

## Q3 2018 Earnings Call

### Company Participants

- Joao Dantas, Chief Financial Officer
- Roberto Sallouti, Chief Executive Officer

### Other Participants

- Carlos Macedo, Analyst

### Presentation

#### Operator

Good morning, and welcome to the Third Quarter of 2018 Results Conference Call of Banco BTG Pactual. With us today, we have Roberto Sallouti, Joao Dantas, Pedro da Rocha Lima. We'd like to inform you that this event is being recorded and that all participants will be in listen-only mode during the Bank's presentation. After Banco BTG Pactual's remarks there will be a question-and-answer session for investors and analysts when further instructions will be given. (Operator Instructions)

Today we have a simultaneous webcast that may be accessed at the website at [www.btgpactual.com/ir](http://www.btgpactual.com/ir). There will be a replay of this call from November 6 through November 12. Before proceeding, we mention that this call may contain forward-looking statements relating to the prospects of business, estimates for operating and financial results, and those related to growth prospects of Banco BTG Pactual. These are merely projections, and as such are based exclusively on the expectations of Banco BTG Pactual's management concerning the future of the business. Such forward-looking statements depend substantially on changes in market conditions, government regulations, competitive pressures, the performance of the Brazilian economy and the industry, among other factors and risks disclosed in Banco BTG Pactual's filed disclosure documents, and are therefore subject to change without prior notice.

Now I'll turn the floor over to Mr. Roberto Sallouti, who will begin the presentation. Mr. Sallouti, please go ahead.

#### Roberto Sallouti {BIO 4150617 <GO>}

Thank you very much. Good morning to everybody attending. If you could please start on the page three of the presentation, we would like to point out some of the highlights of the quarter.

FINAL

First point to mention is that we continue to deliver a very strong performance in our client franchises. We are specifically very satisfied with the growth of both our wealth and asset management businesses, which are showing a 35% growth in the assets under management year-over-year.

Also important to mention that at the end of third quarter we concluded the launch of BTG Pactual digital, which is our retail platform. The platform is now 100% complete with all the products there to be acquired by clients. And not only is the B2C or the direct platform to clients directly, but also the B2B platform, which will be servicing independent financial advisors ready. So we do expect that growth in this platform will accelerate over the next quarters. And this will be reflected in our wealth management numbers.

Third point to mention is the very good performance of our Corporate Lending business, here both of the large corporates and our special situations or NPL business having very solid performance, where we had a 32% growth in revenues from the previous quarter.

And finally, during Q3, the same has happened in Q2, we adopted a very conservative risk allocation policy. This can be seen in the average daily VaR, which decreased 23% from the previous quarter, and probably, as a percentage of our equity is probably the lowest VaR that we ever reported, and this lead to another weak quarter of results in Sales & Trading.

Turning to page four, we talk a bit about the numbers of Q3. We had total revenues of BRL1.255 billion and adjusted net income of BRL685 million. This gave us an adjusted return on equity of 14.3% for the quarter. And as we are showing in the previous quarters, if we only take the amount of capital that has allocated to Banco BTG Pactual, excluding the amount of capital allocated to EFG or Banco Pan, it was an 18.3% return on equity for the quarter. We had a net income per unit of BRL0.78. Cost-to-income and comp ratios have basically stayed a bit above historical average, but nothing significant. We had cost-to-income ratio of 47% and comp ratio of 22%. And we finalized the quarter with total assets of BRL164 billion, a Basel ratio of 17.8% and shareholders' equity of BRL19.2 billion. We also, during Q3, paid interest on capital, distributed this to shareholders of BRL592 million.

Turning to page five, we see the results for the first nine months of 2018. And here we had revenues of BRL3.8 billion and net income of BRL2.03 billion. Similar to Q3, this gave us an annualized ROAE of 14.4% for the nine-month period, and excluding the capital allocated to EFG and Banco Pan, an annualized return of 18.6%. Cost-to-income ratios were very similar as Q3; cost-to-income 46%, comp ratio 22%. And as stated previously, we finished the quarter at BRL19.2 billion equity.

