

Q1 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 discuss 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 companies IR website: www.ir.bancopan.com.br 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 company's actual results to differ from those in forward-looking statements. Such statements speak only as of the date they are made, and the company is under no obligation to updating 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 the conference call for the disclosure of the results of Banco Pan and it's subsidiaries for the first quarter of '18.

Starting with the highlights on page three, we see that PAN recorded a net income of BRL56.6 million; it's the fifth quarter in a row of positive results. The loan portfolio ended the quarter at 19.1 billion with a slight increase in the quarterly comparison due to the increase in the retail credit origination, and which presented a monthly average of 1.5 billion in new credits.

Our net interest margin has remained in a great level ending the quarter at 18.1% and we have ended the quarter with a consolidated shareholders' equity of BRL4 billion with the Basel Ratio advancing to 14.2%.

FINAL

Our net interest margin moved forward, totaling 905 million in the first quarter. The credit provisions totaled 294 million, registering a decrease in the annual comparison. As a result, the gross income from financial intermediation ended the quarter at BRL611 million.

As for the administrative and personnel expenses, we can see a nominal decrease of 7% over the 4Q and a decrease of 14% over the 1Q '17 with an even higher decrease in real terms. The slight increase in the origination expenses are related to the higher volume of credits originated in this quarter. With that, we get to the income before tax, we've closed the quarter at 117 million and we get to a net income of BRL57 million, in line with the net income of 55 million reported last quarter.

In the next slide, we present an overview of our main business lines in some of our numbers. Regarding Payroll-Deductible, we operate with both loans and credit cards to public servants and INSS pensioners and retirees, all of them mostly federal. In vehicles, we focus in the origination through multi-brand dealers financing vehicles mostly between 4 and 8 years of usage and we also financed motorcycles with a very specific and profitable credit profile.

We also operate with credit cards and insurance, which represent a smaller portfolio of our business, but they contribute with service fees. And we also have some running-off portfolios as a consequence of our strategic repositioning, running-off corporate, real estate and personal credits.

We operate granting credits all over Brazil with a great concentration in the Southeast and South regions, counting on more than 6,000 multi-brand vehicle dealers and almost 800 brokers originating payroll loans. We ended the quarter with 4.4 million clients, 2.2 million credit cards and 2,100 employees.

The next slide is very important for us. It shows how we are prepared to accomplish our digital transformation. We have more than 150 people exclusively involved in this process. We have initiatives in payroll, in vehicle financing to improve the experience to our clients and commercial partners, CRM to enhance our cross-selling, collection with dynamic self-service channel to improve the credit recovery, also account opening and good platform to manage investments, and a great transformation of our credit card platform. This is a very important agenda, which will help us to enhance our position in segments that we are present. Some versions [ph] are already running and some other will be launched during the next month, bringing [ph] agility, cost efficiency and a better experience to our clients and commercial partners. Today we'll launch also our new website with a more convenient browsing in a better design and totally responsive.

On page 7, we present the details of our origination. We have granted 4.6 billion in retail credits in 1Q, representing a monthly average of 1.5 billion, and more important than the volume, is the maintenance of our spreads that have been contributing to the good performance of our interest margin.

In payroll loans, we have -- we had an average origination of 965 million per month with a significant participation of INSS. In vehicle financing, the average was BRL317 million per

month, and in credit cards, the transaction average was BRL260 million per month.

On page 8, we show the composition of the credit portfolio. In the first table, we see that payroll loans remains as the largest portfolio with 9.4 billion. Then we see the vehicle portfolio with 6.1 billion. Next comes the decline in corporate portfolio with 1.5 billion and real estate with 1 billion. The credit card portfolio remains stable at 930 million.

And in the lower left chart, we see that the retained credit portfolio has presented a slight increase, mainly due to the increasing in payroll and vehicle portfolios. The originated portfolio, which adds up the portfolio assigned to Caixa, ended the quarter at BRL34.9 billion.

On page 9, we present the 90 days NPL of the retail portfolio, which presented a slight decrease over the last quarter and has presented a good performance in the last 12 months.

On page 10, we present the breakdown of the bank's cost and expenses, segregating those related to origination. Personnel and administrative expenses totaled 251 million in 1Q, presenting a reduction in nominal and real terms.

In the bottom left chart, we show the decrease in the number of employees with a substantial reduction in the last 12 months, which generated lay-off costs. And in 2018, these effects will be lower and we'll continue to seek efficiency gains going through this digital transformation that I've mentioned.

On the origination expenses, we notice a slight increase in the quarterly comparison, basically due to the increase in the volumes originated over the last quarter.

In the next slide, we show the evolution of payroll-deductible loans. Considering loans and credit cards, in the quarter, we originated a total of 965 million per month, totaling 2.9 billion in new credits, and out of those, 94% relates to loans and 6% to credit cards.

Regarding the portfolio, the balance of loans closed the 1Q at 8.1 billion. Along with the credit cards, the portfolio reaches 9.4 billion, 49% of our total credit portfolio.

Analyzing the origination breakdown, we can see an important concentration on federal risk, responding to 87% of the quarterly origination, the INSS represented 64% and has remained in this level over the quarters. The origination in states and municipalities has been reduced over the years and are carried out with strong analysis of their financial situation.

On page 12, we present more details about the vehicle segment. As we can see in the graph, the monthly average origination presented a slight increase in 1Q to 317 million. The portfolio increased as well, ending the quarter at 6.1 billion. And the top-right table brings some information about our origination in this segment, for instance, the

FINAL

Bloomberg Transcript

origination volume, average tenor and the high down payment, confirming the good quality on the credit concession.

On page 13, we show the evolution of credit cards and insurance. Credit cards portfolio ended the quarter at 930 million. And in insurance, we originated a monthly average of BRL16 million in premiums in the quarter.

The funding, shown on slide 14, closed the quarter at 17.9 billion. The total was flat and we saw an increase in time deposits from market investors. And besides that, our digital platform keeps growing, contributing to the diversification of our funding.

On slide 15, we have the information about capital. Our Basel Ratio rose to 14.2% with 11.4% Tier 1 capital considering the capital increase and the full Basel III implementation.

And on next slide, we started '18 with good results and we want to summarize why we are an unique and attractive bank. First off, we have strong and committed shareholders, which gives us support in 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 markets that we operate and where we have become a relevant player, both in payroll and in vehicle financing, 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 we have been implementing the digital transformation aiming to provide a better experience to our clients, gaining agility and reducing costs.

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

Questions And Answers

Operator

This concludes Banco Pan's conference call. Now I would like to turn over the floor over to Mr. Inacio for his final remarks.

A - Inacio Caminha {BIO 19326001 <GO>}

Once again, thank you all for the presence and see you next quarter.

Operator

The call of Banco Pan's is concluded. You may now disconnect, and have a nice 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

FINAL

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.

Bloomberg Transcript