Banrisul's 4Q20 Results Presentation

Conference Call – February 11, 2021

Operator:

Good morning, and thank you for standing by. Welcome to the earnings call which will discuss Banco do Estado do Rio Grande do Sul – Banrisul's results for the 4Q20. We have with us today: Mr. Claudio Coutinho Mendes, CEO; Irany Sant'Anna, Vice-President; Mr. Marcus Staffen, Finance Director and Investor Relations Director; Osvaldo Lobo, Credit Director; Nathan Sassi Meneguzzi, Investor Relations Superintendent; and Werner Kohler, Accounting Superintendent.

We would like to inform you that this event is being recorded and that all participants will be in listen-only mode during the Company's remarks. Following that, we will begin the questions and answer session for analysts and investors, when further instructions will be provided. If you need any assistance during the call, please request the help of an operator by dialing *0.

This event will be available as a recording for seven days.

Before we continue, we would like to clarify that any statements made during this conference call related to the Company's business perspectives, any projections, operational and financial goals are beliefs and assumptions from the Company's Directors based on information currently available. Future remarks are not a performance guarantee. They involve risks, uncertainties, and assumptions because they refer to future events, and therefore depend on circumstances that may or may not come to pass. Investors should have in mind that general economic conditions, industry conditions and other operating factors might affect the future development of Banrisul, and may lead to results that differ materially from those expressed in these forward-looking statements.

Now I would like to pass the floor to Mr. Claudio Coutinho Mendes, President of the Banco do Estado do Rio Grande do Sul's – Banrisul, who will begin his presentation. You may continue, sir.

Cláudio Coutinho:

Thank you. I would like to begin by thanking all of you for being in this conference call, and I will begin with an introduction and you can follow us on the presentation available on our website.

Just to summarize the year, I would say that we began 2020 with the assets that we still have now, but at the time, we saw conditions related to competition and also some factors that impacted from 2019, such as increase in taxes, which would impact our results. Of course, we could not expect what happened in 2020, which was the pandemic, and this affected our results from the beginning of March.

So if you look at our history, the 1Q was relatively normal. In March, we started feeling the effects of the pandemic and that it would be a very significant event. And that changed the entire scenario we were working with, and this affected our results, especially in the 2Q and a little bit of the third. The first biggest issue was health for our employees and clients.

So we contracted a consultancy from the Porto Alegre Hospital, a national benchmark in health care, and started working with all the protocols required for the prevention of the pandemic. So we learned new procedures to decontaminate branches; we started exclusive times to service the elderly; we started scheduling servicing times instead of having queues, a number of measures that I won't repeat because I am sure that you've already heard them in previous calls.

We also looked at the clients' financial health. So since it was a moment that would impact the pandemic, we knew that we had to provide something to our clients.

So we recaptured debt and extended some terms. This led specially to extended credit in agribusiness and consigned credit. We started focusing on mobile. And I would say that this program was very successful.

You will see this throughout our presentation, and the health of this portfolio grew robustly, and many clients had the services they need. In the third and 4Q, we started recovering our strong growth, and we concluded establishing our routine with the protocols connected to the pandemic.

So in a way, this became the new normal for us. And we were able to get a healthy level of growth throughout the 4Q. You will see this in our presentation as we continue to see how we sped up our growth from the 4Q.

So if you look at the year in perspective, it's like a loop. You start with the results in the first quarter, which were slightly affected by the pandemic in March, and then in the third quarter, we started seeing higher provisions, a focus on crisis management. And then from the third and 4Q, recovery, which was quite reasonable.

We would also like to highlight our entrance into the PIX service. We are following strict regulations from the Central Bank, especially with our I-Team and product teams that were able to create and deliver the service in whatever it took.

So I will go through the presentation, which you probably have with you, and we will start on slide number 2, speaking a bit about our ESG agenda in Banrisul. We have worked in the social and sustainability areas significantly. So in sustainability, we are increasing our investments.

We are dedicating ourselves to this topic and creating a new area to consolidate all of the efforts that we have here. Instead of being spread across several departments, it will be concentrated in a single one.

This is under discussion. We have not set a date yet, but we hope to offset 100% of our carbon emission soon, and we are going to, at some point, be supplied with only sustainable energy. So solar, wind and so on.