If you look at page six, we have the breakdown of revenues of the different business units. And what you can see here and what you're seeing quarter-after-quarter is the growth of the client franchise businesses and of credits in the composition of revenues. We expect this trend to continue throughout the next quarters.

And finally, on page seven, it's what I mentioned previously, here we are showing the regular core regulatory capital allocated to each of the financial institutions that we have under BTG Pactual. And the ROAE to this capital allocated. So for Q3 we had for BTG Pactual core business, 18.3% return; for Banco Pan, 6% return; and EFG was flat, basically because EFG reports results once a semester. So in Q4, we will show here the equity pickup of the whole second semester, and this will then give the return on equity for the capital allocated.

So with this introduction, I'll pass to the floor to Joao Dantas, who will talk about each of the business units.

### **Joao Dantas {BIO 17617595 <GO>}**

Thank you, Roberto, and thank you all in the call. Please turn to page nine, and we start here to the drill down on the performance of our businesses, as we mentioned. And you see throughout the presentation, the performance has been marked by strong performance in client activities and weak performance regarding markets, and we will see the details of that.

So starting with investment banking, our revenues in the quarter were BRL58 million and this is basically activity from DCM, we saw in throughout LatAm, especially in Brazil, very weak activity in equity capital markets, and M&A, in general. But this was an excellent year for our IBD franchise. For the third quarter, the mood for emerging markets in LatAm, as we saw it, has been more volatile. And this has reflected in, as I said, the activity in capital markets.

In the quarter, we observed very weak flows into equity funds dedicated to emerging markets. Some flows still resilient for fixed income funds in -- invest in emerging markets, especially hard currency funds. And this is reflective of flows for EM, in general, and is reflective of the risk of environment and more volatile environment that we saw throughout the quarter. Naturally, as we see elections coming through completion in the region. So we had the Mexican election, we now have the Brazilian election, today we have the mid-term elections in the US. All these will -- can certainly impact the trend of more volatile and weak flows in emerging markets. And it will be interesting to observe developments in capital markets until the end of the year.

Finally, our market position remains strong for the nine months period of 2018. We are number one in number of transactions in Brazil and Latin America in M&A. Number two, in Brazil and number one in Latin America for ECMs. So this gives us the ability to maintain comfortably our leadership position in investment banking to our cluster [ph].

So moving to page 10, the Corporate Lending results. So our revenues reached BRL311 million and our Corporate Lending portfolio remained flat in BRL26.1 billion quarter-on-quarter. Basically, this reflects for Corporate Lending, it's normality. It's been a quite normal quarter, where revenues were benefited from lower new provision expenses. So the new credits that we issued that replaced those debt maturity in the quarter were issued at a marginal need for provisions lower than those that matured. So a small

FINAL

positive contribution from these provisions and also strong contribution of reversals of pre-existing provisions relating to credits that were being renegotiated and those renegotiations, as they were successful during the quarter. We captured also the benefit from reversal of provisions.

Also a strong provision -- a strong contributor was the NPL portfolio. It comes from our special situations business. Our special situations business is more than just non-performing loan. It encompasses provision of services to counterparties. There are sometimes consulting fees that can be captured. It's a multiple discipline business, where we act not only as takers of NPL portfolios, but we do much more wide activity. And that was a very strong contributor for the quarter. NPL is not an accrual business. So there are quarters that we -- where we don't capture significant revenues from that business. But in the present quarter, we had quite interesting results coming from renegotiation of guarantees, renegotiation and down payment from clients. So this has contributed to the strong BRL311 million of revenues from Corporate Lending.

Finally, the portfolio growth as we saw, as we've been seeing throughout the quarters for the last 12, 18 months has tailed. We saw that some of the -- many of the decisions from our counterparties to take credit were being postponed during the third quarter, and perhaps, as we discussed, for Investment Banking, for the fourth quarter, we may see more activity resuming in Corporate Lending as well.

Moving to page 11, now we have Sales & Trading. And as you can see, we had BRL224 million of revenues in the quarter, which was the lowest quarter of the previous -- of the year and lowest as well compared to the third quarter of 2017. Revenues decreased in Sales & Trading in most of our brokerage and flow desks, and not only in Brazil but across LatAm. And the third quarter was marked by the risk off and volatile attitude of clients in markets across global emerging markets, but in particular for LatAm. And as a result of that market environment, we see lower balance sheet utilization for financial and risk intermediation. So the balance sheet utilization has been reduced significantly, and therefore, our VaR reduced about 25 -- our VaR utilization reduced 25% in the quarter from 0.40% of our average equity to 0.30% of our average equity. And also our BIS ratio increased to 17.8%.

