

Q2 2019 Earnings Call

Company Participants

- Inacio Caminha, Investor Relations

Presentation

Operator

Good afternoon, ladies and gentlemen and welcome to Banco Pan's conference call to discuss the Second Quarter of 2019 results. This event is also being broadcast simultaneously on the Internet, both audio and slideshow, which can be accessed on the Company's IR website: 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. 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 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 earnings release call for the second Q of 2019. We had a good quarter with important results and let's begin with the financial highlights on Slide 3. We posted our net income of BRL117.7 million in this quarter, representing a growth of 179% in 12 months. In the six months, we had BRL214 million net income, increasing 116% over the first half of 2018. The ROE was 11.2% in this quarter and the adjusted ROE, which is the best way to evaluate the bank's performance was 23.9%, improving significantly in 12 months.

Our credit portfolio ended the quarter at RBL22.5 billion, growing by 16% in the annual comparison and the core portfolio increased more, 23% in 12 months. We originated a monthly average of BRL1.6 billion in new credits in this quarter and we have maintained the level of the first quarter, which is generally stronger due to the payroll loans seasonality. Our NIM remained strong at 18.8%, increasing 3.8 percentage points over last quarter and we ended the the second Q with BRL4.2 billion in equity and 13% Basel ratio.

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Regarding the quarterly results on Slide 4, we see the NIM at 18.8%, increasing over the last quarter as a result from the increase in the credit assignment and also stronger spread on credit portfolio. Our credit provisions in real estate portfolio remained stable with stronger NIM, that we see here, enabled us to practically provision the entire construction loan portfolio and also to anticipate provisions in the corporate portfolio. So, as a result, the indicator ended the quarter at 6.3%, but without these two effects, it would have been 5.1%, improving over last quarter.

On the expenses, we also anticipated BRL31 million in origination expenses that would come until December this year, based on the the rules of the central bank, regarding the commission. Income before taxes reached BRL164 million in this quarter and net income BRL118 million with a significant increase showing that the bank is advancing in its strategy. On this semester, we accumulated BRL214 million in net income.

Regarding the ROE on Slide 5, we present the accounting base and also the adjusted ROE, both annualized. So, the ROE stood at 11.2%, improving over both quarters, and the adjusted metric, which excludes the excess of financial expenses from fixed rate time deposits issued between 2005 and 2008, shows a net income of BRL172 million, and also an adjusted equity of BRL2.9 billion by excluding the excess of DTAs related to losses. So, if we compare the adjusted net income with the adjusted equity, the adjusted ROE increases to 24% per year in this quarter. These are two simple adjustments of the two remaining legacies that properly show the bank's performance in the margin.

On the next stage, we have the details of our retail origination. We granted a monthly average of BRL1.6 billion in this quarter, totaling BRL4.8 billion in new retail credits. We remained stable compared to last quarter, but increased almost 20% in one year. In payroll loans, we reached BRL928 million per month in the quarter, growing 16% in 12 months. And in vehicle financing, we originated an average of BRL413 million, increasing 40% in 12 months. The transactions in our credit cards totaled BRL272 per month on average, showing an increase of 8% compared to the previous quarter. We have also signed up 113,000 new clients per month in this quarter, 58% more than what we did 12 months ago in Q2 '18, and we have 4.6 million clients under management.

On Page 7, we show the composition of our credit portfolio. We see in the table that payroll remains the largest portfolio with BRL12.3 billion, increasing 24% in 12 months. Then, we see vehicle financing at BRL7.8 billion, advancing 25% in 12 months. And next comes the decline in corporate portfolio with BRL866 million, and also real estate with BRL645 million. Credit cards portfolio ended the quarter at BRL862 million. And in total, the BRL22 billion represents a 4% increase over last quarter and 16% in twelve months. The originated portfolio, which adds up the portfolio assigned to controlling shareholders ended the quarter at BRL31.8 billion.

On Page 8, we present the retail portfolio 90 days NPL, which remained stable compared to the previous quarter at 5.3%. We are improving what we want and have the knowledge to do, which is rent credit to our clients. We have been expanding the use of machine learning models to improve credit decisions, analyzing more than 1,000 structured and unstructured data, all of that brings the best alternatives for credit to our clients and also agility and efficiency in this process of augmenting credit. We also have been focusing

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digitally on collection. So, when we see the collections recovered by the digital platform, we have BRL145 million collected, representing more than 20% of the total collections, which also helps a lot to improve efficiency and save costs.

In table, our strategy is to keep as a relevant player focused on federal loans figuring among the Top 5 originators in the INSS loan market. This quarter we originated an average of BRL928 million per month, totalling almost BRL3 billion in new credits. Out of those, 92% on loans and 8% on credit cards. When you look at the breakdown in the origination, we continued to have an important concentration in federal rate, representing 89% in the second Q, out of which 65% is the INSS loan.

