

Y 2017 Earnings Call

Company Participants

- Inacio Caminha, Investor Relations

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Banco Pan's conference call to discuss the fourth quarter of 2017 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 and Engage-X [ph] 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 would turn the conference over to Mr. Inacio Caminha, Investor Relations Superintendent, who will begin the presentation. Mr. Inacio Caminha, you may begin your conference.

Inacio Caminha {BIO 19326001 <GO>}

Thank you. Good morning, everyone. Welcome to our conference call to disclosure of our results in this fourth -- 4Q '17.

Starting with the highlights on page three, we see that Pan recorded a net income of 55 million, taking the annual results to a net income of 213 million. The loan portfolio ended the quarter at 18.6 billion with a slight decline in 12 months with the retail portfolio increasing and the corporate producing in line with the bank's strategy. In the retail origination, we originated a monthly average of 1.3 billion, led by the payroll loan which amounted to an average of BRL720 million per month. Our annual net interest margin was 17.5% in the quarter and 16.6% in 2017, above the 13.6% in 2016. And we ended the quarter with a consolidated shareholders' equity of 3.6 billion with a Basel ratio advancing to 13.3%.

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As we mentioned on our last call, we sold our interests in Stone and announced 400 million capital increase. This capitalization will take our equity to BRL4 billion and we are on the final steps, only waiting for the Central Bank's approval. Along with that, the renewal of our shareholders agreement now valid for another nine years demonstrate the commitment and support coming from our controlling shareholders in the execution of our business plan.

Our net interest margin on the next slide, moved forward 22% totaling 3.6 billion in 2017, reflecting the good spreads of our operations. The credit provisions had remained stable in 1.1 billion in the annual comparison, showing the strong credit renting process. As a result, the gross income from financial intermediation presented an important expansion of 35% in 2017.

Regarding the administrative and personnel expenses, we can see a nominal decrease of 3% in the annual comparison with an even higher decrease in real terms. The slight increase in origination expenses are related to the final adjustments to the accounting rules commissions that we'll see further on. And the income before tax presented a considerable improvement in the quarterly and annual comparison registering a net income of 55 million in this quarter and an accumulated of 213 million in 2017.

In the next slide represents an overview of our main business lines. During '17, we took some strategic decisions, discontinuing some business lines and focusing in segments that we are strong with a highly dedicated and capable commercial team and also having a sound market position.

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Regarding payroll deductibles, we operate with both loans and credit cards to public servants and INSS pensioners, mostly federal. In vehicles, we decided to focus in the origination through multi-brand dealers financing vehicles mostly up to 7 to 8 years of use and we also financed motorcycles with a specific and profitable credit profile. We also operate with credit cards and insurance, which represents a smaller portion of our portfolio. As a consequence of this strategic repositioning, the corporate real estates, personal credits portfolios are running off with a dedicated team to smoothly manage this process. We operate granting credits all over Brazil. There is a great concentration in the Southeast and South regions naturally and we have around 6,000 multi-brand vehicle dealers originating vehicle financing for us and almost 1,000 brokers for payroll loans. We ended 2017 with 4.3 million clients, 2.2 million credit cards and 2,100 employees.

On page six we present the details of our origination. We have granted 3.9 billion in retail credits in this quarter, representing a monthly average of 1.3 billion. During '17, the monthly average origination was 1.4 billion and more important than the volume are the spreads that we have -- that have been contributing to the good performance of our interest margin. In 2017, payroll loans had an average origination of BRL842 million per month with a significant share of INSS pensioners. In vehicle financing, the average was 342 million. And in credit cards, the transaction average was BRL270 million per month.

On page seven we show the composition of our credit portfolio. In the first table, we see the payroll loans remained as the largest portfolio with 8.9 billion, then we see vehicle

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portfolio with 5.9 billion and next comes the declining corporate portfolio with 1.7 billion and real estate with 1 billion. The credit cards remained stable at 1 billion. And in the lower chart we see that the retain portfolio has presented a slight decrease, mainly due to the decrease in the corporate and real estate portfolios. The originated portfolio that we see on the side, which adds up the portfolio assigned to Caixa, ended the quarter at 35.6 billion.

On page eight we show the quality of the retail portfolio. From the chart, we notice that our 90 days NPL has remained relatively stable when compared to the last quarter and presented a slight improvement in the annual comparison.

On page nine we present the breakdown of the bank's cost and expenses, segregating the expenses related to the origination. Personnel and administrative expenses totaled 272 million in this quarter and 1.1 billion in 2017, presenting a reduction in nominal and also real terms.

In the bottom-left chart, we show the decrease in the number of employees with a substantial reduction in 2017, also generating layoff costs. And from 2018 on, we expect to capture these effects coming from these adjustments and we'll continue to seek efficiency gains going through a digital transformation at the bank.

On the origination expenses, we notice the final adjustment related to the Central Bank's accounting rule of commissions with plans [ph] and also a decline in the deferred commissions.

In the next slide we show the evolution of the payroll both loan and credit cards. In the quarter we originated a total of BRL720 million per month, totaling 2.2 billion in new credits, approximately 90% from loans and 10% from credit cards. Regarding the credit portfolio, the balance of loans closed the quarter at 7.7 billion, because of the credit assignments; and along with the credit cards, the portfolio reached 9 billion, accounting 48% of our total credit portfolio.

When we look at the origination break-down, we can see many important concentration on federal risk responding to 87% of the 2017 origination. The INSS represented 62% showing the quality of our origination and the origination in states and municipalities has been reduced over the years. In carry out -- in our carried out with a strong analysis of the financial situation of these entities.

On slide 11 we present more details about the vehicle segment. As we can see in the graph, the monthly average presented a slight increase in this quarter to 291 million, totaling 870 million in the quarter. The portfolio increased ending the year at 6 billion. And in the top-right table, we have some information about our origination in the segments that we operate, such as the volume, average standard and down payment ratio. And here we confirm the good quality of our credit concession. And it's also worth mentioning that the profitability is the main focus of our operation.

On page 12 we show the evolution of credit cards and insurance. The credit cards portfolio ended the quarter at 978 million. And in insurance we originated a monthly average of BRL15 million in premiums in this last quarter.

The funding shown on slide 13 closed the quarter at 17.9 billion, with an increase in time deposits from market investors and a reduction in the interbank deposits from shareholders. And besides that, our digital platform keeps improving contributing to the diversification of our funding.

On slide 14 we have the information about capital. In 2017, our Basel ratio rose slightly to 13.3 with 9.8% of Tier 1 capital. And considering the BRL400 million capital increase, the December's capital would have been 15.6%, bringing comfort to the implementation of the Basel III.

In the next -- in the next and last slide we have a summary of our institution. 2017 has been an important year for us and we want to summarize why we are an attractive and unique bank. So first start, we have a strong and committed shareholders which gives us support to the execution of our business plan. Our executives and team have a lot of experience and contribute significantly to our success. We are very well recognized and positioned in the market that we operate and where we have become a relevant player both in payroll deductible and also in vehicle financing which are our main products. And one of our main strengths, especially regarding the relationship with our brokers is our ability to rapidly adapt given our agile structure. And when -- and we have been implementing a digital transformation aiming to provide a better experience to our clients, gaining agility and reducing cost.

And with that, we conclude the presentation and open the line for questions.

Questions And Answers

Operator

(Operator Instructions) Since 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 for the presence and see you next quarter.

Operator

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

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