Moving to page 12, and here is one of the highlights of the client -- of our performance with -- in our client franchises, which is Asset Management. AUM reached BRL184.2 billion coming from a year-ago level of BRL136.8 billion. So this is a 34.6% increase year-on-year on assets under management, driven basically by strong net new money. This is purely organic growth. So either clients of our asset management are investing more with us or new investors are becoming clients of our asset management franchise, which means this is purely organic growth. So the net new money was the main driver.

And the net new money is a consequence of; number one, the stable environment for interest rates, stable in Brazil at 6.5% nominal, which has been pushing -- which historically is a low level of interest rates for the country and is driving our growth in terms of market share, since the types of managed products that we offer to our clients are differentiated in terms of performance. And also amongst the asset classes in which we manage assets, we have been performing -- our asset management business has been performing very

well. So it's a top tier performer in the period. So both phenomena have helped us grow in market share and attract significant inflows, as we see in the page 12.

Moving to page 13, a similar phenomena happens for our Wealth Management business. We grew from a year ago, BRL84.4 billion of wealth under management to BRL115.5 billion wealth under management, which is a 36.8% growth year-on-year. Also driven by strong net new money and very good performance, very good services are driving this growth in market share that we see for our wealth management business. And we continue to receive significant inflows of net new money and continue to see our competitive position in Latin America markets to remain strong and in growth mode.

And moving to page 14, we have -- here we have Principal Investments, where our revenues reached BRL211 million, and we have BRL220 million contribution from Merchant Banking portfolio. It is the third consecutive quarter, where we have positive contribution from Merchant Banking portfolio. This is, of course, a function of us having significantly completed our rebalancing. So our merchant banking teams have been working a lot for the past couple of years in rebalancing our portfolio, and as we see positive contribution from the assets that we hold. We see that this rebalancing was successfully completed.

Now going forward, regardless of having the opportunity to divest further from some of the assets we still hold, what we expect is that these assets will continue to perform adequately given the market scenarios. In global markets, we had a flat result, negative BRL5 million in the quarter, which for a difficult market for trading is quite adequate results. And in real estate, we have nothing to report, the BRL4 million negative is just the cost of funding of the real estate portfolio. As we typically see, when there is no realization advance in our real estate portfolio. We typically will capture just the cost of funding quarter-on-quarter.

So moving to page 16, some of the expenses and efficiency ratios for the third quarter of 2018. As you can see, our cost-to-income ratio was 47% and for the nine-month period year-to-date, our cost-to-income ratio was stable at 46%. If you adjust, however, for non-recurring expenses, and the main non-recurring expense that we have is goodwill amortization as you know with typically amortized goodwill in any asset that we acquire until goodwill disappears, typically, in five years time. And if you adjust for that expense in some -- also some legal fees that are non-recurring, our cost-to-income ratio for the quarter would have been 36%, and for the nine months period, it would have been 38%. These levels of efficiency ratios are even better -- lower than the average there we have presented in the past years. And it's important to highlight that we have been gaining efficiency and became -- and are operating the Bank with a more efficiency IR. Regardless of the fact that we've been investing in the buildup of the digital platform that, as Roberto mentioned in the opening remarks, is now completed from an investment perspective. All these investments were done, essentially, internally with our technology support teams, commercial teams.

We have applied significant effort and significant costs. All those costs have been flown through P&L. So they've been expensed through P&L. So we don't accumulate CapEx as we build this digital platform. And as you see, we move to a more efficient CIR, which means that the benefit that the investments we've been doing to build the digital

platform has -- have also already been benefiting our efficiency overall for the other client platforms, I can quote, Wealth Management, Asset Management, credit and others.

