

## Y 2018 Earnings Call

### Company Participants

- Inacio Caminha, Investor Relations Superintendent

### Presentation

#### Operator

Good morning ladies and gentlemen, and welcome to Banco Pan's Conference Call to disclose the first quarter of 2018 results. This event is also being broadcasted simultaneously on the internet, both audio and slide show, which can be accessed on the Company's IR website: [www.bancopan.com.br/ir](http://www.bancopan.com.br/ir) and MZiQ platform, with the respective presentation. We would like to inform you that all participants will be in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a question and answer session. At that time further instructions will be given.

(Operator Instructions)

Forward-looking statements are subject to known and unknown risks and uncertainties that could cause the Company's actual results to differ from those in the forward statements. Such statements speak only as of the day they are made, and the Company is under no obligation to update them in light of future developments.

Now, I will turn the conference over to Mr. Inacio Caminha, Investor Relations Superintendent, who will begin the presentation. Please Mr. Inacio Caminha, you may begin your conference.

**Inacio Caminha** {BIO 19326001 <GO>}

Thank you. Good morning to everyone. Welcome to our 2018 earnings call. Before entering in the numbers, I would like to talk about our strategy on Slide 3, and the silent revolution that has been happening in Pan.

In recent years, we have restructured our internal services and processes, hired outstanding professionals in their areas of expertise, and also invested heavily in technology. And here represents some examples and pillars of our digital bank. Throughout 2018, we advanced in this strategy of omni-channel origination of credit without physical barriers through digital platforms doing everything paperless. And we are pioneers in signing contracts with facial biometrics and we have invested in the expansion of self-service channels, and also developing open APIs that will facilitate the connectivity between foreign and native digital partners. These measures will increasingly bringing more productivity, cost reduction, partner loyalty, fraud and delinquency reduction, and also increase partner and customer engagements.

There are more than 300 people dedicated to this digital strategy. And by year end, we intend to formalize 100% of vehicle financing contracts digitally, completely paperless. And we want to do the same for payroll loans and our points of service. With our payroll brokers, we tend to have 30% digitally signed and increase from that in coming years.

In addition to the transformation of the current products, on Slide 4, we announce the expansion of our product portfolio, making us a full digital bank in 2019. We will offer checking accounts and credit cards without fees, and several other products and services for low-income individuals classes C, D and E in Brazil.

Our purpose is to change the view of the target public regarding banking sector facilitating the access to credits at competitive rates, supported by our expertise in credit markets. The Brazilian market favors this movement and has many opportunities, starting with the concentrated markets, connected population and also considering that a large portion of the population suffer from high interest rates and low credit limits in their current banks. And also the penetration of financial services is quite low.

In addition to that, the Central Bank has shown a positive agenda to promote a more competitive environment. We understand that we have competitive advantage in relation to direct competitors and newcomers based on spot dealers. So we have capital and funding available. We are the second largest Brazilian private mid-size bank in total assets. We have an extensive expertise in credit for low-income individuals using unstructured data aligned through advanced modeling techniques, such as machine learning. And with this, we can offer the best credit alternatives to our clients. We also have a strong presence on our core markets and we have already 4.3 million active customers and an organic monthly flow of more than 80,000 new clients per month. So along with that, investments in technology and marketing will further boost this flow.

Moving on to Slide 5, we present the financial highlights. In 2018, we posted an income before tax of BRL457 million, increasing 80% over 2017. In the quarter, the net income was BRL74 million, totaling BRL222 million in 2018. Our NIM remained strong at almost 16% this year. The adjusted ROE for 2018 was 15.5% and the adjustment consists of two remaining legacies that I'll explain later on. Our loan portfolio ended the quarter at BRL20.6 billion with payroll and vehicle financing growing by 20% and 18% each in the year-over-year comparison. We generated a monthly average of BRL1.5 billion in new credits and we ended the year with BRL4.1 billion in equity and 14.1% Basel Ratio.

Regarding the annual results on Slide 6, our NIM stood at 15.8%, falling a bit from 2017 because of different credit assignment volumes, but it was a tough movement considering that assignments reduced almost 40% on a year basis and were compensated by higher carried revenues. Credit provisions totaled BRL1.1 billion in 2018 corresponding to 5.9% of the portfolio. And total expenses fell 10% on a year base in which origination expenses reduced 16%, and personnel and administrative expenses contracted 4%. With that, we get to the BRL557 million income before tax, a significant increase over 2017, reaching BRL222 million in net income.

FINAL

On the next slide represents our ROE, on the accounting base and also the adjusted. The adjustment is quite simple. It is about the adhocacy of two remaining legacies. The first one refers to the excess of financial expenses generated by fixed rate deposits that were issued between 2005 and 2008 compared to what we currently pay for the same term in the market. So they mature in average by 2023. And excluding this additional price that we pay this additional cost, the net income would be BRL383 million. And the second adjustment refers to the excess of the deferred tax assets related to losses arising from the accounting inconsistencies surrounding 2010, and also the results from the DTA sale that happened in 2017.

