International Conference Call
Banco Pan (BPAN04)
3Q24 Earnings Results
November 7th, 2024

Operator: Good morning, everyone. Welcome to the conference call of Banco Pan to discuss the results related to the 3Q24.

This conference call will be held in Portuguese with simultaneous translation into English. To select your preferred language, click on *Interpretation* at the bottom of your screen. The audio and slides of this conference will be streamed live on the Internet, on the Company's IR website: www.bancopan.com.br/ri, as well as on the Zoom webcast platform. The presentation will also be available for download after the event.

We would like to inform everyone that this event is being recorded and that all participants will be in listen-only mode during the Company's presentation. Once the presentation is completed, there will be a Q&A session when further instructions will be provided.

Before we proceed, we would like to remind you that the statements that may be made during this conference call regarding Banco Pan's future prospects, forecast, financial, and operational targets are based on the beliefs and assumptions of the bank's management and on information currently available to the Company. Forward-looking statements are not guarantees of future performance, they involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors and analysts should be aware that general economic conditions, industry conditions, and other operating factors may also affect the bank's future results and could cause those results to differ materially from those in such forward-looking statements.

With us today are Mr. Carlos Eduardo Guimarães, CEO of Banco Pan, and Mr. Inácio Caminha, Investor Relations Officer. We'll now hand over to Mr. Guimarães, who will begin today's presentation. Mr. Guimarães, you may take over.

Carlos Eduardo Guimarães: Good morning, everyone. Welcome to another presentation of the results of Banco Pan.

Starting on slide number two, we kept strong credit origination in this quarter, very much focused on collateral products and with a good spread overall, except for consignated loans and INSS, where margins are very tight. We expect for the 4Q a reduction in the offer of consigned loans because of lower margins and important growth in conventional cards and personal credit and the alike. This combo brings good margins and engagement. And delinquency ratios became stable.

Now we are going on to slide number three. We closed the quarter with 30.9 million clients, more than half with credit exposure with us. Our portfolio closed at 51.1 billion, 30% above that of the 3Q23. And we reached 216 million in net income with a return on equity of 11.8% a year.

Now I'll turn over to Inácio for further information on our numbers.

Inácio Caminha: Okay, very well, then. We are going to start on slide number five. And here we have information on engagement. You see our 31 million clients evolving gradually in the cross-cell index and Pix keys. And we also see an important change in transaction volumes going to a new level with growth of 45% in 12 months, which shows how we want to grow with relationship engagement with clients, getting more priority, and also being able to advance with cards and personal credit.

On slide six, we have information on origination that continued strong at 9.5 billion in the total of the quarter. We see that vehicles was the main one with a 4.5 billion share. We started with new and used motorcycles. And in light vehicles, we are approximately with 8.5-9%, and also, we have prospects for growth along next year.

And for consigned loans, our payroll loans, because of INSS, we have been focused on other public agreements so that this comes from there, but also from the evolution of our B2C channel that is stronger every year. Acquisition of portfolios, a bit lower because of interest rates in the market, prices are a bit tighter, and personal loans still small, but we believe we have a path of growth for the future.

Talking about our credit portfolio on a slide seven, we had important growth, 30% in the year, basically because of origination that is stronger, but also because of a lower level of the session of portfolio, as it happened last year. Of the 51 billion, we have 2018 vehicles with growth of 40% in the year, payroll plus FGTS about 20 billion with growth of 23% a year. So these two products really drive growth for the portfolio in the period observed.

As for delinquency rates on slide eight, basically stable. Short-term indicators continue to improve, 53 base points in the quarter, and over 90 increased by 13 base points. So we are very comfortable with the behavior of our products and the evolution of the bank's results.

Talking about clients, on slide nine, we talk a lot about engagement and credit as a very important tool for that. We have 15.7 million clients with exposure to our credit products, and we have been able to grow our client base, keeping this percentage of customers with credit. And also, in addition to growing the number of clients with credit, we also have a mission to continue to evolve in the share of wallets of our clients. That is, expanding the credit exposure at existing clients without necessarily having to have other clients. So this is something that's been evolving along the year.

And thinking of the 4Q and next year, we should continue to observe the same pace of growth in terms of engagement.