So this is quite interesting achievement, quite positive achievement that we like to highlight, since we look forward to 2019 with the opportunity to gather more assets in the digital business without increasing the costs to run the Bank. Also to mention, an increase in the tax charges other than income tax. This is also a non-recurring increase. So we went from BRL56 million in the second quarter to BRL88 million in the third quarter. This is just due to the settlement in a process of tax amnesty, that was provided by the municipality of Rio in which all the banks have been adhering to in Brazil. They have adhered before in Sao Paulo, and now we've adhered to that same possibility of tax amnesty in Rio which increased, but just on a one-off basis, the tax charges in the quarter. And finally, effective income tax rate of 18.6% for the nine-month period. This is reflective of basically our payment of tax deductible dividends called JCP, and we've been using that throughout the year.

Moving to page 18, there is a little bit of balance sheet analysis. Our total assets have reached BRL163.9 billion, 4% increase from last quarter, which puts us at 8.5 times assets to equity leverage ratio. As you -- as we have said before, we've always operated the Bank between 10 times and 12 times assets to equity in terms of leverage ratio. So the current level of BRL163.9 billion of assets still allows us to continue to grow our assets and grow our business throughout 2019, if we see the opportunities to do that in markets.

In page 19, we have the broader credit portfolio. The behavior here is pretty much in line with the Corporate Lending portfolio, so also Wealth Management credit has not grown. It was stable during the quarter. Credit quality also remained stable, and spreads also remained stable.

Moving to page 20, unsecured funding base has expanded 10.9% quarter-on-quarter from BRL40.4 billion to BRL44.8 billion. This growth was basically driven by time deposits and securities issued. These are deposits and transactions, funding transactions done essentially in Brazil, but also in Chile, where our investment banking franchise is growing. And with that growth, we have basically renewed and expanded our turn for funding, by issuing longer maturities in replacement of the credit that matured during the quarter. And we will continue to grow our unsecured funding base regardless of not having grown the credit portfolio, because this keeps us with dry powder to take advantage of the opportunity to grow the credit business during the next year.

And finally, page 21; as we mentioned, Basel ratio has expanded to 17.8%, and VaR as a percentage of average equity was reduced in the quarter to 0.3%.

So these were our remarks and we are glad to take your questions. Thank you very much.

## Questions And Answers

### Operator

The floor is now open for questions from investors and analyst. (Operator Instructions)  
Today's first question will be from Carlos Macedo with Goldman Sachs. Please go ahead.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Thanks, Roberto, Joao. Couple of questions here. First, you had an opportunity to divest part of the PetroAfrica stake with the recent Petrobras deal, and you chose to keep the stake you had, and I know we explained that these are -- you expect the performance to be solid going forward. A more general question on your investments and how you look at them. Is there a timetable specifically for you to sell down from any of these investments, if you're going to be opportunistic? Is there some kind of deadline? And I'm not specifically meaning just the principal investments that you have, but also some of the participations that the EFG investment, the ECTP investment, ultimately even the Banco Pan investment, if that's the case. Is there something that a plan that you set out or is it being -- going to be a lot more opportunistic in nature?

Second question, could you give us more color on BTG digital, and you mentioned how its helping your expenses, could you talk about the revenue side if it's -- if there are any contributions, their contributions to the net new money that you've been adding to your funds and both in the wealth management, asset management side, and other factors? Thank you.

**A - Roberto Sallouti** {BIO 4150617 <GO>}

Thank you, Macedo. So on your first question about divestments, I think it is very important that we separate what are the legacy principal investments, from what our investments in financial companies. So with regards to the legacy principal investments, we basically have two assets. It's PetroAfrica and Eneva. We basically had the opportunity to divest of both of these assets and we have decided not to divest, because we think that they will be accretive to our positions as part of just our regular trading business. So PetroAfrica, the consortium led by Vitol, proposed a structure where PetroAfrica becomes a much more stable and financially predictable company, basically using a lot of hedging to reduce the volatility of oil price, improving the capital structure, allowing it to pay dividends quicker and also not having any new exploration or development of fields. So basically, it has become a fixed income transformed in many central [ph] fixed-income assets, and so thus -- and so with this analysis, we thought it would be best for us to keep. And the same thing with Eneva. We could go and do a block, but we are very optimistic with how the company is performing, and so we think we can be patient about doing [ph] the clock eventually whenever we think it is fairly priced. And it's the same thing for PetroAfrica.

