International Conference Call
Banco Pan (BPAN04)
1Q25 Earnings Results
May 9th, 2025

Operator: Good afternoon. Good morning, everyone. Welcome to Banco Pan's results conference call for discussing our results related to the 1Q25.

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This conference's audio and slides are being broadcast simultaneously on the internet on our company's IR website www.bancopan.com.br/ri, and via Zoom. This event will also be available for download after its conclusion.

We would like to inform everyone that this event is being recorded, and all participants will be in listen-only mode during the company's presentation. Once the bank's remarks are completed, there will be a question-and-answer session for participants, when further instructions will be provided.

Before proceeding, we shall inform you that statements that may be made during this conference call related to Bank Pan's forward-looking perspectives, projections, financial and operational goals are based on the beliefs and assumptions of the bank's management and on information currently available.

Future-looking statements are no guarantee of future performance. This involves 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 understand the general economic conditions, industry conditions and other operation factors could also affect the bank's future results and could cause these results to differ maturely from those expressed in such forward-looking statements.

With us here today, we have Mr. André Luiz Calabro, Banco Pan's Director President, and Mr. Inácio Caminha, Head of Investors Relations.

We will now give the floor to Mr. André Luiz Calabro, who will begin today's presentation. Please, Mr. Calabro, you may proceed.

André Luiz Calabro:

Good morning, everyone. It's a pleasure to be here in this first earnings release of Banco Pan’s in the year. As you know, I've been working here for 70 days. I have some history at the group, at the BTG Pactual, and we are aligned with the perspectives of the bank, with the challenges. We have been working hard to improve even more the results.

So beginning with the highlights of the 1Q25, I'd like to highlight, as you can see on our material, in the credit portfolio we had a growth of 4% even with a reduction in the originations, mainly in vehicles, as happened in the market because of the seasonality. On the other hand, we were able to meet our target of reduction of the credit assignment.

And relating to delinquency, we had a slight increase in the indicator due to the level of products and also to the impact of 4966 and due to the non-assignment of the portfolio NPL.

Our margins are still strong due to assertive pricing per product, the economic results are relevant. And on efficiency, we have begun a process for reduction of admin and operational expenses aligned with the integration of some platforms and the control area where we are in synergy with our controller shareholder.

Now I give the floor to Inácio for next remarks.

Inácio Caminha:

Okay. Now, on next slide, number three, we've closed the quarter with 32.1 million clients, a growth of 11% per year. Our credit portfolio closed on 55 billion, 19% of growth in the year. Net income, 230 million, advanced in relation to last quarter and the last quarter of last year, and ROE evolving to 13.8%.

When we look at the engagement data, on slide number five, we observed 32.1 million clients evolving gradually, always preferring clients with a higher tendency to engaging and being very analytical in the marketing and in the time of searching for new clients.

In the highlights here we see the transaction volume, it increased 14%. The 4Q is always stronger, so we expected this reduction in the 1Q of this year. And we have an important agenda to increase engagement with clients. So this is going to be visible along the year 25 and also on 26, connected with our integration and efficiency agenda, as Calabro mentioned, especially improving the experience of our customers and clients inside our app.

Now let's talk about credit origination on the slide six, impacted by INSS. Now the quarter as a whole, you'll see it in the 4Q, we had already felt this reduction in December, but in this quarter, the three months had this same kind of results. We are working with other convenes and the pricing of this product is kind of squeezed and naturally this justifies this type of movement.

We are in the private payroll loans. Today we had some material release regarding this, and this is going to help in the volume of origination of payroll loans as a whole. We are very excited about this.

About vehicles now. We also have a natural movement that we have not observed in 24, but always in the 1Qs of the years we feel this reduction. We observe, but we don't work on the market of new, but when we observe the market of used cars and new motorcycles, we observe a reduction of 11%. This is very close to the movement of our origination, and for the 2Q we expect to pick up to higher levels.

The market share is still relevant, both in vehicles and motorcycles, and the rates are higher naturally than other players have, mainly due to our pricing and profitability strategy. The other products continued stable. We have this gradual growth in the portfolio. Origination total was 6.5, 4.3 vehicles and 1.4 payroll loans.

Now let's talk about credit portfolio. There was an important growth, as I have commented already, 4% in the quarter, and we had a lower assignment this quarter, only one third of the last quarter. We have a fluctuation along the year in the volumes of the assignment of credit portfolio, but we expect something lower than what we've sold in 24.

So 32 billion refers to vehicles that grew 7% in the quarter, payroll plus FGTS was flat in 19 billion, and the credit cards grew in percentage more, but it still is not that much, it was 6% of the total portfolio.

