

Q3 2018 Earnings Call

Company Participants

- Inacio Caminha, Superintendent-Investor Relations

Presentation

Operator

Good morning, ladies and gentlemen and welcome to Banco Pan's Conference Call to discuss the Third 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 companies' IR website, www.bancopan.com.br/ir and MZiQ platform, with the respective presentation.

We would like to inform you that all participants will be in a 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-looking statements. Such statements speak only as of the date 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. Mr. Inacio Caminha, you may now begin your conference.

Inacio Caminha {BIO 19326001 <GO>}

Thank you. Good morning, everyone. Welcome to our earnings call for third quarter of 2018. Starting on slide three, we presented summary of our Digital Transformation. Each work meant mean that we have compulsory reinvesting technology and we have advanced in the omni-channel strategy for credit origination, regardless of physical limitations.

This way of originations aligned with our credit expertise allowed scalability and our productivity gain at our point of services and banking correspondence. We also focused on innovation to improve client services, increasing self-service alternatives which is considering new legislation to come such as open banking. So like -- when happen, we have a highly skilled team working in the agile methodology, they have more than 200 people involved in this process, approximately 10% percent of our staff and we've already achieved important developments.

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The first is that, in our Point of Services, we achieved in the quarter an average of 10% of origination of favourable loans, 100% Digital, new paperless compared to 2% of the previous quarter. And just to remind, what we have said in the last quarter, we have a goal of reaching 100% by the end of 2019.

In vehicles, we have our financing simulators that dealers are using, which is fairly simple to evaluate a loan proposal and in the next quarter, we have more news on these -- on these loans. We released the new app for credit cards that had more than 40,000 downloads in the first month and we have a pipeline with more updates in line with constant innovations. We also released the new account opening process through the app PAN Investimentos, which is super-simple, intuitive and allows you to open the accounts in just a few minutes.

Since the first release in May 17th, we have already had more than 260,000 downloads. Regarding collection we achieved a 22% share in the recovery over past due credits through the digital platform and we redesigned our website and reached 3.7 million access in the quarter fostering cross-sell and improving client -- self-servicing experience.

Going to slide four, we present the financial highlight. In this quarter, we generated a monthly average of BRL1.4 billion in new credits and we signed a 144,000 new clients, strengthening our customer base. Our loan portfolio ended the quarter at BRL19.7 billion with payroll and vehicle financing growing by 15% and 13% respectively in the year-over-year comparison. Income before tax totaled 321 million in the nine months of '18 with an increase of 167% over the nine months of 2017.

We posted a net income of 49 million this quarter totaling 148 million in nine months and the annualized adjusted ROE for the nine months was 14.4%. The adjustment consists of two remaining legacies that, I will explain further in the presentation. Considering just 3Q results, the adjusted ROE was 13.5%, and we ended the quarter with 4 billion equity and 14% Basel Ratio.

On slide five, we present some charts with the evolution of our results. By the end of this quarter, the net interest margin was 15.4% per year reducing over the comparable quarters due to lower revenues from credit assignments. Credit provisions totaled BRL216 million down from BRL310 million in the last quarter, representing 5.4% of the portfolio.

Personnel and administrative expenses remained flat while the origination expenses decreased 15% in the year, resulting in a reduction of 9% in total expenses over 3Q'17 and when you consider the nine months expenses, we had a reduction of 12% in total expenses representing a saving of BRL190 million in the same period of 2017. In the 3Q'18, we registered an income before tax of BRL103 million getting to the BRL321 million that I mentioned more than doubling the nine months of '17 -- of income before tax, which totaled BRL125 million. And net income for this quarter advanced to BRL49 million, getting to the BRL148 million in nine months.

On the next slide, we present our ROE. We accounted an annualized ROE reached 4.9% per year, this quarter and 5.2% if you consider in nine months, and the adjustment that I

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mentioned consisting the adequacy of two remaining legacies. The first one refers to the excess of financial expenses generated by fixed-rate time deposits issued between 2005 and 2008 compared to what we currently paid for the same term in the market. These deposits mature an average by 2023. And the second refers to the excess of deferred tax asset related to losses arising from the accounting inconsistencies found in 2010. So the adjusted ROE was 13.5% in the quarter and 14.4% in nine months probably presenting our performance in the margin.

