

## Q2 2018 Earnings Call

### Company Participants

- Joao Marcello Dantas Leite, Chief Financial Officer
- Roberto Balls Sallouti, Chief Executive Officer

### Other Participants

- Carlos Macedo, Analyst

### Presentation

#### Operator

Good morning, and welcome to the Second Quarter of 2018 Results Conference Call of Banco BTG Pactual. With us here today, we have Roberto Sallouti, Joao Dantas, Pedro da Rocha Lima.

We would like to inform you that this event is being recorded and all participants will be in a 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 maybe accessed through the website, [www.btgpactual.com/ir](http://www.btgpactual.com/ir). There will be a replay facility for this call from August 8th through August 15th.

Before proceeding, let me mention that this call may contain forward-looking statements relating to the prospects of the business, estimates for operating and financial results and those related to the growth prospects of Banco BTG Pactual. These are merely projections and, as such, are based exclusively on the expectations of BT -- 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 the 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 to Mr. Roberto Sallouti, who will begin the presentation. Mr. Sallouti, please go ahead.

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

Thank you very much. Good afternoon to everybody on the call. I would like to start with page three of the presentation and start mentioning some highlights of the second quarter results. First item that's important to be mentioned is that we had a -- once again,

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a very strong net new money performance in both Asset Management and Wealth Management. With this, we are closing the quarter with a growth in both Asset Management and Wealth Management of over 30% compared to one year ago.

Second important highlight is that our BTG Pactual digital initiatives continues to gain momentum, especially now that we have launched our platform for independent financial advisors through the acquisition of Network Partners. Third point to mention is that our Investment Banking division had a record quarter with BRL210 million, the highest revenue ever for a quarter over that business line. As we had given previous guidelines -- previous guidance in the previous calls, our Corporate Lending book is back to growth. It grew 3.5 billion in the quarter and naturally with that, our funding base also grew over 12% in the quarter. This is exactly in line with the guidance we have been giving in the previous quarters.

Fifth point to mention is that our client franchises continue very strong and the latest example of this is that once again our research team was elected by Institutional Investor, the best research in Latin America and in Brazil. And finally to finish the highlights of the quarter, we had a sub-par performance in the sales and trading business in this quarter, since we decided to have a more conservative approach to risk management during the quarter, given the very volatile and challenging scenario, which happened in the second quarter with the emerging market selloff, with the trade war and with the Brazilian elections coming into play sooner than expected with the trucker strike.

Turning to page four, we can talk a bit about the quantitative numbers of the quarter. We finished second quarter with revenues of BRL1.238 billion and adjusted net income of 685 million. This gives us an annualized return on equity of 14.5%. If you exclude the capital dedicated to the other financial institutions, of which we have equity stakes, namely EFG and Banco Pan, our core business has an annualized ROE for the quarter of 17%. We had a net income per unit of BRL0.78 and non-adjusted earnings of 622 million. Our cost-to-income ratio was slightly above historical average due to one-offs of legal costs, but -- and we finished with a cost-to-income ratio of 47% and a comp ratio of 22%. We also closed the quarter with our balance sheet with total assets of over 157 billion, a capital ratio of 17.3% and shareholders' equity of 19.2 billion. As stated before, given the more conservative approach, we had two market risk, which can be seen not only in the higher capitalization ratio of the Bank, but also in the lower average bar of the quarter, which we had 40 bps or BRL75 million.

Turning to page five and talking about the performance of the first semester of 2018, we had total revenues of BRL2.548 billion and adjusted net income of 1.345 billion, which gives us an annualized ROE of 14.3%, and this means an annualized ROE of our core business of 18.8%, if you exclude EFG and Banco Pan capital commitments. Our cost-to-income ratios were in line with historical average, 45% and 22%, and we are also announcing today the payment of interest on capital on the amount of BRL592 million.

