

FY 2020 Earnings Call

Company Participants

- Inacio Caminha, IR Superintendent
- Mauro Dutra, CFO & IR Officer

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to Banco PAN's Conference Call to discuss the Fourth Quarter of 2020 Results. This event is also being broadcasted simultaneously on the Internet -- both audio and slideshow -- which can be accessed on company's IR website, www.bancopan.com.br/ir and MZiQ platform with the respective presentation. (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 forward-looking statements. Such statement speaks only as of the date they are made, and the company is under no obligation to update them in light of future development. With us here today we have Mr. Mauro Dutra, Banco PAN's CFO; and Mr. Inacio Caminha, Head of Investors Relations and Funding. Now I will turn the conference over to Mr. Mauro Dutra. We will begin the presentation. Mr. Mauro, you may begin your conference.

Mauro Dutra {BIO 21792010 <GO>}

Okay. Thank you very much. Good morning, everyone. Welcome to Banco PAN's Fourth Quarter earnings release for the first -- Fourth Quarter of 2020. This year was a very, very challenging year. We can say we are very happy with the results we achieved and with the way we manage the bank, maintaining our investments in the digital bank and also expanding our credit portfolio with quality and profitability.

I will start on the Slide two with our highlights of the quarter. We had all-time high origination in all our segments, in all of the segments we operate, in our credit portfolio, reaching an average of BRL 3.4 billion in the quarter, which represents more than 80% increase on a year-over-year basis, and reaching BRL 2.4 billion in the average origination for the year.

Our credit portfolio ended 2020 in BRL 28.9 billion, more than 20% increase against the same quarter of '19. These figures brought us to a very good level of profitability with BRL 261 million in earnings before taxes for the quarter and BRL 171 million for our bottom line for net income in the quarter.

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For the year 2020, we had almost BRL 940 million in earnings before taxes, more than 30% above 2019. The bottom line was BRL 656 million, which is also almost 30% more than the previous year. The profitability was also a highlight with very solid levels. We had 20.9% of ROE in the last quarter of the year and 21.4% for the year of 2020. The accounting number, the accounting figure for the ROE was 30% -- 13% for the quarter and 12.8% for the year, also a very good level, in our view.

Our net worth ended the year in BRL 5.3 billion and the Basel Ratio, which is fully comprised of our core Tier 1 capital was 15.9%, a very comfortable level for the moment we are facing and to have a very strong balance sheet here in Banco PAN.

Moving on to Slide 3. We bring here some highlights of the credit portfolio and our performance. We can see that the default rates presented a significant improvement in the quarter, reaching 6.3% in the shortened indicator, the indicator from 15 to 90 days, which is way below 7.3% we had in September. The 90 days portfolio was 5.5% against 6.7% in September, also a very good level.

It's worth to mention that we had less than 1% of the portfolio deferred during the crisis, and we only deferred 2 installments of these each transaction. The installments that were already overdue, 97% of them were already paid. So we are very comfortable with our balance sheet and pretty confident we have the current impact of the crisis already in our numbers, in our figures, both in terms of provisions and delinquency ratios.

Moving on to Slide four is the same matter, but in another view, talking about allowance for loan losses or provision expenses. We had an improvement, a very important improvement in relative terms to the provision expense. The net provision expenses related to the portfolio decreased from 4.8% in the Third Quarter to 3.6% in the Fourth Quarter, which is a very important metric. But we also can observe an improvement in the absolute figures.

The credit provision expenses decreased from BRL 366 million in the Third Quarter to BRL 329 million in the last quarter of the year. We had a better performance of the credit recovery, which increased from BRL 66 million in the Third Quarter to BRL 82 million in the last quarter of the year. So figures are proving that we are having very good credit metrics, and we are pretty confident to keep the pace of increasing our portfolio and our origination. I'll then move to Inacio, who will bring you some details regarding our figures and financial metrics.

Inacio Caminha {BIO 19326001 <GO>}

So moving on to Slide 5, we present some of the main numbers and indicators for the quarter. The graph that we see in the upper left part shows the evolution of the net interest margin, reaching BRL 1.6 billion, advancing due to the increase in the portfolio, also the strong level of spreads of our credit bonds and the credit assignments.

We have already seen the decrease on provisioned expenses, and total expenses reached BRL 991 million in the quarter, increasing mainly due to credit origination,

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reflecting the record volume that we had in the quarter. Remembering that in payroll, specifically, the first month has a significant IT expenses. And also the remaining share of the expense increase relates to the digital accounts growth that we saw in this Fourth Quarter.

Talking about the administrative and personnel expenses. We also had a one-off write-down of BRL 41 million related to the investment in the digital formalization platform, which is a one-off that we won't see in the next quarter. All in, we saw the earnings before tax expanding in the year and almost flat in the quarter, reaching BRL 261 million and net income reaching BRL 171 million in this quarter, with a 21% adjusted ROE, a very robust level.