So this just underscores the importance that we place on sustainability. In the social area, Banrisul has a long tradition of working here. We have participated in many social projects, and of course, we support many others.

In 2020, we have dispersed R$27 million in these projects. In sustainability, we have had a very good program, which basically funds distributed generation systems. So we have over 4,000 contracts signed by the 4Q20.

And the annual growth is over 200%. So this is a line that we believe to be very important for environmental issues and because of the seriousness it has.

Another major focus that we have on slide 3 is something that we have been focusing on for a long time, Agro business. As you know, Rio Grande do Sul is a state that has 40% of GDP coming from Agro business. So considering the rising commodity prices, we have reached a market share now compatible to our share of Agro business in the other segments of the economy in Rio Grande do Sul. So we see that this portfolio grew 27% over the year.

And to show our commitment in perpetuating this robust growth, we have shown our real credit guidance in our presentation and our gain in market share is expected to be 8% by the end of this year. So we hope to grow in this area.

We have worked with our teams to continue to be as competitive as we can in this segment. It's also worth mentioning the importance of digital channels, which became even more relevant during the pandemic. We see there was a growth of 17% in the number of digital users, basically 1 million accesses per day in our digital channels, a 30% increase from 2019. And 76% of the transactions that we make are now happening through digital channels.

We have a very long pipeline of digital innovation, which is being concluded over time. So at the end of last quarter, we started consigned credit in the mobile; app, and we continue to grow. The idea is that it will service 100% of our clients' demand.

A major part of the transactions can be made through the mobile app, that goes through loans, transfers, much of the Bank's movements that we have are through pushing buttons in our app. So this has gained a lot of space due to the digitalization of our process.

About PIX, this is something that we could not leave out. It was obviously a very successful tool. We launched our system and our systems have been working perfectly. It meets all the requirements from the Central Bank.

We have had a number of transactions. The total amount transacted was R$1.2 billion, 759,000 keys, and a great number of clients here. So after 2020, we had a subordinated notes issuance in the amount of USD 300 million. So these notes have a 10-year term.

And the benefit is that they can compose capital. So along with our current capital, which was already healthy, we now have a pro forma issuance of 18.7%, including both tiers. So this is going to be our Basel ratio from January on. And this gives us the comfort to continue to invest in our credit portfolio. One of our roles is to have a healthy capital level. And from February, this would not account for capital. So this is hedged, along with this issuance, though it was originally dollar-denominated, it will now be in BRL.

Continuing with slide 8, we have some of our highlights. Our adjusted net income after nonrecurring events was R$824 million. Here, we see our adjusted administrative expenses, which had a reduction of 6.1% year-on-year. Our credit portfolio had a 3.9% growth.

Our default rate over 90 days is here. It's one of the historical low levels that we have had. And payroll loans continue to grow to 6.6% growth. And given the increase of provisions, we have coverage ratio of 317%, which is absolutely comfortable.

On profitability, as I said in the beginning of the presentation, if you take the first quarter of 2020 and look at the 4Q20, you can see that we have recovered to pre-pandemic levels. It was adjusted by about 6% in the last quarter. So this is basically the figures that we have. On a yearly comparison, we saw that our net income dropped by 35%, and this was mostly due to the pandemic, which impacted the first 3 quarters.

Our financial margins, if you look at slide number 10, you will see that we have had a good recovery. And this is basically based on profitable assets. Our EBITDA is at a higher level than the 4Q19, but this does not reflect our NII and NIM, because we had a higher capture than our credit portfolio expanded. So now, we not only have the capital, but we also have a lot of cash for the expansion of our credit portfolio.

So we will continue to grow, and now we are at a higher profitability level than we had in the previous 2 quarters. So financial margin has grown by about 5% between 2019 and 2020, or 18% if you consider the growth from the third quarter to the 4Q. In funding, we have a very robust funding structure, where we basically can get funding from physical players, under 17% of the CDI, and it grew significantly, 14% over the year. And that gives us a lot of breadth so that we can continue to expand our credit portfolio.

Slide number 12 shows our banking fees, and we can see the recovery that we had from the 4Q on. Looking at card fees, you can see that there was a growth, and total transactions grew between the third and 4Q by 21%. There was a slight slowdown in the 2Q because of the pandemic, and also during the third quarter, but there was a quick recovery in the 4Q.