In the next slide, number eight, we have delinquency data. We observed that along time the mix of products and clients has been increasing. This raises the delinquency rates of the bank as a whole. Now, we have a seasonality that impacts our business always. So this has grown in March. In April we have already the month close, so this returns, so we are not concerned about it. And 4966 brought a lot of changes in the accounting of assets. So to compare with a historical series over 90, we began doing an index considering a write-off of credits above 160 days. So this indicator is now 8.1 and this raise is related to the sales of NPL portfolio that we have been doing and we are going to do this again.

So most importantly here is that we are very comfortable with the pricing of the periods. We have been in this pace for two years, considering active rates, cost funding, the expected losses, and we still have a lot of appetite to originate and grow our portfolio.

On slide nine, we show our clients with credit. We talk a lot about engagement and credit is really important for this. Half of our clients have active credit and besides the amount of 15.5 million clients with exposure to credit, we are also advancing our share of wallet in those clients. So, we are growing our clients base and consequently the clients with credits, so the amount these clients are loaning is advancing with time, passing of time.

And here we have advanced on the number of new cards considering the 1Q25 compared to 24. Of course we have a seasonality in terms of TPV, but we still are growing this credit portfolio without necessarily growing the number, the amount of new plastics. We imagine continuing working with the clients that we already have and this contributes to our strategy to, you know, credit clean, personal loan, everything combined. These are products that are gaining relevance.

And here, insurance. Naturally, we always comment about the relation between vehicles and the sales of insurance. In the 1Q, we close on 220 million premiums, 99 in fees, and we have a stock of 4.1 million clients with effective policies.

And now let's talk about financial highlights, on slide number 13. We grew our margins due to the growth of the portfolio 2.4 billion even with a lower assignments of on-day credit. And the credit costs as is expected was impacted by the 4966 and also had the effects of the non-sale selling of the NPL credits. We see the margin of 17.7 with a credit cost growing to 8.9, and so the net margin goes to 7.9. It's aligned with what we expected, and we continue expecting an improvement in the results along the year.

And now continuing on slide 14, these results come from the better efficiency of the more efficient management, the integration, the reduction in the costs as well, and we are consistent with the budget, not only the reduction of expenses related to origination. Of course, when they are reduced, we have lower expenses, but of course, 4966 defined this type of expenses.

But provisions expenses that was a strong topic last year, show a reduction and personal expenses also reduced, 100 million were ex-origination expenses that we imagined that are going to go back growing again.

So fee revenue decreased as well, in line with the vehicles’ movement, so fees related to insurance and credit, as we've seen. And also, we have the Black Friday seasonality in which we have less revenues in the marketplace, place totaling 414 million in this quarter. And we have the profitability of the bank advancing to 230 million net income with our ROE of 13%.

So now we have equity, we have very comfortable levels to continue growing our balance sheet. We have shareholders' equity of 6.4 million.

So now with this, we've finished our slides and open for Q&A.

Question and Answer Session

Olavo Olavo Arthuzo, UBS: Hello, good morning, Calabro. Good morning, Inácio. Thank you for taking my question. I have two. And the first one is about the topic of the private payroll loans. I would like to understand, because Inácio commented on the beginning that you reached a portfolio near 750 million, this suggests a market share of 7% running today. So, just to try to understand the potential of this product in the P&L of the bank, could you please give me an indication of what ROA are you running in this product?

And my second question is related to the vehicle segment. As you've shown, origination decreased 14% in the quarter, in line with the system that already dropped in the quarter. So could you please give us a bit more of detail about this? How do you see this origination from April? Are we going to have a pickup in May?

And also, if you could, please, give us some context, because we've seen in the press, you know, the government wanting to launch a credit line for workers to change their motorcycles. Maybe this is positive, but can you please share, have you done some simulation regarding the impact of it? This would help us to guide our accounts. Thank you, guys.

Inácio Caminha: Olavo, I didn't quite understand the second question. Can you repeat, please?

Olavo Arthuzo: Yes, the second question, I would like to understand the details about the vehicles' origination. It dropped 14% quarter on quarter, in line with what the system showed. So in this context, I asked, please, could you give us… because we've seen on the press news about the intention of the government of launching a credit line for workers to buy or exchange their motorcycles, and I see this as a positive thing. But if you could give us some simulation, have you done some simulations about the impact of a possible credit line in this segment? This would help us to make our contingencies.

