

## Q3 2019 Earnings Call

### Company Participants

- Inacio Caminha, Superintendent, Investor Relations

### Presentation

#### Operator

Good afternoon, ladies and gentlemen, and welcome to Banco Pan's Conference Call to discuss the Third Quarter of 2019 Results.

This event is also being broadcasted simultaneously on the internet, both audio and slideshow, 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. (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 begin your conference.

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

Thank you. Good morning to everyone. Welcome to our third quarter '19 earnings [Technical Difficulty] So let's start again. Good morning to everyone and welcome to our earnings call for the third quarter '19. We had another good quarter with important results. So let's begin with the highlights on slide 3.

On September we concluded our follow-on of BRL1 billion, half of it primary and half of it secondary sold [Phonetic] by CAIXA -- CAIXAPAR and the primary stake will strengthen our capital structure to foster credit growth. We posted a net income of BRL34 million in this quarter, representing a 14% increase over last quarter and 174% increase in 12 months. This generated an ROE of 11.9% and an adjusted ROE of 23.7%, improving significantly in 12 months, and this is the best way to evaluate the Bank's performance.

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We originated a monthly average of BRL1.8 billion in credits in this quarter, 10% higher than last quarter and 24% higher than third quarter '18. Our credit portfolio ended the quarter at BRL23.6 billion, growing 20% in the annual comparison. And if you look at the core portfolio which includes payroll, fees [ph] and credit cards, it increased 25% in 12 months. Our NIM remain strong at 18.5%.

And regarding funding, we ended the quarter at BRL23.3 billion, increasing time deposits by 44% in 12 months, representing 52% of total funding. We ended the quarter at BRL4.8 billion equity, with 15.7% Basel ratio considering the capital increase.

Regarding the quarterly results. On slide 4 we have some highlights. During the first chart in the upper left side, we show the evolution of our NIM, which stood at 18.5% as a result of the strong spreads on credit portfolio and gains on credit assignment. The provisions on retail portfolio remain stable and those related to the run-off portfolio reduced. So we got to a net allowance over the portfolio of 4.3%.

Regarding expenses, we had a reduction in origination expenses given the anticipation that we did last quarter. And there was an increase in personnel and administrative expenses, which totaled BRL365 million. There were some one-offs here, for example the follow-on expenses of BRL17 million and also data processing in addition to increase in the number of our employees, salary readjustments and deferred expenditure related to the digital transformation.

Income before tax reached BRL188 million in this quarter and net income totaled BRL135 million, with a significant increase, showing the assertiveness of our strategy.

If we look at slide 5, we have the nine months accumulated results. The NIM stood at BRL2.9 billion, improving over the nine months of 2018, and net provisions over portfolio reduced from 4.8% to 4.5%. Expenses increased because of the one-offs in this quarter that I mentioned, but also following origination growth: new hirings and other investments in technology.

Nevertheless, results before tax totaled BRL480 million, reaching BRL348 million net income in nine months of 2019, increasing 136% over the same period of 2018.

Regarding the ROE on slide 6, we present the accounting base and also the adjusted, both annualized. The accounting stood at 11.9% in the quarter, improving over the two comparable quarters. And the adjusted metric which excludes the excess of financial expenses from fixed rate deposits issued between 2005 and 2008 shows a net income of BRL193 million in the quarter. And, also if we adjust the equity by excluding the excess of deferred tax assets, we get to BRL3.3 billion. Thus, the adjusted ROE comes to 23.7% per year in this quarter. These are two simple adjustment of two remaining legacy that properly show the bank's performance in the margin.

On the next page we have the details of our origination. So we granted BRL1.8 billion in this quarter per month, totaling BRL5.4 billion in new credits, increasing 10% over last quarter and 25% over third quarter '18. In payroll loans, we reached an average origination

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of BRL1 billion per month in the quarter, growing 7% in the quarter and 25% in 12 months. Vehicle financing got to [ph]BRL470 million per month in the quarter, increasing 13% in three months and 29% in 12 months. Transactions with our credit cards also increased. They [ph]got to BRL311 million per month, showing an increase of 14% in three months and 17% in 12 months. We have received in this quarter an average of 550,000 credit requests per month and we granted credit to an average of 123,000 new clients per month in this quarter. So we ended the quarter with 4.7 million clients under management.

On page 8, we show the composition of our credit portfolio. In the first table we notice that payroll deductible loans remains as the largest portfolio with almost BRL13 billion, increasing 25% in 12 months. Then we have vehicle financing portfolio at BRL8.2 billion, advancing 26% year-over-year. And next comes the declining corporate portfolio with BRL800 million and also the real estate portfolio with BRL580 million. The credit card portfolio ended the quarter at BRL953 million, increasing 15% in 12 months. And so we get to the BRL23.6 billion total retained portfolio which advanced 5% in three months and 20% in 12 months.