The figures in the next slide, we also see the same dynamics. So net interest margin increasing significantly, expenses also increasing because of origination mainly, and the structure of the bank. Nonetheless, earnings before tax and net income rose significantly, reaching BRL 656 million in net income at 21% adjusted ROE.

Speaking of this adjusted ROE, on next slide, Slide 8, we see the composition of it. So basically, we have 2 adjustments: one in the net income; and the other in the equity. In the adjusted results, we exclude the excess of financial expenses from the legacy deposits, so that we will have BRL 224 million net income in the quarter and BRL 871 million in the full year. It's worth mentioning that in December, we amortized almost BRL 1 billion of legacy deposits, so this will reduce the negative accounting impact over the next years.

And the second adjustment, which excludes the excess of DTA from the legacy tax laws, which does not allow us to leverage our balance. So in this way we compare the adjusted net income with the adjusted equity resulting in the 21% adjusted ROE.

In Slide 8, talking about the retail origination, you see that we reached BRL 10 billion of new credit in this quarter, a significant increase over third Q and also over the fourth Q '19. This was driven by the 3 products: so in payroll, we saw the additional margin effect, allowing us to originate BRL 5.4 billion this quarter, supported also by our ability to capture this opportunity and gaining market share; in vehicles, we granted 5 -- BRL 2.7 billion, increasing 56% over third Q, and this increase relates to the optimization that we did in the credit renting flow, which also resulted in significant expansion of market share; and finally, in credit cards, we also accelerated, reaching BRL 2.2 billion in the quarter, reflecting the excellent performance of our digital accounts.

Credit portfolio on Slide nine reached BRL 28.9 billion, expanding 22% in the year, 14% in the quarter. The 3 products expanded significantly in the year and also in the quarter. So -- and when we look at the runoff products, they have been decreasing quite significantly, only representing 2% of the total loan book.

Credits with guarantee plus credit plus payroll loans and payroll credit cards represent 93% of the total portfolio, which is very important to support the credit quality that we have. The renegotiated loans represent only 0.5% of the entire portfolio. The originated

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portfolio, which includes the loans assigned to shareholders, ended the quarter at BRL 36.8 billion.

Talking about payroll in Slide 10. We originated BRL 1.8 billion per month, BRL 5.4 billion in new credits. Out of those, 97% in loans and 3% in credit cards, reaching a portfolio of BRL 15.1 billion. The concentration in the originations remain relevant in federal agreements. That corresponded to 96% of portfolio. Out of those, 91% related to the social security program. Naturally, the strong growth in the increase in the payroll deductible margin, but it ended in December, so we should expect lower origination volumes in the coming months.

In vehicle financing, on Slide 11, we saw a relevant increase in the portfolio, 26%, increasing BRL 11.1 billion with a very adequate level of loan-to-value and also the term of these loans. The table shows a record volume for origination in vehicles, reaching BRL 730 million per month in the quarter, increasing market share to 11%. In motorcycles, we kept our leadership position since April, and increased our market share to 25% compared to 2019. So these movements were very relevant, and it's also important to mention that credit quality and profitability remains solid despite the volumes increase.

On Slide 12, we have the info on credit cards. Transaction volume increased by 85% in 12 months, reaching BRL 2.2 billion in the quarter and BRL 6 billion in full year, reflecting the issuance of cards sold through our multiple channels. We are very satisfied with the product growth, which is part of our customer loyalty and diversification strategy. Our clients have been using a lot of digital channels, whether in hiring, whether using any service or receive invoices, which brings more efficiency and better experience in

On Page 13, we show the evolution of insurance. We originated a total of BRL 150 million in green within the quarter, accelerating significantly this business line. This growth is leveraged by the excellent performance of the origination in vehicle financing and also by the launch of new products that we had in 2020, very in line with our target audience. We generated BRL 412 million in premiums for the full year and we expect to keep growing this business with new products and also with greater through our digital accounts.

Talking about funding on Slide 14. We see an important evolution, reaching BRL 27 billion, increasing 14% in 12 months. We continue to diversify our funding lines and the initiatives such as the digital accounts contributing to the diversification of our client base and also bringing more direct customers. In addition to that, we also maintained a very strong distribution flow through platforms and with institutional investors. We also, as I highlighted before, paid almost BRL 1 billion in time deposits, the legacy time deposits, which will help results in the coming quarters.

On Slide 15, we have the information about capital. Our Basel Ratio ended the quarter at almost 16%, 15.9%, comprised entirely by CET1, common equity tier 1. Our strategy remains the same: to have a complete offer of credit products and financial services using a lot of technology, intelligence, diversifying our products and channels. With that, we have a lot of room to keep growing and expanding our business. Always take advantage

of new opportunity and innovations that the market is presenting. So with that, we conclude the presentation and open the line for questions.

Questions And Answers

Operator

(Operator Instructions) There seems to be no further questions. We would like to turn the call over to Mr. Inacio Caminha for his final remarks.

A - Inacio Caminha {BIO 19326001 <GO>}

Well thank you again for the presence. Have a great day. See you next quarter.

Operator

This concludes Banco PAN's conference call. You may now disconnect. Have a good day.

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