André Luiz Calabro: Hi, Olavo. Calabro here. Thank you for your question. Well, relating to the payroll loans for workers, we are very excited about it. It is a product that has a lot of appeal and a lot of demand for it. You know, as it was said today, our portfolio is 750 million.

In terms of ROA, but before, I would like to say that we are very aligned with all the determinations that are being published by the regulatory bodies and all the new modalities or improvements. We are already doing them, you know, performing them, offering the product on channels, we're going to do portability, refinement in operations.

And regarding ROA, we are not going to break down ROA to you and all disclose ROA, but I can tell you it's very high, it's very good, and we are following up some indexes related, for instance, to a potential delinquency and comparing these with our policies and credit models, and we are very comfortable and happy with the results that we have been seeing in this first 45, 50 days.

Regarding motorcycles, we, as you know, are leaders in the market. We have a very substantial share in the market. So this initiative is still at the beginning, in our opinion. So it's difficult to make a prognosis, you know. So inside our portfolio, we have already some audience related to this initiative. So we are used already to working to this audience. But regarding prognosis, I think it's too early to say something. Thank you again for your question.

Olavo Arthuzo: Thank you.

Antônio Ruette, Bank of America: Good morning. Thank you for the space. You allow me to ask my question. I have two here. The first one is regarding delinquency. Could you please give us more details about the evolution quarter on quarter?

And the second one is strategic. You mentioned on the opening remarks that an important part to capture results would be integration to improve the user experience, and when we look at the OPEX, we really see a relevant drop in quarter and quarter. So my second question goes in this sense, in this direction, what synergy can you still capture with the controller bank? Is there still work to be done? And directly, which areas do you see opportunities to be captured yet?

André Luiz Calabro: Hi Antônio, thank you for your question. I'm going to begin with the second one. And so relating to the strategy of integration, we have been working hard on efficiency. So we are working on the integration of some platforms, for instance, app that we've made available to our clients, we are working in the direction of having one single app with different brands, different positioning, but these we believe are going to create a reduction in the costs.

Besides, aligned with our strategy, we are working so that the controlling areas work in synergy to impact on the expenses, on the admin and personal expenses. So, a little of our efficiency strategy is connected to work in synergy with the controlling areas aligned with the BTG Pactual, and as I've said, some integrations of technology platforms where we can have significant gains, reducing the costs, making the bank more agile.

Regarding delinquency, as Inácio commented, and we have here a change, let's say so, in this 1Q, where we haven't done the assignments of the NPL portfolio to understand the impact of the 4966. So for the future, we intend to resume our strategy if it's needed, if we understand that we have a good financial gain in this modality, but also, we have the impact of the 4966, that is a new regulation and we have adapted to it, you know. So this is why also the credit cost has increased.

So regardless of this, why are we comfortable? Because we have been following our products period by period, we have been following all the portfolio indicators and the indexes and they are very stable. A little bit of the increase has also something to do with the mix of the portfolio. We have the reduced payroll loans and increased the vehicle, so the indicator moves a little bit to this.

But delinquency indexes, regarding these and regarding the portfolios, we are really comfortable. Looking at the macro scenario now and in the future, we believe that things are going to go well.

Antônio Ruette: Thank you for your very detailed answer. Can you give me a follow-up about my first question? You mentioned a single application. Can you give us a little bit more detail about this? Is one app, two brands? We know that value proposals and audiences are very different. So how would this work? Do you have also a timing for it? Thank you.

André Luiz Calabro: Okay. We are working on the concept of white label. So, as I said, and you also mentioned, we have products and positioning that are very specific amongst the brands. So, along the time we are going to keep it, but white label is a concept where in one single platform we are able to put all the services to all the audiences with which BTG and the bank works. So this is the aim, this is the focus.

And regarding the timing, well we don't determine the deadlines, but we are working hard to reach this goal as soon as possible, especially because regarding efficiency, there is also another question; we want to work hard on the improvement of the client experience, so we believe that this is going to increase engagement, recurrence, and we are going to have this reinforcement of the Banco Pan's brand.

So, these are the main aims when we talk about the integration of the platforms.

Antônio Ruette: Thank you. It's very clear.

Mateus Rafaelli, Itaú: Good morning, André, Inácio. Thank you for taking my question. Good luck, André. And I would like to talk about the credit assignment topic that is in lower levels. I would like to understand, what do you expect as a volume for assignment for the rest of the year assuming that the cap is going to remain like this? And what about the revenues with the 4966?

