for delinquency, that's what we've been doing over time, higher rates. Obviously, it may impact somehow an increase in credit costs, but what matters to us more so is net margin, less cost of credit and we've been managing that quite well even at times of increased delinquency that we saw last year and that we're living now.

Pedro Leduc: Thank you very much.

Operator: Our next question is from Olava Arthuzo, from UBS. You may proceed Olavo.

Olavo Arthuzo: Good morning, Cadu, Inácio, everyone. Thank you for taking our questions. I have two questions on my side. The first is I'd like to understand a bit more about the quality of the bank's portfolio. We've seen in the quarter delinquency increasing a lot, reaching 8% points. But I'd like to know more on the younger things or seasons. So, well, when you consider payroll loans vehicles, how are you dealing with the products originated late last year/early this year? And considering assignments, you can see that the question is not so trivial. Could you share with us how much are you turning on this portfolio originated late last year and the first quarter? Just to give us a better notion in terms of the bank's balance sheet.

Carlos Eduardo Guimarães: Thank you for the question, Olavo. With regards to the quality of the portfolio, especially of the younger products from late last year to this year, the loss expected of the portfolio – and loss I'm not talking about delinquency indicator –, the expected loss started the year flat compared to what we had last year was a higher level, we priced that and now in the past 2-3 months, we've seen a drop in the expected loss when compared to late last year and the first quarter. So, it is a loss until the first quarter similar to last year. Loss is not a delinquency indicator, and from April a reduction in the losses.

When you ask about NPL of the recent products, it's not a very good indicator. Since it's very young, the delinquency indicator doesn't mean much. It's not a good indicator for us to talk about. What we look very much here is the expected loss that we have further ahead in pricing, and obviously, when we check loss and pricing that we called exempt over time, we see the exposed loss whether is increasing or reducing considering what we priced in the beginning.

So, products up to March a loss that was more or less similar to what we had last year. April onwards, a smaller loss than we had last year because we tightened credit NPL of 90 of recent products, the one we generated now, NPL is zero. So, it's very young, they're very young products to get the NPL that is 90.

Olavo Arthuzo: OK, very good. So, with everything that you've mentioned of the improvement that you see in the losses, you know, the index that you have, has covered you, leads us to think that the bank will continue to… will actually go back to running a bit higher…

Carlos Eduardo Guimarães: Higher in what sense?

Olavo Arthuzo: In terms of the coverage level, the coverage of the bank. We've seeing it drop this quarter. It makes sense that we should think that it should increase from now on. Does it make sense?

Carlos Eduardo Guimarães: Yes, second semester we believe this will increase, the coverage will increase.

Olavo Arthuzo: Perfect. If you allow me to ask a second question on a second topic, I'd like to understand the investment expenses on investments. If the bank has been making regarding the focusing on digital, considering the landscape that we see in the banking industry that has helped in the cost, with the increase of ROE, I'd like to have an update from you on this topic. If you could share with us the strategy of spending and investments in digital, if you could give us a flavor, Cadu, how much you're expecting to spend this year comparing to last year just for us to understand whether it went up, it's flat, it's dropping. We don't need many numbers, just to have a sort of general view on that. That would be great.

Carlos Eduardo Guimarães: OK, great. Great question. Actually, as Inácio said during the presentation, the first quarter we had a good catch-up in terms of our app compared to the market. Today we are much better than we were six months ago and the second semester we will also have great developments. The message is for next year we should have great efficiency in terms of cost not only regarding investments made in banking, but also in the bank as a whole. We have a major efficiency gain in banking, we had a lot of investment, and now it's very much the run-the-bank then change the bank.

So, we have major savings in terms of cost/investments that we can make as of next year, the second semester, to further evolve the bank. And from next year onwards, we can optimize this cost line in a major format.

Olavo Arthuzo: Very good. Thank you very much, Cadu.

Operator: Our next question is from Jorge Cury, from Morgan Stanley, and it will be asked in English.

Jorge Cury: Hi, good morning, everyone and congrats on the numbers. Quick question on your effective tax rate. Is there any guidance that you have for the rest of the year and next year? There's been just this really big change from the 30s to now the teens, I’m just wondering what the next 18 months should look like. Thank you.

Carlos Eduardo Guimarães: Hi, Jorge. Thank you for your question. We expect that the tax this level will keep at around 20% from now on. So, this is our best expectation for the future.

Jorge Cury: Great. Thank you very much.

Operator: Our next question is from Pedro Leduc, Itaú BBA. You may proceed.