With regard to the participation in financial companies, ECTP, yes, at some point over the next quarters we expect ECTP to buyback its part -- its, the share of equity which the Bank still holds, which is below 20%, and very small, which has come, I believe, from 40%, if I'm not mistaken. And we expect that to continue.

With regard to Pan and EFG, these are financial businesses and we expect to keep them as long as we can see. If at some point, you have an investor interested or a very attractive offer, we can consider, but that I would consider these two assets in a very different category than the ones that I mentioned previously.

FINAL

With regard to your second question on digital, we are intentionally not giving out many details. We are reporting it within our Wealth Management numbers. And as you have noticed, Wealth Management has been very strong, naturally part of this, is because Wealth Management itself has been doing very well, but also because it has been getting increased contribution from the new retail business, be it the B2C or the B2B business. We do not plan to report this separately, as we think this would be much more market intelligence to our competitors. Then necessarily very accretive to investors, naturally when we meet personally we can discuss and you can -- we are being -- we are open to be convinced otherwise. But at this point we're not really inclined to give up what we consider strategic information about the business.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Okay. Perfect. And if you can just color, say, understand if it's going according to what you've been -- the plans that you laid out when you kicked it off?

**A - Roberto Sallouti** {BIO 4150617 <GO>}

It's slightly ahead of the plans of when we laid it out.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Okay. Great. Just going back to the first question, I mean, thank you for separating and showing us the ROE for -- excluding Banco Pan and EFG. But if I'm -- correct me if I'm wrong, but having these cross ownerships in financial companies also increases the amount of capital you have to hold in the Bank. And if you were to adjust for that, the ROE that you would generate within the Banco BTG Pactual would be even higher than the 18% that you reported for the third quarter, is that a correct reading?

**A - Roberto Sallouti** {BIO 4150617 <GO>}

No. It would be exactly the 18%.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

If you were to adjust the capital, in other words, if you were to pay a dividend to get to --

**A - Roberto Sallouti** {BIO 4150617 <GO>}

Yes.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

-- to a capital that's more adequate to what you do in the Bank, to put it that way. You would have like an 18% Tier 1 -- common equity Tier 1 ratio?

**A - Roberto Sallouti** {BIO 4150617 <GO>}

No. We would have an 18% return on equity.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Bloomberg Transcript



Okay. But just -- so the adjustment that you made here already considers the fact that the excess capital that you hold in order to offset these financial investments would be paid off as dividends, is that correct or is that investment?

**A - Roberto Sallouti** {BIO 4150617 <GO>}

Got you. That is correct. That is the exercise we did. And also very important to mention is that we are very optimistic with both Banco Pan and with EFG. EFG has been going through the integration of the two banks, BSI and EFG, and has been happening, and what we consider, in a very satisfactory manner. And we think that the integration costs will end as they have reported, I'll not say anything that's not public here, won't happen until year end. And next year we will get clean results, which they are also reporting, a clean result, and the clean results will be the final results, So we think that will start being accretive to our ROE.

And the same thing with Banco Pan. Banco Pan released their results yesterday. It's going through a very significant digital transformation. It has, it has also focused a lot, its business and its reporting, If you take out the legacies, it's currently at around a 15% return on equity, taking out the legacies. And we think that this 15% will grow and that over time the legacies will end. So we are also optimistic with Banco Pan becoming more and more accretive to the total ROE of the Group.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Fantastic. Thank you so much.

**A - Roberto Sallouti** {BIO 4150617 <GO>}

Thank you.

**Operator**

(Operator Instructions) This time, I'm showing no other questions. So I'd like to conclude today's question and answer session. I'll now turn the floor to Mr. Roberto Sallouti for any closing remarks.

**A - Roberto Sallouti** {BIO 4150617 <GO>}

I would like to thank all of you once again for attending the call. Looking forward to meet all of you in around three months for we can discuss the full-year results. So thank you very much and have a great day.

**Operator**

Thank you. This does conclude today's presentation. At this time you may disconnect your lines and have a nice day.

FINAL

*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.*

Bloomberg Transcript