André Luiz Calabro: Hi, Mateus, thank you for your question. Well, regarding assignments of portfolio performing, we've considered a relevant reduction in our budget for 2025 because along time the bank has gained this stability regarding the stability of our revenue. So put ourselves the challenge, so in the 1Q… so a reduction of assignments, I said something different. So, in the 1Q, we've reached this goal, this aim, assignments were below what we had expected and foreseen, so we expect to remain like that to meet our budget targets.

What about the second part, please repeat?

Mateus Rafaelli: What about the recognition of revenues of assignments with the 4966? We understand that some expenses were deferred, but how do you see now and recognize the gain with the assignments?

André Luiz Calabro: Well, with the assignments of portfolio, nothing changes with 4966. Maybe you are talking about commissions deferral, especially for new credits. So 4966 changes indeed the deferral of commissioning, but regarding assignment of portfolio, nothing changes.

Brian Flores, Citi: Hello, André. Good luck in your new challenge. Inácio, thank you for taking my question. I have two. The first one is about the comment that you made regarding pricing. You said that you are comfortable with the pricing and with the expectations regarding the margins, but when we look at NIM, it seems to be a little bit unstable. It doesn't seem to be improving the net interest margin. So which levers leave you comfortable? So do you think it's a kind of a stabilization or are we going to have improvements?

And the second question, well, one of the biggest banks in Brazil said that they are monitoring the risks of subordination on the private payroll loans. I would like to know your opinion about it. How do you see this risk? And if you have any other comments regarding private payroll loans, it would be great. Thank you.

Inácio Caminha: Hello, Brian. So, regarding your question regarding the margin, how is it that we assess how we evaluate the accounting and our economic vision, a managerial vision where we base indeed to make the pricing? So the accounting for new origination, we had an adjustment in the equity in the turn of the year for the periods in our balance sheet, and from January 2nd on, this transits into the results.

But what do we mean by economic? So the rates that we have been practicing compared to the funding costs and the expenses, the losses expected and the performed losses, this is adherent. have an expectation that the ROAs of our portfolios with time are going to be improved. You know, they are going to be closer to the margin. And we've been talking about this, the vehicles periods that have maturities of four years, when we look at the older periods, 21, 22, they had lower profitabilities than expected and then we've substituted them for others with higher profitability, not only financial margin, but the cost of credit margin, what really matters to the bank.

So in this, we see an evolution of the index, you see, not necessarily as we are looking one quarter to the other, but these movements of substitution of periods, they are slower, you know. So when you look at the horizon, when we go one year back, you see the margin was 15 and went to 17.5 ex-assignments. So this is the type of movement that we mean, and this is what makes us comfortable.

André Luiz Calabro: Brian, relating to the private payroll loans, your second question, I'm going to refer to our EP Clean portfolio. As said, we have a portfolio of approximately R$ 800 million and we began substituting, let's say so, this portfolio of EP Clean for the EP private loan portfolio. So, we are going to bring this collateral to this portfolio. So we are working on the segmentation of the EP Clean portfolio, offering the private payroll loan product. In our platform, we have 60% of our portfolio EP Clean, they are workers with contracts with their companies. So we are sure that we are going to bring more color regarding this modality in the next quarter.

This has just been released, on 6th of May, this possibility of portability to our own portfolio. So this is very recent.

Brian Flores: Thank you so much. It was very clear.

Neha Agarwala, HSBC: Hi, apologies, but I would like to ask my question in English, if that's okay. My question is on the Resolution 4966. So could you clarify, please, if you've changed your write-off policy for any part of the loan book, and if that's going to have any impact on the NPL ratio in the coming quarters and write-off?

And my second question is on the private payroll again. I think you mentioned that the portability was started earlier this week, right? And I think you also gave the size of the private payroll loan portfolio. Was it 730 million that you mentioned? How do you see yourself competing in that market? What is the advantage of Pan versus the other players, if you think there is one?

Also, if you can talk a bit more about the pricing that you're offering for the private payroll segment, roughly on average, how are you pricing these loans and what is the tenure of these loans? And do you see risk of cannibalization of personal loans, given that you're now offering private payroll loans to some of your customers? Thank you so much.

Inácio Caminha: Hi Neha, thank you for the questions. Regarding the first one over the 4966, what we have changed about write-off terms, indeed, we had to adequate the terms that we used to do and the ones that we are currently doing. Indeed, we started to write off credits longer than we used to. This is why we started reporting the managerial for 90 days past due loans in that slide of delinquency indicators.

And as for the private payroll, indeed…yes?

Neha Agarwala: So if I could just clarify, so your write-off is now, say, 540 days for the entire book versus 360 previously?