Pedro Leduc: Thank you for the follow-up. So, it's less related to the results themselves, but more regarding this part on the release that is about repositioning. The strategy of One Bank, could you elaborate on that for the second-half next year? What are your aiming at in the mid/long-term and whether we should add some more of SG&A here?

Carlos Eduardo Guimarães: Thank you, Leduc. Actually, what have we been building over the past years? We have several channels, several products, different companies, Mosaico, Mobiauto that we need now to integrate, integrate different channels, different products, diversification is a word that we like a lot, this is what we have set up and from now on what we seek is integration of that.

But I do not see that with an increase in cost for the bank as a whole. I think there is a good optimization for us to carry out as of next year. Obviously, we also want to have a greater cost optimization, we have a major pathway to take, so we are excited about what we have to do in terms of cost and integration of channels, products and services because when you buy parts of companies, of different companies and different cultures, and there is a time for us to optimize and manage, and ultimately, we want to centralized all the experience of our customers in a single app, an app that does not necessarily requires a checking account.

Vehicle loans, we're going to have an app for customers for vehicle. Well, if they want to have an account, we can add it. If not, they can have an app for vehicle loans and we believe that an app is an important medium for us to communicate with customers regardless of whether it's checking account, payroll loans, vehicles, all this integration. And obviously, to have the bank a bit more aspirational in terms of features, you know, bringing to the customers savings in terms of time and savings in financial terms. This is the mindset we want to make clearer and implement from now on as the customer has to see in the bank an advantage in terms of time, or a financial advantage.

And how are we going to do that? With all the channels and services, channels, products and services that we have been building overtime without having it impacting cost growth. Much on the contrary, we believe this will represent major gain for next year.

Pedro Leduc: Excellent. Thank you.

Operator: Our next question will be via web, Ana Souza, Santander:

“I'd like to understand a bit more about the future outlook for Pan. With the macroeconomic scenario improvement, what are the expectations for profitability in 2024?”

Carlos Eduardo Guimarães: Thank you for the question, Ana. We provide no number guidance for next year's results, but actually, the macroeconomic scenario is improving. We have inflation under control, drop in interest rates, not only of SELIC future interest rates, so all this helps. Many times, indebtness of people does not follow the same speed as those macroeconomic indicators. No doubt, I believe next year in macroeconomic terms will be better than this year, we believe in that, obviously the speed of deleveraging that we see today, and costumers, people in Brazil in general may be a bit slower, but we see an improvement for next year, and we do expect that next year the bank will have a result that is significantly better than this year because of the macroeconomic scenario and the whole credit history and delinquency that is being digested over the past two years. Thank you.

Operator: Our next question is from Gustavo Schroden, from Bradesco BBI. You may proceed.

Gustavo Schroden: Thank you for the opportunity. It's a bit more in line with the previous one. If we think about 8-9 quarters of the bank in terms of bottom line, is 190 a 195 million in terms of profit or income, it has been in this level of profitability of 11-12%. My question is more on this line. Well, interest starting to drop, can we envisage a higher level of profitability? And when will we get that?

I understand there's no guidance, but the discussion was more or less on those terms. When can we start thinking about an expansion in terms of results and ROE? I was quite surprised to see a worsening in terms of delinquency this quarter. I think it had been close to the peak. That was the discussion which we would have, but it was addressed in the previous question, but if you feel there is anything to be added, Cadu, I thank you.

Carlos Eduardo Guimarães: Yes, we can add. What do we expect to next year? An improvement in profitability in the bank basically coming from 3 pillars, I'd say: one is reducing delinquency, explained by everything I've mentioned previously, digesting macroeconomic moment is more difficult; two, cost efficiency that we intend to implement for next year; and three, recent products and services originated with better profitability based on interest rate drops and expected smaller losses. These are the 3 pillars that we expect impact next year’s results and increase the level of results that we've been having in the past quarter is very much explained by a situation that is more complex in macroeconomic terms.

Gustavo Schroden: Perfect. Thank you very much, Cadu.

Operator: Please, wait while we collect new questions.

Since there are no further questions, I would like to hand over to Mr. Carlos Eduardo Guimarães for his closing remarks.

Carlos Eduardo Guimarães: Thank you for yet another participation in our earnings release conference call. As we mentioned in our chat, we do expect to have an improvement for next year and we're working hard towards that. We will continue talking not only on our conference calls, we are interested in going deeper into the numbers we presented, we're going to do that over the next few days, Inácio and Lacerda will be here available to clarify any further doubts and questions you may have regarding the figures and numbers of the bank.

Operator: The Banco Pan conference call is now closed. We thank you all for your participation and wish you all a very good day.