Talking about the fee revenues on slide 10, they did go up. We basically see an increase, especially with insurance. That was an adjustment of commissions that we get. The other components were practically stable. And these services certainly make up for the results, and we see an important growth, totaling 423 million in the quarter, with a good progress, about 40% compared to last year.

Cards, on slide 11. We continue to originate a higher volume than what we saw in the past of new cards. The idea is to continue expanding our client base and starting with lower tickets. The strategy here is to give the credit to our clients, and we understand that this combo of cards with TPV is very important for engagement. In this quarter, we had 137,000 new cards, TPV 3,700 billion with 69 million of revenues coming from the product.

Insurance on slide 12, we totaled 245 million in premium with 4.1 million clients with effective policies. And this is a very important product for cross-selling present in our accredited products and also in some services. And it's also a frontline for us to continue growing.

Talking about financial highlights, on slide 14, we have the evolution of our margin. We continue with a very strong net interest margin with that credit concession 16.3% and the net of credit costs went to 9.8%, a movement consistent to the evolution of the bank in terms of products and risk appetite.

On slide 15, we have the main components of our quarterly results. So net interest margin specifically, we see an evolution in carry costs, observing a growth higher than the total portfolio. Portfolio assignments lower than what we saw in the previous quarter, although with similar volumes. That much to do with mix of assigned products.

As for net provision expenses, we see an improvement, both in net provision and also the discounts granted thinking of the cost of credit. Expenses as a whole of the bank, very well controlled at about 1.1 billion a quarter. This way, we continue to evolve and closed the quarter with 216 million of net profit and ROE of 11.8%.

To close, equity and capital, we continue with 13.7%, a very comfortable level with net profit. That is important to continue with our strategy of growth, both for this year and next year.

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

Question and Answer Session

Pedro Leduc: Good morning, everyone. Thanks for taking my question. I have two quick questions. First, other operating expenses, this line was quite high, about 400 million in the last quarter. You had some civil provisions, there was a catch up there, but in this quarter, if I'm not mistaken, there was another 300 million of this line for the reversal of civil provisions.

So I would like to hear a bit from you. Is it new cases, new understandings? The 2Q was not enough? So how should we look into this line from now on? This is my first question.

And the second, a bit more technical. I'm going to take a look at capital here, not as relevant, but you have the prudential group and RWA grew above the size of portfolio. So, I would like to know if there was anything atypical to understand the movement in RWA. Thank you very much.

Carlos Eduardo Guimarães: Hi, Leduc. Thanks for your questions. Well, first I'm going to start with the provision line. Last quarter, if I'm not mistaken, it was close to 400 million. In this quarter, close to 312 million. In this quarter specifically, the bank can think of contingencies with three pillars: mass civil lawsuits; labor; and strategic lawsuits, the ones that have a higher volume.

So, we are always updating our models and our consultations with external attorneys, especially in the case of strategic lawsuits. And we had a round of conversation with the law firms, and we thought it was prudent, according to the opinions of attorneys, to reinforce our provisions for strategic provisions this quarter.

What do we expect for the future? Something lower in the 4Q, lower than the amount of the 3Q, and for next year go back to something even lower than the 3Q and 4Q, and slightly higher than historical levels. This is our best scenario for provision in terms of contingency for lawsuits.

Remember that the payroll loans and cards are the main offenders for mass civil lawsuits at the bank. The strategic lawsuit, then this is a bit more encompassing, not necessarily concentrated on this payroll product. So, it did go down compared to last quarter. We expect further marginal reduction for the 4Q and less next year, something even below, but still above that of 2023.

As for your second question, that managed capital for this quarter, as you very well said, the regulatory capital is on BTG. That has a very comfortable position in terms of Basel ratio in recent periods. RWA, I do not have an immediate answer to you. At the end of the Q&A session we are going to look into that and try to answer your question.

Pedro Leduc: Thank you, Cadu. Thanks for your question. And I'll come back to the queue to ask you a further question later on.

Antonio Ruette: Can you hear me?

Carlos Eduardo Guimarães: Yes, we can hear you well.

Antonio Ruette: Thank you. Okay. If you could give us a bit more color on opportunities, especially opportunities with your controller, BTG, especially in terms of costs and funding, that would be highly appreciated.