If you turn to page six, you can see the breakdown of the revenues by business units. And what I would like to highlight here is the continuous growth and growth in relative importance of our franchise businesses, namely Asset Management, Wealth Management, Credit and Investment Banking. And I would also like to highlight the turn

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in the trend that we've had in Participations. I'd like especially to highlight the performance of Banco Pan, which is now in its sixth consecutive quarter of positive results. It has been successively implementing its strategy of focusing on credits to individuals and doing this through digital platforms for both customer acquisition and for operations. And they also have been able to significantly diversify and increase their funding from markets. So with this, we expect both from Banco Pan and from EFG to continue quarter-after-quarter producing positive and continuously higher results.

And finally on page seven, you have the details of what I mentioned previously. You can see for the second quarter of 2018 the return of our core business of 17%, given the regulatory capital allocated, Banco Pan 5.8% and EFG 2.6%.

With this, I'd like to pass the word to Joao Dantas, who will talk about the each -- the performance of each of the business units. Thank you very much.

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

Thank you, Roberto. Thanks everyone joining our call today. So as usual, we will go now through the performance of each of our business areas, underlining the trends and the fundamentals around the performance we have achieved. Starting with Investment Banking on page nine, you see that our revenues reached BRL210 million compared to BRL110 million in the first quarter and you also see our relative position in the rankings in Latin America and Brazil. It's important to highlight that the 210 million of revenues came from strong contribution from the three lines of activities we have, DCM, ECM and M&A.

In terms of ECM, we had quite active and competitive markets. We had landmark transactions happening in Chile, Colombia and Brazil and our revenues reached a level of higher than previous quarters and very well positioned. In terms of debt capital markets, in other hand, we had a challenging market, mainly because of the selloff in emerging markets, but our local franchise has performed very well. So most of the revenues came from local debt issuances and that has contributed significantly for the performance of Investment Banking. And then in terms of M&A, what we saw in markets was a level of activity in line with previous quarters, but our franchise had significant -- participated in significant landmark transactions, not only in Brazil, but also in Chile.

Looking forward, we see Colombia and Chilean markets, having gone through their political transitions, we have observed an increase in activity in capital markets in these two countries and we expect our local presence and our ability to capture revenues continuing to grow in the next quarters and the year.

Turning to page 10, we have here Corporate Lending revenues reaching BRL234 million and our portfolio reaching BRL26.1 billion. First of all, as we've been seeing in the past conference calls, we continue to see the market providing opportunities for expansion of our Corporate Lending portfolio with quality and adequate returns. The strong growth in the present quarter was more concentrated in off-balance sheet transactions. Some of them are transactions of more shorter-term nature, but the underlying trend is a trend of growth. We continue to see, as we said, opportunities to continue to deploy capital and

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we'll be doing this as we see our funding base growing, as we will detail later in the presentation.

Therefore, the trend continues to be of moderate growth, with maintenance of the high quality of the assets. The results, which are very much above the average of the last three quarters, they have been marked by strong contribution from a special situations portfolio. We also had an increase in our run rate, so as the portfolio grows, our interest income grows. And also, we had relevant recovery on our credit portfolio. At the same time, we maintained adequate levels of provisions and the provisions are in levels that we see adequate, even for an eventual downcycle in Brazilian economy going ahead.

Turning to page 11, we have Sales and Trading revenues. Sales and Trading revenues reduced to BRL267 million in the backdrop of lower VaR allocation. To discuss a little bit of this scenario, the quarter was quite challenging. As we said, there was the selloff of emerging markets. We had spike in FX rate in Brazil and in Latin America. Also, we had much more volatility in FX. Stock exchange indices were down in the region, significantly down in Brazil, 15% in the quarter. We had the trucker strike and all that impacted the confidence levels down.

In terms of flows, we have seen lower volumes in the stock exchange in the region, especially in Brazil. We have seen outflows from the investments of institutional investors, international investors in the stock exchange market. We also saw redemptions in the international funds dedicated to EM and LatAm. And with that, we decided to reduce also the utilization of VaR for market risk. So both low -- smaller flows and lower allocation of VaR led us to this lower level of revenues in the quarter.