On the next page, we presented the details of our origination. We granted BRL4.3 billion in retail credits in the quarter, representing a monthly average of 1.4 billion, increasing 5% over the 2Q and 14% over the 3Q'17. Now, this growth was driven by vehicle financing which increased 24% over the last quarter, reaching an average of \$364 million in new credits per month.

In payroll loans, we had an average origination of BRL798 million per month. In credit cards, we got to BRL266 million per month. Regarding credit, we have been reinforcing our strategy of focusing our clients' needs. Also in the most suitable combination considering the client credit profile, its proposal and the rates, that we can offer. And for this purpose, non-structured data and also machine learning models are being used to improve credit decisions and we are constantly aware of new start-ups to be always connected with the latest market trends.

On page eight, we show the composition of our credit portfolio. In the first table, we see that payroll deductible remained as the largest portfolio with BRL10 billion increasing 15% in the last 12 months, then we see vehicle financing portfolio with BRL6.5 billion advancing 13% year-over-year. And next comes the decline in corporate portfolio with BRL1.1 billion, followed by the real estate portfolio with BRL850 million. The credit card portfolio ended the quarter at 885 million and in total, the portfolio -- the on balance portfolio grew 5% year-over-year. The originated portfolio which adds up the portfolio assigned to cash, ended the quarter at BRL33 billion.

On page nine, we present the 90 days NPLs for the retail portfolio, which improved over the last quarter and ended at 5.6%, the lowest level since 2011 and adding to what I've mentioned regarding the use of technology on credit concession. We have been using digital platforms for collection as well, gaining from SCA. We achieved 20% of our collection through these self-service platforms bringing more (inaudible) customization to negotiations as well as saving costs.

In payroll, this strategy is to maintain our position as a relevant player with focus on federal codes, as we see on on slide 10. Remaining as a top five player in the INSS pensioners market. The banking correspondents are our main origination channel and apart from that, we want to increase origination through Digital Platform. So in the quarter, we originated an average of BRL800 million per month totaling BRL2.4 billion in new credits and among these 93% consist of loans and 7% of credit card.

Looking at the origination breakdown, we see an important share on federal risk, responding to 87% of the quarterly origination and the INSS alone represented 59%. The

portfolio ended the quarter at BRL10 billion, representing 52% of the entire portfolio.

On slide 11, we present more details about the vehicle segments. We focus our origination on used vehicles ranging from four years to eight years of usage, new motorcycle financing as well. In both businesses, we capture benefits from our expertise in credit and collection, optimizing the risk return relation for these operations. Another aspect which contributes is the advantage that we have, and the great relationship with our commercial partners, the dealers. Within digital transformation, we are developing a digital from innovation flow to be launched soon that will allow us to grant a loan paperlessly.

In the motorcycle market, we are the leader, excluding a capital finance company and we benefit from our credit knowledge and long-term experience, resulting in an excellent performance among low-income young adults. As we can see in the chart, we had a monthly average origination of 364 million, and the total portfolio ended the quarter at BRL6.5 billion.

On page 12, we showed the evolution of credit cards and insurance. The strategy for credit cards, is to expand the origination through co-branded partnerships and digital channels such as the new app that we launched, that had more than 40,000 downloads in the first month and the portfolio ended the quarter at BRL885 million. As for insurance, we originated a monthly average of BRL20 million in premiums in the quarter related to increase -- to the increase in the vehicle financing origination.

The funding balance shown on slide 13 reached BRL20.7 billion at the end of September, with an increase of time deposits from market investors which increased 90% in the last 12 months, reaching BRL8.4 billion. And besides that, our digital platform keeps growing -- contributing to the diversification of our funding.

On slide 14, we have the information about Capital. Our Basel ratio stood at 14% with 11.9% Tier 1 capital increasing as a consequence of our results. And also to conclude on slide 15, I would like to summarize our strength which are the robustness of our controlling shareholders including potential synergies, especially with CAIXA. The ability -- the availability of capital and funding that we have, also the strong presence on our market and the focus on these two platforms to capture scalability and efficiency gains.

And with that, 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). There seems to be no further questions, I would 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. See you next quarter. Have a great day.

Operator

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

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