Carlos Eduardo Guimarães: Okay, Ruette. We have had an integration with BTG in several areas. This is already going on. For example, most of our funding today is centralized at BTG. So BTG provides Pan with the funding that the bank needs to operate. So we have a funding synergy which is complete. We have just the raising of our own funds when it comes from our app on our retail platform. All the others are concentrated at BTG.

As for other types of synergy, especially in support areas, we already have several people from BTG on our day-to-day so that we can not only optimize costs but also improve practices with the exchange of information between Pan and BTG and BTG and Pan.

So, the integration is already a reality. It has already yielded fruit to us, not only in terms of cost, but also better efficiency in terms of quality. And we still believe there is further room for improvement. So we are very encouraged, results are starting to show, and will show even further in the future, not only in costs, but also in efficiency. And funding is completely or almost completely – except for the app – centralized with BTG.

Antonio Ruette: So would you say that most of the work, especially in OPEX, has already been done, or is there anything else to be captured in efficiency?

Carlos Eduardo Guimarães: There's still to be captured in terms of efficiency. The integration has started, but efficiency in terms of costs and better products still has room for the future.

Antonio Ruette: Okay, very well. Thank you very much.

Brian Flores: Hello, everyone. Thanks for the opportunity. I also have two quick questions. The first is, taking an early delinquency, it seems that your ratio is improving, as you did mention. I would like just to understand how you reconcile that with your risk appetite, because you had mentioned perhaps resume risk in terms of personal credit and cards, but in terms of origination quarter on quarter, we did not see relevant acceleration. So just to try and understand how you see the segment and your risk appetite.

A second question in terms of deposit, Cadu, you just mentioned funding from retail, and we do see a deceleration of deposits quarter on quarter. Just to understand what dynamics is like, that would be really helpful.

Carlos Eduardo Guimarães: Thanks for your questions, Brian. First, risk appetite. As Inácio mentioned in our snapshot of balance sheet, we have 55% of our portfolio with vehicles, so we already have a huge difference in this product, not only motorcycles but also used cars, we went through several economic cycles, and we are very comfortable with the mix that we have in our current portfolio. And we do expect for the future another important growth in the vehicle portfolio.

Payroll is a product with low loss and low credit risk, very traditional, but this is a product with very tight margins. So, if we do reduce this product for the future, we expect, if the cap interest rates continue like this, we are going to reduce and that may affect our delinquency indicator. But remember, what concerns most for us at the bank is the final bottom line results.

So the reduction of payroll products and INSS could affect the delinquency line. However, profitability would increase because this product has a very tight margin. And for the future, our expectation for the 4Q is substantial increase in card origination and personal credit. These are products that are sold together and are products that bring us good margins, but they also have a higher delinquency rate than the portfolio that we have to today.

But remember, we are always looking into the diversification of the type of risk, not totally correlated in between them, so that we can use capital funding and profitability to our favor.

The second point, deposits. I'm going to talk about retail deposits. With retail deposits through our bank, we are aiming at increasing the funding base from retail, where we believe that credit cards and personal credit, that are to be accelerated in the 4Q, will not only bring more revenues, but also engagement, and engagement mainly in the form of deposits. And this is what we are prepared for the 4Q, and I expect the results to show in our next conference call.

Brian Flores: Could I just ask a follow-up question? Do you have an estimate of the impact on regulatory changes on net equity for 2025?

Carlos Eduardo Guimarães: Well, an estimate? At least not a final estimate, no. We are looking into that. We already have our release in IFRS, but there are some differences between IFRS and 4966. We are still investigating the differences, so I prefer not to give you a number, but that shouldn't be that different at first from what we have released on IFRS.

But again, we haven't completed our investigation yet.

Brian Flores: Okay, thank you very much, Cadu.

Eric Ito: Good morning, Cadu, Inácio. Thanks for taking my questions. I also have two. The first follow-up on Brian's question, I would like to understand a bit more about the mix a bit more risky, in the 4Q, personal cards, personal credit. So what should we expect in terms of extension for the 4Q?

And then, Cadu, you did mention that delinquency rates could be slightly higher, perhaps decrease a bit payroll loans because margins are tight. So, what could we expect in terms of lines ex-assignment for the 4Q and 25?