If you also look at the yearly comparison, you can see that the figure is higher than the previous year's. So despite the pandemic, our banking fees went up in comparison to 2019. And the company's results also had a reduction of only about 4% because of this slowdown during the pandemic.

So we gave clients some discounts, and of course, this was a strong strategy because we can see the strong recovery in the 4Q. In fees overall. We had a robust growth between the 3Q and 4Q last year, a 10% growth, and a reduction of 4% year-on-year, which, again, is explained by the slowdown during the pandemic. The entire economy was slower.

Now we can continue on slide 13. This shows our efficiency levels. So here, we have an administrative expenses view on 3 major fronts. First, personnel expenses, so this is our PDV, and we see the future challenges that we will have with our workforce. Our expenses were totally liquidated in the 4Q, and these expenses were entirely within our sheet. Of course, this is a recurring expense, and there was a yearly savings of R$160 million.

We also hired a consultancy to look at career plans to allow our employees to grow, and we are going to readapt all of our incentive systems for our employees with the goals that we have for the year. So this is ongoing still. Part of it has already been done, and we will see how it continues over the year.

So this is another part of our personnel restructuring plan. We have also restructured our branches. In 2020, 9 branches were closed and 3 were turned into PABs. In 2020, we also closed 200 stations and transformed age into business rooms, which are offices, but that do not have cashiers.

As you know, the movement of cash represents about 35% of the cost of having a branch because it includes transportation, security, so there's a high cost related to the movement of money. So we continue to have the same level of service, but of course, at a lower cost.

In 2021, we have closed 2 branches so far. And by the end of April, we expect to close 7 more and 5 stations. So until April, we expect to have closed 6 branches, 25 stations and 8 will be turned into business rooms. These initiatives will not stop in April, and this will be on a continuous effort. So we hope to have a lot of accuracy and efficacy in doing this so that we don't lose our competitive advantage, which is the spread across the entire state. So we need to be very careful so that we don't lose this because it's our main competitive advantage in this state.

The third item, of course, is our efficiency. So we have made major investments there in digital transformation, new functions in the app because we want our clients to have easier service that are simpler to use. Our app is very user friendly, so we hope that we can continue to take this to our clients, especially with payroll loans, which we hope to include in our mobile app soon.

So with the reduction of personnel and with increased service revenues, we have a higher ratio here. So the banking fees by personnel expenses relation has gone up, and also, we had a reduction in administrative expenses that we want to highlight here, 8.6% lower than in the previous year. We will continue to make a big effort in terms of expenses as we are focusing on keeping them under control.

So the credit portfolio shows the current scenario. We had a growth of 3.9% over the year, but this growth basically took place in the third and 4Q, 3% there. So that was due to the recovery at the end of that cycle as we adapted to the new normal. So growth in individuals slowed down, but we had a significant rise in companies.

Slide 15 shows payroll loans, which grew 6.2% with customers, and in the correspondent channel, which is operated by our subsidiary, it grew over 11%. And in branches, it grew 6%. So it's a 6.6% growth, we continue to focus on this, and we will be seeking tools to transform the lives of our users who have payroll loans so that we can continue to grow in this portfolio.

Credit relief programs. We worked on all three as soon as they were regulated. We wanted to have a big distribution to (the) clients, and also reaching the clients that have the best ratings in the Bank. So the granted volume was about R$1.5 billion.

The next slide shows what kinds of clients they were. And the average ticket was around 40,000, which shows that our policy was to diversify so that every client could access this credit line without a higher cost.

Renegotiated loans on slide 17 show that we renegotiated R$744 million, of which, R$273 million have already been amortized. So terms are very good, it was under 90 days, it's at a very good level, and this shows the clients that asked for renegotiations. So they got a different credit classification.

Many of these renegotiations were not existing contracts, but rather, credit that we got at the time to negotiate payment installments. Part of this portfolio is new contract, so except for real estate and rural loans, they would not have had a longer than 1 year term. So they have been liquidated.