And with that the average equity goes from BRL3.8 billion to BRL2.5 billion. Thus the ROE becomes 15.5% in 2018, properly representing the performance of the bank in the margin and increasing significantly from the 10% that we had in in 2017.

On the next page, we present the details of our origination. We granted BRL4.5 billion in credits in this quarter, BRL1.5 billion per month increasing 4% in the quarter and 15% in 12 months. The growth on a year basis was driven mainly by vehicle financing, which increased 42% in 12 months and increased 14% in the quarter, reaching an average of BRL415 million in the last quarter per month. In payroll loans, we had an average origination of BRL790 million per month, and credit cards around BRL300 million per month.

On Page 9, we show the composition of the credit portfolio. In the first table, we see that payroll deductible remains as the largest portfolio with BRL11 billion, increasing 20% in last 12 months. Then comes vehicle financing with BRL7 billion, advancing 18% in 12 months. And corporate loans and real estates have been declining at a strong pace, 41% and 21%. And credit cards totaled almost BRL900 million, increasing 5% in the quarter. Overall, the entire portfolio went up 10% year-over-year, but the core portfolio increased around 18%. The originated portfolio, which includes the assignments to Caixa ended the quarter and the year at BRL32.3 billion.

On Page 10, we have the 90 days NPL for the retail portfolio, which improved over the last quarter and ended at 5.4%, the lowest level since 2011. There has been a process of using a lot of technology in credit concession as I mentioned. And we have also been using that these the platforms for collection. So in 2018, we recovered BRL575 million through these digital platforms, increasing 40% over 2017, already representing more than 20% of our collection. This brings a lot of dynamism and customization through the negotiations with our clients as well as saving costs.

In payroll, our strategy to keep us as a relevant player focused on federal codes. And in line with this strategy, we have been using a new and innovative platform that allows us to hire payroll loans completely paperless, only using facial biometrics. In this way, the digital process makes the operation more efficient, safe and profitable. This digital origination of payroll at our points of service increased from 2% to 15% in December. So 2% in June '18 to 15% in the December '18. And we expect this to reach 100% by December '19.

FINAL

In this quarter as I mentioned, we originated BRL790 million per month, approximately 92% in loans and 8% in credit cards. When you look at the breakdown among the codes, we kept an important share on federal risk responding to 88% in 2017 and also in 2018, and INSS the Social Security represented alone 62%. Portfolio ended at BRL10.8 billion, representing 52% of the entire portfolio.

On Slide 12, we have some details about vehicle segment. Here, the focus of the operation is financing used cars between four and eight years of usage and also new motorcycles, capturing all the benefits of our expertise in credit, in collection, and also benefiting from the excellent relationship that we have with the business partners, with the dealers. In line with this digital transformation, we have been using a simulator that allows us to make credit screening with few pieces of information, and in addition to that, automatic payment in the case of approval.

All that brings a lot of agility and better experience for our commercial partners and also to our customers. These and other investments in technology have allowed a significant increase in the productivity of our sales team, which already advanced about 40% between June and December '18. And we intend to double it by June '19, when we compare to June '18. Also, as I mentioned before, we intend to formalize 100% of loans completely paperless -- paperlessly by year-end. The origination as I mentioned was BRL415 million in the quarter per month. And the portfolio reached BRL7 billion.

On Page 13, we show the evolution of credit cards. Our strategy is to expand origination through co-branded partnerships and digital channels such as marketplaces in addition to capturing proposals directly from our website and offering our products through call centers. And we have been using a lot of analytics and CRM tools to boost cross-sell among our products. In 2018, a new credit modeling based on social profile was implemented using machine learning, and that allowed a great assertiveness both in defining the limit for new cards issued but also in maintaining the arrangements throughout the life cycle of our customers.

We have also launched an app on the third Q '18, which now has more than 122,000 downloads and 22% of our clients are already considered heavy users, which is a strong number for a short period since the launch. And also this quarter, we improved our rewards program, generating more benefits to our clients and improving efficiency. Total transactions were about BRL3.5 billion in the year and the portfolio reached BRL877 million.

On Page 14, we show the evolution of the insurance business that we sell. We originated a monthly average of BRL22 million in premiums in the quarter following the growth in the origination of the vehicle financing.

The funding shown on Slide 15 reached BRL20.3 billion in December. Time deposits increased significantly, reaching BRL9.1 billion, contributing to the diversification of our funding and also showing the acceptance of our products among distribution platforms and also on our own platform. On fourth Q, we launched the new app that allows clients

to open the account for investment in about three minutes. And we are confident that this will increase our client base.

On Slide 16, we have the information on capital. Basel Ratio stood at 14.1% with 12.2% Tier 1 capital increasing as a consequence of our results.

With this, we conclude the presentation and open the line for questions.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the Q&A session.

(Operator Instructions)

Since there seems to be no further questions, I'd like to turn the floor over to Mr. Inacio Caminha for his final remarks.

### A - Inacio Caminha {BIO 19326001 <GO>}

Once again, thank you all for the presence. Have a great day and see you next quarter.

### Operator

This concludes Banco Pan's conference call. You may now disconnect and have a good day.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*