OPEX, my second question. We see a bit more of commission expenses, a bit lower. I think it's in line with the more challenging scenario for you to grow in payroll loans. What should we expect for OPEX for 2025? And if low commissioning should be continuing to operate in your favor. Thank you very much.

Carlos Eduardo Guimarães: Okay, first, for the 4Q, our increase in personal credit and cards is going to be timid. Remember, we have 5, 6% of the portfolio with these products, all the others are collateral products. So we are going to grow in the 4Q with cards and TPV, but still not substantial to really affect in a relevant manner either our indicators or our cost of credit. This is something that is going to happen gradually along the coming quarters.

But as you very well know, these are products that have higher delinquency rates, but a higher expected profitability than payroll loans that is very, very low.

What happens in the dynamics of payroll loans? Our origination of payroll loans, 65-70% is on the B2B channel and the difference is on the B2C channel. So when the ceiling pressures and interest rates go up, we have to optimize costs. And these costs, when they come from B2B, we reduce the commission of banking correspondents, and you invest less in digital marketing. So this is how we're trying to survive, given the important reduction of the ceiling of payroll loans and in parallel the interest rates, future interest rates for two years going up. This is how we price our products.

So we are going to continue reducing commission because of the pressured margins and the cost of credit along time may increase because right now we think we're going to replace the payroll business in our balance sheet with personal credit and personal cards.

So when you think of the line of cost of credit, the cost of credit of payroll loans is lower than personal credit. But because margins are too tight, we believe that the profitability of the bank as a whole is going to increase.

And in terms of overall costs, we do not want to increase costs for the future. I would say we are prepared to gain operational leverage and continue growing without increasing costs at the same ratio.

Eric Ito: Very clear. A quick follow-up in terms of margins. I think this year in the 4Q, you still have the installment of payment for CDB. What can we consider in terms of payments for this quarter going on to 25?

Carlos Eduardo Guimarães: Indeed, after the 4Q, perhaps there is a residual value for 25, but much smaller than what it was along the last years. But it is a decreasing trend, this year we had less than last year, but for the coming year, it's really going to be relevant.

We have the breakdown in our financial statements, and I think you can do the math. I don't have it by heart right now, but it's a simple math for you to identify.

Eric Ito: Thank you very much, Cadu.

Inácio Caminha: 300 million are going to be paid up in December, then 300 June next year, 300 in December next year, and then we zero the liability.

Carlos Eduardo Guimarães: Yeah, it doesn't seem much 300, but the cost is very high. But I think you can do the math very comfortably just for you to see the effect on the balance sheet and compare to previous periods. It's quite straightforward.

Olavo Arthuzo: Good morning, Cadu, Inácio. Thanks for taking my questions. I have two questions. The first topic is a bit of a follow-up on Brian's questions. As for 4966, I'll try just to ask the question differently, because looking at the bank's financials, we do see a gap in reserves and provisions. It went up to 2 billion from last quarter to 2.1 billion this quarter. And as we know, the impact according to resolution is after tax, we might see a difference of slightly about 1 billion.

So I would like to hear from you if it makes sense for us to work at something close to this number that is 1 billion as the impact of the change when we see the final implementation of law 4966.

And my second question is at the end of FGTS and the change to the private payroll loans. I would like to hear your narrative about this new narrative, Cadu, the private payroll loan. Do you think it is going to offset the FGTS? I know this is a phase out. I would like to know if this new payroll product that I suppose is still being finalized, but do you think it will offset or even more than offset the end of the advance payment of FGTS?

Carlos Eduardo Guimarães: Thanks, Olavo, for your questions. Well, first, law 4966 and IFRS, as I said, there are some differences between these two methods, we're still trying to absorb the difference. But right now, still subject to assessment, we do not think that this number that you mentioned, 1 billion, is going to be true. But again, perhaps you're right, between 1 billion, 1 billion something, can be our best estimate for now. But again, we are still analyzing the topic. So this is number one.

As for FGTS/private payroll loans, FGTS in the last two years received several comments from the government saying that the product is no longer going to exist. But it's been a lot of back and forth there. Last week, the administration said that right now, the advance of FGTS withdrawals and also the withdrawals on birthday dates were at a pause. I don't think that the product is going to be put to an end.