And the previous portfolio is still being paid. So 3 installments were (expiring) during the height of the pandemic, that was in April, May, June, July. So that was when this took place, and installments would still be paid within the year. So we renegotiated R$744 million. Some were partially renegotiated but are still being paid and they are still within that NPL, which is at a very good level.

Let us continue on slide 18, where we talk about provision expenses. If you look at the provisions on credits that were recovered, we had an increase of R$350 million. So when we were expecting increased default rates, which did not come to pass.

If you look at page 19, you will see our credit quality. So the coverage that we have with regards to our forecast. So our 90-day coverage ratio reached 317%, and our default rate under 90 days reached 2.3% at the end of the year.

So what is this telling us? We have a higher prediction, but on the other hand, our default rate dropped more than 1%. And this means that our coverage is very good. It's a very pleasing level. So credit provisions in the future, we feel very relaxed because we have good performance according to what we expected.

We basically had a payroll loans. So we are backed by guarantees. This left us at a very comfortable level. And in fact, our default rates are even lower than 2019. So we are very confident with our credit risk.

Finally, this is our guidance that we are communicating again. We know that for the 1H20, our guidance was very unstable, so we removed it, and now we are communicating it again. This is the expectation items in our balance sheet. One highlight we have here is Rural Loan, so we have a guidance on Rural Loans.

This is basically it. So thank you. And we are now open for any questions you may have.

Sofia Viotti, Bradesco:

Good morning. Thank you for the call, and congratulations on the results. First, when do you think you are going to reach your peak default rate in 2021? And what will be the normal sustainable level of PDV on your portfolio?

Osvaldo Lobo:

I am going to look at page 18 with some adjusted figures. The adjusted figures, for me, I wouldn't consider any provisions for write-off loans. So that light blue bar in the first quarters. So when you look at provision expenses, it shows very clearly what we are expecting.

The worst level we had was the 2Q20. And the 3Q already showed a strong reduction. In the 4Q, we had R$401 million minus R$186 million, which was already a significant reduction. It's the same level as the 4Q19. It is possible for these figures to look like this or even be lower, so this is what we have been striving for.

Claudio Coutinho Mendes:

We would also like to highlight that we are continuing a policy from the previous administration. We are focusing on retail and stepping away from corporate or large corporate credit operations.

We want to invest in payroll loans, real estate loans, Agro business, which have real guarantees. So this is to reduce our credit risk, and we expect our default ratios to have a relatively lower level and to be less volatile. So we will be better distributed in retail risks.

Sofia Viotti:

Thank you.

Yuri Fernandes, JPMorgan:

Good morning. Thank you for taking my questions, and congratulations on your results. Can you give us some color on contract renegotiations? You are reaching the fifth year of the contract, so I would just like to know a little bit more about that, especially the discount rate. The contract was produced a long time ago, and we note that the market has changed significantly. So in the material fact, you mentioned a discount rate. So would the Bank be required to renegotiate? If you could tell us a bit more about what we should expect from that.

We also have a question on margins. We see that your margins have been going up as you recover credit. But looking at 2021, your guidance shows a reduction in margin, so we would expect 2021 to be more stable. So we would just like to understand what will take your margins down in 2021? Why are you expecting that?

Claudio Coutinho Mendes:

To answer your first question, we did receive that information, and we published a Material Fact last week and we stated that we will make a statement on renegotiation if it happens.

As soon as the Bank decides, it will communicate it to the market. So that will be disclosed at the right time. So right now, we have not made a decision on that. The only information I can give you is what is in the material fact that we published.

About our financial margins, a part of our margins has been impacted by the fact that we have many treasury assets in our total assets. So as our credit portfolio grows and as this mix changes, I think we are going to have, of course, better margins.

Our margins have been impacted because we had a growth in capture that was higher than our growth in our credit portfolio. So the guidance shows that we expect higher growth in our credit portfolio versus our capture group.

So I am not sure if our CFO, Marcus, can comment on that as well.

Marcus Staffen:

Of course. Yuri, I think your statement on this last quarter is correct. We do need to look at our managerial margin, excluding the effects of the recovery. For 2021, we do have a challenge of converting our treasury assets, our liquidity into a higher growth in our credit portfolio.

So the guidance is conservative here, and it follows the current dynamics. If we really are successful, we can expect to aim at the top of this guidance and not at the middle.