Inácio Caminha: Yes, actually, previously you had the ability, considering the 2682, some products you would write off in 360 days and some in 540 considering the remaining term of the loan. If they had more than 36 months, you could take longer to write off, thus getting to 540 days. Currently, we have some products at 540 and some at 720.

Neha Agarwala: *Very clear. Thank you.*

Inácio Caminha: And as for the private payroll, indeed, we have been pricing the loans with an expected very strong profitability. This is related naturally of the uncertainties of the new product. So the average term that we are doing is roughly about one year.

And in terms of rates, we are not opening or disclosing the rates that we are doing, but naturally they are above what we see in the previous existing private payroll, but naturally lower than what we do in the unsecured loans.

And as for the competitive advantages, what we believe is key to us is our agility and the way that we can address new markets, just like we did in the FGTS loans, where we launched very quickly in the beginning. The same that we did with Auxilio Brasil, the same with the new credit card payroll loan.

So the idea of having agile structure to develop and to deploy new products is what places us or rank us well in these new opportunities. And then let's see how the market unfolds, how competition comes, but we are always trying to be faster and take these opportunities.

Neha Agarwala: Do you see this product cannibalizing personal loans for any of your customers?

Inácio Caminha: Well, I would say that, connected to Brian's question about the concern of bigger banks with potential subordination in existing unsecured loans portfolio, naturally this should be a natural replacement for these products. So we expect it to happen, in our case, as Calabro mentioned, we have a very small unsecured portfolio, and we are more on the opportunity side than in the concern side of this new product.

Neha Agarwala: Okay, so you could cannibalize some of the other banks, you could potentially reach out to the other bank personal loan customers and offer them a private payroll.

Inácio Caminha: That's the idea, naturally taking the opportunities in the market.

Neha Agarwala: And what did you mention about portability?

Inácio Caminha: This, so far, wasn't available in this product, but it started… just like you have portability in the public payroll loan, you also have now in the in the private payroll.

Neha Agarwala: Okay, but this is a very small market right now, right? I mean, we just started to do private payrolls in an accelerated way after the change in the regulation in April.

Inácio Caminha: Yes, before that, not only us, but a lot of the players that are currently operating this product weren't operating in the previous model.

Neha Agarwala: Do you disclose the size of this private payroll portfolio that you have?

Inácio Caminha: So far, 750 million.

Neha Agarwala: Okay, and this is including the older originations under the previous rules, as well as what you have originated in the last two months?

Inácio Caminha: No, we didn't have anything of the previous model. So everything that we have in this new structure.

Neha Agarwala: Ok. And in terms of going after the collateral, how secure do you think this is? Do you think that the system is robust enough for you to go after the collateral in case something goes wrong? And do you have enough connectivity for the employers to ensure that the installment is deducted before the payroll is disbursed? How do you find the current system or any deficiencies that you see which need to be addressed?

Inácio Caminha: The regulation already states how this should work. Operationally speaking, it hasn't been deployed yet. The expectation of the market is that the government will put it in place by July, but we believe that it should work as described in the resolutions. So, naturally, there is going to be risk. This product has more risk than the public or the INSS, for instance, but it's much better than the unsecured loans.

So it's a good opportunity to step in.

Neha Agarwala: That's why you're pricing it a bit lower than the personal but higher than typical payroll loans?

Inácio Caminha: Exactly.

Neha Agarwala: Perfect. And I believe you're being very aggressive with this product, right? It makes sense to capture the market early on before all the other banks go out with this particular product. So I believe you'd be aggressive, given that you already have the capabilities, it would be an interesting product for you to kind of leverage on and gain more customers.

Inácio Caminha: I wouldn't say aggressiveness, I would say that we are faster, and we can be among the existing leaders.

Neha Agarwala: Great, thank you so much for taking my questions, very helpful.

Inácio Caminha: Sure, thank you.

Operator: And there are no further questions, so I would like to ask Mr. Calabro to please proceed with the final closing remarks.

André Luiz Calabro: Well, again, we thank you all for your attendance, for your questions, for your interest in the results of our bank, we are at your disposal to answer any other questions along the day or in the future.

And as I mentioned at the beginning, we are very excited not only regarding the new product, the private payroll loan, but also regarding the products that we already operate. We are very resilient, we are having growth, and the delinquencies are controlled. So we are going to bring more, even more profitability to the bank.

So that's it. See you on next quarter's conference call. Thank you so much and have a nice day.

Operator: This concludes Banco Pan's conference call. Thank you so much and have a nice day. We thank you for your attendance and we wish you a nice day.