We might have a change in the birthday withdrawal. Small adjustments in the rule for this type of withdrawal that will impact very little the FGTS loans we work with. Again, this is my best estimate today. And if we did have the change, which I don't think will happen, then this is my personal opinion, we would still have a one to two years' time for this to happen with FGTS.

As for the private payroll loan, as you should be following, this is a very nice product. I think it's going to really increase substantially. Today, this is very much restricted to large companies and few banks. So, I think that the offer of this kind of product is going to increase and consequently rates are going to go down, which I believe is going to happen, and we are getting ready for the 1Q next year to have the product ready and start to operate with it.

We have an advantage, we believe, that this product is going to be built as a combo of three products that we have already operated and are very knowledgeable about, which is payroll loans, FGTS, and the *Auxílio Brasil* product. We worked with them three, and what's being discussed is a combo of these three products, which is going to be the platform for private payroll loans.

We are very excited about this product. We think it's going to come out. We don't have control over when, but we really believe that the market as a whole is very optimistic about this product. It's a good product, it's going to be good for clients, and it will reduce the spread and increase credit offer to people that right now either do not have access to credit or have access to very expensive credit.

So we believe that this is going to be a good product, but it's not going to put an end to FGTS. Again, this is something that has not been decided, but this week I would say that FGTS end is out of the context, and private payroll loans are to be implemented as soon as possible.

Olavo Arthuzo: Very clear, Cadu. If you allow just a quick follow-up about the first point, the 4966 regulation. Any type of impact, and even the one that you mentioned that might be in the ballgame of 1 billion, because it is managerial and the release that you showed in terms of capital, perhaps you can confirm that would be talking about a substantial impact from the controller, the controlling Company, that would absorb more of this amount.

Just for us to understand what the part of the controlling shareholder would be there.

Carlos Eduardo Guimarães: Okay, as I mentioned, we work with the regulatory base of BTG and not Pan's, and BTG has excess capital, and obviously we have been discussing internally together with BTG the impacts of 4966/IFRS, and in any calculation, this is irrelevant number for BTG. So this eventual variation with this not closed number, because we still have to close our analysis or even a slightly higher amount, does not concern the group given the amount of capital and Basel ratio that BTG has today.

Olavo Arthuzo: Very clear, Cadu. Thanks very much for your answers.

Pedro Leduc: Thanks for the follow-up. A question on profitability on the granting of credit. I see payroll loans at about 2 billion, gradually going down, but still close to the previous quarter. When I do the math on profitability, it dropped by almost half quarter on quarter. I would like to understand from you what happened. These are portfolios that had already been originated with a higher ceiling, the buyers are with a different type of negotiation. Just to understand, because that was a bit of a sharp decrease.

Carlos Eduardo Guimarães: Yeah, the main reason, Leduc, was indeed tighter margins for payroll loans. So we have been discussing the feasibility of this product. When I talk about feasibility, it's not to offer it for everyone. It's different from vehicles, for instance. With vehicles, you have a different rate for different types of risk. In payroll loans, this is a bit more difficult to become operational.

So, when margins get tighter and the ceiling comes down – and remember that the ceiling is coming down regardless of the age of the client –, so when you have a single ceiling to different ages, then you have to optimize and see what clusters are still going to be profitable and what clusters are not. So we have been doing our homework, margins are very, very tight, and a bit of this very tight margins have to do also with the granting of credit. It has a consequence on the profitability of credit.

So from now on, we are more and more considering the future of this kind of product, the future of granting payroll loans. So there's a lot going on internally about the product.

Pedro Leduc: Very clear. Thanks for, you know, being quite transparent.

Inácio Caminha: And going back to RWA, that you had asked, Leduc, we had some financial assets in non-financial companies that are under Pan, and we just brought this to the bank, not to these companies. So these companies originally are not part of the bank, the capital of the bank, but we relocated it to the bank. But that was done, and we don't have any other assets of this nature. It was a one-off movement.

Pedro Leduc: I already asked the follow-up question. I would just like to thank Cadu and Inácio for their answers. I'm no longer in the queue.

Operator: Since there are no further questions, we are going to hand over to Mr. Guimarães for his final remarks.

Carlos Eduardo Guimarães: Well, thank you all for attending. I hope to see you back in our next conference call.

Operator: This concludes Banco Pan's conference call. Thank you for attending and have a good day.