Turning to page 12, we have Asset Management, where we had a remarkable performance and especially in terms of asset gathering. Assets under management went from 163.7 billion to 107.4 billion with 5.1 billion of positive net new money. That in a quarter, where we saw outflows in the Asset Management industry in Brazil, but which means we are growing in terms of our market share. The growth comes essentially from performance, our asset classes. We have been -- our funds have been performing very well across the asset classes, in which we have allocation and management of capital, especially in the equities funds, but also in multi-market funds and long-term fixed income.

We had growth in all the segments that you see, LatAm fixed income and equities, fund services, alternative investments and we also have a qualitative trend, a very positive qualitative trend in Brazil fixed income and equities because here, even though we lost money on very short-term mandates, we gathered assets in the longer-term mandates in Brazil, which means our average management fee increased and our performance revenue potential increased as well.

Going to page 13, we have also remarkable performance in Wealth Management, where we have reached a 107.3 billion in wealth under management with 5.6 billion in net new money in the quarter. Revenues reached BRL123 million that includes not only a bigger chunk from management fees, but also growing revenues in terms of interest income and

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trading income. On the contrary, inside to the selloff of international investors, we saw more activity from local clients in Wealth Management, leading to higher trading income and this leads to this exceptional moment of our Wealth Management franchise that continues to gather assets, gain mandates and bring more clients.

Here also, we have the contribution of the digital platform kicking in. Assets under management, new clients and revenues are starting to contribute to the Wealth Management franchise and we see this as a very positive trend, as we have been adding now to our franchise independent financial advisors that bring their clients thereof and contribute to the growth in our assets under management and revenues.

Next page, page 14. We have Principal Investments, where we had negative revenue contribution from real estate, basically this is the cost of funding of the portfolio. We had negative revenues from global markets, basically because of the more convoluted market scenario and positive results from Merchant Banking. All-in-all, what we see is that the magnitude of these results tend to reduce over time as we have been reducing capital in assets dedicated to Principal Investments in our business.

Moving to page 16, here we have the expenses and main efficiency ratios. Our cost-to-income ratio for the second quarter of 2018 was 47% compared to 44% in the first quarter of 2018, and 58% on the same quarter previous year. If you exclude non-recurring expenses, which are basically legal costs, specific legal costs that are non-recurring, our cost-to-income ratio for the quarter was 40% and the first quarter this year, it was 37%, and in the same quarter last year, it was 42%. We have been running our platform with the cost efficiency ratio of around 40%, regardless of the natural volatility in our revenues and this shows the resilience, not only the efficiency, but also the resilience of our business model because the majority of our compensation is variable nature, which is the bonus pool. We can keep the Bank operating with these levels of efficiency throughout the cycles.

Moving to the balance sheet, section 4, page 18. Here you see a growth from a BRL146 billion to a BRL157 billion in assets. This takes us from 7 times assets to equity leverage ratio to 8 times assets to equity leverage ratio. We've been saying that we've always run the Bank at around 11, 12 times leverage ratio, so 8 times continue to see -- continues to be adequate, conservative and prudent way to manage our balance sheet. The growth in the quarter is concentrated on very liquid and short-term assets, which are assets financed through repo, so basically portfolio of government bonds and reverse repos and repos. But we also had some structural growth in the trading portfolio of assets and the portfolio of credit. This is very adequate, given the additional funding, which we will comment about in the next page, but also adequate to run the business in this trend of conservative and prudent growth over time as we see opportunity to deploy more capital.

Next page is page 19, you see the broader credit portfolio. The behavior here of our broader credit portfolio is similar to the portfolio of Corporate Lending, which is the major component of the broader credit portfolio. In addition to that, we have Wealth Management credit and credits of other nature, but this is a growth in line with our Corporate Lending business.