The portfolio, continued to -- loans and credit cards ended the quarter at BRL12.3 billion, representing 55% of the total portfolio. And in April, we launched for the partners, our high-end platform, which is paperless and without physical limitations, and also adding facial biometrics as a signature that makes the operation more scalable, efficient, safe and also profitable. We had eleven events in the main cities of the country to present this platform, reaching more than 4,000 partners, brokers that sell our products and the acceptance was very good. Proof of this is that the engagement is increasing. We had an average of loans basically originated representing 25% -- 27% of the quarter origination.

On Slide 10, we present more details about the vehicle segments. The focus is to finance used cars between four and eight years of use and also new motorcycles. We operate through multi-brand and also through single-brand vehicle dealers focus on used cars and single-brand dealers for motorcycles. In line with the digital transformation, we have developed an app with a simulator that allows the credit free analysis with few pieces of information, providing a lot of agility and also a better experience for our commercial partners and also to the final customers. These and other investments in technology have allowed us a significant increase in productivity of the sales team, which advanced about [ph] 42% between June '18 and June '19.

In motorcycle financing, we are the market leader, excluding captive finance company, and we benefit a lot off the credit knowledge and the long term experience in this business, resulting in an excellent performance among low-income young adults and I mentioned before, we had a monthly average origination of BRL413 million in the second Q and the portfolio continues to increase, ending at BRL7.8 billion this quarter with an adequate level of LTV and also in terms of the operation. On the second half of '19, we will launch the digital platform to originate loans such as we did with payroll and this will add up more benefits to this business.

On Page 11, we show the evolution of credit cards. We have been improving the credit card originations, issuing credit cards without fees. We also expanded our originations through digital partnerships and we launched in the first quarter an important co-branded digital card partnership with Meliuz, which is a Brazilian market leader in cashback. We issued 93,000 credit cards in this quarter, increasing 51% in 12 months. If we look at the number of requests received, the increase was 150%. This movement is being leveraged by the increasing sales actions, also in line with improvements in cross-sell, improved efficiency, in analytics and CRM, and also broadening relationship with new digital partners and continued developments in the hiring journey of this product through our website.

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We have invested in the improvement of our credit card app, which has a score of 4.8% on Apple Store and we have been expanding self-service financial control features and expenses and monitoring. Since its launch in the third Q '18, we had more than 750,000 downloads. This credit portfolio ended the quarter at BRL862 million. On Page 12, we show the evolution of insurances. We originated a monthly average of BRL22 million in premiums in this quarter, following the vehicle origination volumes.

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The funding balance shown on Slide 13, increased to BRL22.4 [ph] billion in this quarter. On the last chart, we highlight the increase in time deposits that reached BRL11.8 billion, increasing 70% in 12 months, contributing to the diversification of our funding through direct clients and also through distribution platforms. The funding, which shareholders declined even more and now represents only 27% of the total funding. It is also worth mentioning that bank notes increased significantly in 12 months. In this quarter, we issued our first public deal totaling BRL450 [ph] million, with 1.7 times demand and two-thirds of the investors were new to the bank, didn't have any exposure before. So this shows the appetite for the -- coming from the market to our products.

On Slide 14, we have information about capital. The Basel ratios stood at 13%, now entirely of CET 1, and -- which increased 1.1 percentage points in the quarter. Also, as expected, the Q2 did not count any more for capital as it has less than one year to maturity.

On Slide 15, we showed that rebranding that we just launched on July 15. This new position is based on the attributes, enthusiasm, empowerment and proximity. What we want to say to the market is that we exist to give a fresh look to the financial needs of our clients. We are a bank, that bank credits for our clients for them to achieve their goals. We work with everyone who wants to face their daily obstacles in life. We also have a team with knowledge with our [ph] convenience, they are always thinking outside of the box and evolving and improving.

We also connect with customers to understand what they need so -- and we deliver a better solution. This is simplicity that connects and most of all, we want to solve everything for our clients. We translate what is complicated into something simple. Our main goal is to strengthen our essence as an acceptable bank to 160 million Brazilians in the classes C, D and E, which are our target clients.

And on the next slide, we see that the footage for banks come to complete our strategy, which is already well-established in the B2B and gains now at new fronts and in B2C. This place us at another level in the B2C relationship, which today exists basically in the credit card business and on a portion of payroll loan business and we see ourselves as a new bank. We have the ambition to be a reference for the financial solutions to those 160 million Brazilians and we want to do that by delivering an experience based on transparency, simplicity and customization and always thinking about our customer needs.

With the launch of the digital accounts, our clients will have a complete platform, integrated with banking products and services, and we are also building partnerships, building a bank system with partnerships to provide non-banking services to engage even

more with our clients. Besides the active client base that I mentioned of 4.6 million clients and the 1.2 million clients that we have granted credits in the last 12 months, we still have 10 million clients that pay [ph] entirely their loans with us. So this shows how the digital bank with these digital accounts growth potential, acquiring clients at a low acquisition costs. And with this, we conclude the presentation and open the line for questions.

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) And there seems to be no further questions, I'd like to turn the floor over to Mr. Inacio Caminha for the final remarks.

Inacio Caminha {BIO 19326001 <GO>}

Well, thank you again all for the presence. Have a good 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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