Luis Fernando Azevedo, Safra:

Good morning. My question follows the previous question on PDV. If you look at your presentation, the guide range for the portfolio is 3.5% to 4.5%, which is higher than what we see on slide 18. So I would just like to know if this is a conservative guidance or if you are taking into consideration the light blue bars, which are provisions for write-off loans, I would just like to know a bit more about that? Looking at your coverage level, it should be lower than your portfolio. So if you could tell us a bit more about that, that would be great.

Osvaldo Lobo:

The guidance is conservative, of course, and it does reflect our expectations currently. A lot of what we have seen at the end of the year has been surprising considering our expectations in April when we had so many uncertainties on how credit would react.

What I can tell you is that I am going to work so that the numbers are much lower than this, but the guidance that we would like to give to the market today is this. As figures consolidate, especially in the first or 2Q, we will have to review the guidance, but we are going to work so that these figures are lower.

And it's important for you to look at credit correctly because they tend to distort provisions, especially. So the guidance does consider the write-off loans, is that right? Yes. And it's basically unfair, right? But I cannot, in the guidance, say that I did not expect this. So it is what we are considering it.

Luis Fernando Azevedo:

And this is related to your NII, right?

Osvaldo Lobo:

Sorry, I did not understand your question.

Luis Fernando Azevedo:

Your financial margins had a credit recovery as well, right?

Osvaldo Lobo:

Yes, of course. When you have a recovery it can be 2 kinds: you can have a good recovery, which is a real renegotiation that was well done. For example, if we had a higher provision, you are going to have an impact on your cash or what we will call a bad recovery that is an old problem that change during the process, for example, a definition, and that had technical norms that require us to activate the credit again. Of course, since we are conservative, we also have 100% provisions for that.

Luis Fernando Azevedo:

So my question is if there is any relationship between them? If the light blue bar should (launched on the financial margin)

Osvaldo Lobo:

Yes, they should be connected, because they are connected to previous problems, especially in the corporate portfolio. So there are some one-off events that would change it. For example, of the R$186 million in the 4Q, if I am not mistaken, R$156 million came from one single month, the month of October. And obviously, I would like that to be diluted or to not exist at all.

Luis Fernando Azevedo:

Okay. I understand. So my impression is that the guidance is conservative, but PDV will carry some of these write-off loans, defaulted, but this is a contribution from financial losses. If that's the case, right?

Osvaldo Lobo:

Yes, that is exactly it. And you have to analyze especially disregarding the recovered credit volumes. So you need to look at the quality and size of your active portfolio.

Luis Fernando Azevedo:

Great. Thank you.

Vinicius Sarturi, investor (via webcast):

Considering the Bank's Basel rate at comfortable levels, and considering that credit is not evolving that well, can you tell us why you contracted a new payroll alone? Because it might not be completely offset.

Claudio Coutinho Mendes:

Credit grew in 2020 considering the scenario we were expecting, and we expected credit losses to be much higher. We were responsible. We expanded our credit portfolio. But we were not aggressive because at that time, we did not expect that we should be aggressive on credit at all.

But when the situation became clear, when we started seeing the economy growing again at the end of the year, then we accelerated credit, and credit grew by 3.7% in the last quarter of 2020 versus this quarter. So credit or resources that we have a window of opportunity.

We now have some losses in terms of capital. So we thought that this would be a great opportunity to recover our capital provisions so that we can get prepared for the growth we expect in the next year. So this is a credit capture for 10 years, and we expect our credit to continue to grow. So we believe that we will continue growing and we are going to get the space that we created.

Operator:

This concludes our questions-and-answer session. We would now like to turn the floor to Mr. Claudio Coutinho for his closing remarks.

Claudio Coutinho Mendes:

Thank you all for listening to our conference call. We would also like to thank the Board of Directors and all of the employees at Banrisul who worked so much last year throughout all the challenges we faced with the pandemic and all of the risks associated to it.

So thank you to all of our collaborators, especially our IT team, which had to work so much so that we could put many functions in our app so that we could help our clients to solve their financial issues that had been caused by the pandemic. So thank you to all of our employees, and thank you for those of you who are listening in.

Operator:

This concludes Banrisul's conference call. We would like to thank you for listening, and have a nice day.