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Next page, page 20. We have the unsecured funding base, as we mentioned before, growing 12.2% in the quarter. The main highlight here is the growth in time deposits, basically concentrated in Brazil, but also in our franchises in LatAm, especially the Investment Banking presence in Chile. We also had a landmark transaction, which was the issuance of first bond in the Chilean market, very well received by local investors, which shows the strength of the local franchise and the growth overall which was well diversified across the funding base and funding sources that we maintain. Also, important to highlight that as we grew our time deposits number in Brazil, volume in Brazil, we also expanded the maturity. So the average maturity is increasing as we are taking in deposits of longer nature, especially from institutional investors in the region and especially in Brazil.

And finally, page 21. As a result of all that, our VaR, average VaR as a percentage of average equity was 0.40% equivalent to BRL75 million and our capital ratio increased to 17.3% regardless of the increase in total assets, which as I mentioned. We're concentrated on liquid and short-term government bonds, our Basel ratio increased since we captured the profits and reduced the allocation to market risk.

So this finishes our presentation, our detailed comments and we'll now open the floor to questions from you. Thank you very much for joining our conference.

## Questions And Answers

### Operator

The floor is now open for questions from investors and analysts. (Operator Instructions)  
The first question will come from Carlos Macedo of Goldman Sachs. Please go ahead.

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

Thanks. (inaudible) so thanks for taking questions. Couple of questions. First on your VaR 0.4 reflecting volatility, given the election in October and the volatility around that, do you anticipate that changing too much? And what kind of impact that can have on your sales and trading revenue? What's the correlation? There appears to be a fairly strong correlation between VaR and your sales and trading revenues. Just wondering, if you see the same thing?

Second question. Sallouti, you mentioned early on the BTG digital product that's gaining steam. Can you give us some more color on that? What are the current metrics? Where do you expect to be at the end of this year, and maybe next? And to what line does that product contribute in your income statement? Thanks.

#### A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you, Macedo. So first, regarding the sales and trading. We were not completely positioned for this bout of volatility, which to some extent caught us by surprise. So even though we do expect volatility and we -- in this quarter, we expect to remain conservative,

we do expect to return closer to what has been the average of sales and trading, okay, so I think that answers your first question.

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

So Sallouti, if you would, does the VaR have a lot to do with Sales and Trading revenues or are those two separate things or is this correlation not causation?

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

It has the correlation, but it's not one. Naturally, there is some correlation, but it's not one, okay. Regarding BTG Pactual digital for both strategic and also just given the nature of the business, which is catering financial services to individuals, we have decided to keep -- to report that within Wealth Management. We don't see very big benefits for investors first to report that separately from Wealth Management and we think that there is some strategic reasons for us to keep our cards closer to our chest. So we think that has been working well. You can see the acceleration in the metrics of Wealth Management and we expect that to continue, both as a function of the performance of Wealth Management and of the implementation of BTG Pactual digital.

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

Okay. So just so that I can make it clear, given that the revenue generated from this business do not necessarily mean that you have greater wealth under management, you might see the actual revenue growth outpaced the wealth under management growth going forward, if the business becomes as successful as you hope it does, correct?

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

Yeah. I think you can probably see an increase in ROE just in general of the business, but I also think that you will see the AUM increase. I do think both will happen.

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

Okay. And can you share anything about what you -- what your expectations in the business are, even if they're just qualitative and not quantitative?

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

Qualitatively, we are very satisfied where we are. This was a huge endeavor from a technology, from a marketing point of view, and I think we've been very successful in reaching (inaudible) milestones. And if anything, we are a bit ahead of our business plan.

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

Okay. Thank you.

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

Thank you.

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## Operator

(Operator Instructions) That brings us to the end of the question-and-answer session.

I will now return the floor to Mr. Roberto Sallouti for his closing remarks.

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

I'd like to thank you all once again for joining our conference call on the results of the quarter and we look forward to being with you once again at the end of the Q3. Thank you very much. Have a great day.

## Operator

Thank you. This concludes today's presentation. You may disconnect your line at this time, and have a nice day.

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