The originated portfolio which adds up the portfolio assigned to controlling shareholders ended the quarter at BRL32.2 billion.

On page 9 we present our strategy regarding credit and collections. Since 2017 we have implemented machine learning models to improve credit decisions, analyzing more than 1,000 variables of structured and non-structured data, bringing agility and efficiency on granting credit. Besides that, our clients benefit from a more assertive credit proposal according to their credit profile and personnel needs.

We have also been working to improve the effectiveness of our credit collection through digital platform. In this quarter, we recovered BRL161 million through the digital platforms, representing more than 25% of total collections. And this brings more (inaudible) and customization to negotiations as well as saving costs.

Looking at the 90 days NPL, we have it under control, and our main target is the strong profitability that we have in the overall portfolio.

On page 10 we have some details on payroll. Our strategy is to keeping relevant player focused on federal loans, figuring among the top originators in the INSS loans market. In this quarter we originated an average of BRL1 billion per month, totaling BRL3 billion in new credits. Out of those, 93% related to loans and 7% related to credit cards.

When we look at the origination breakdown, we continue to have an important concentration in federal risk; 91% represented by federal loans, out of which 62% relates to INSS. The portfolio ended the quarter at BRL12.9 billion, representing 55% of total portfolio, and we continue to advance in the implementation of our digital formalization platform. This is a revolutionary tool that we have been using to originate credit digitally. We have reached BRL1.2 billion in credits formalized digitally, and these loans -- they are signed with facial recognition, making the operation more scalable, safe and profitable and represented 25% of the quarter originations.

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On slide 11 we have details on vehicle financing. The focus is to finance used cars mainly between four and eight years of use through multi-brand and single brand dealerships and also new motorcycle. In motorcycle financing, we are the market leader, excluding captive financing company, and we benefit a lot from the credit knowledge and long-term experience resulting in an excellent performance among low income young adults.

As I mentioned before, we had a monthly average origination of BRL470 million in this quarter. The portfolio continues to increase, ending at BRL8.2 billion with an adequate level of loan to value and also related to the terms of these loans. In line with the digital transformation, we have an exclusive app with a simulator that allows credit pre-analysis with few pieces of information, providing a lot of agility and a better experience for our commercial partners and to the final customers. An example is that our sales team productivity increased 42% in 12 months. And also in October we launched the digital formalization platform for vehicle financing as we already have for payroll loans, adding more benefits and efficiency to this business.

On page 12 we show the evolution of credit cards. We have been improving new credit card sales, boosted by cards without fee. In this quarter we have issued 172,000 credit cards, increasing 210% in 12 months. This important movement was leveraged by sales actions, performance marketing, improvement in cross-sell analytics and CRM, driving clients to request the credit card directly through our website. We are also scaling the business through digital partners' marketplaces. In this quarter we added a partnership with Mooba, an important cashback platform with more than 2 million clients.

We continue investing in improvement of our credit card app, expanding self-service financial control features and expenses monitoring. Since the launch of this app in the third quarter '18, we have had more than 1 million downloads. The credit card portfolio ended the quarter with a balance of BRL953 million with a total of BRL934 million in transactions, growing 14% in three months and 17% in 12 months.

On page 13 we show the evolution of insurance. We originated a monthly average of BRL25 million in premiums in last quarter, following the vehicle origination trends.

As for funding, on slide 14, we increased to BRL23.3 billion in this quarter, and funding through time deposits reached BRL12 billion in September, increasing 44% in the last 12 months, contributing to the diversification of our funding through direct clients and also through distribution platform. And funding with shareholders represented only 29% of total funding.

On slide 15 we have information about capital. Our Basel ratio stood at 15.7%, entirely of CET1, already considering the capital increase of BRL522 million still pending from Central Bank's approval.

And on the last slide we have some details on the full digital bank that is already available to our employees and a number of clients and soon will be available to the market in general. This will complete our client approach strategy, which is already well established in the B2B front and gains now a new front in B2C.

This will place us at another level of B2C relationship that currently exists basically in the credit card business and on a portion of payroll business. And with the launch of these digital accounts, our clients will have a complete and integrated banking products and services platform. And we are also building a partnership ecosystem to provide non-banking services to engage even more of our clients, improving cross-sell, lifetime value at low acquisition and servicing costs.

Besides the current 550,000 monthly client flow and the 15 million client base that we have, we proven credit expertise by granting more than BRL158 billion in consumer credit since 2011. We believe that credit is the best attraction and engagement tool and we have a lot to offer to our clients.

With that, we conclude this quarter presentation and make the room 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 would like to turn the floor over to Mr. Inacio Caminha for his final remarks.

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

Thank you, all, for the presence. Have a nice day, 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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