

Q2 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 Second 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.bancopan.com.br/ir and MZiQ platform, with the respective presentation.

We would like to inform you that all participants will be in a 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, everyone. Welcome to our earnings call for the second quarter of 2018. Starting with the highlights on page three. We see that Pan posted a net income of BRL42 million, totaling BRL99 million in the semester, in comparison with the BRL46 million net income on the first half of 17. And it is the sixth quarter in a row of positive results. The loan portfolio ended the quarter at 19.4 billion with the monthly average origination of BRL1.4 billion.

Our annualized net interest margin has remained at a great level, ending the quarter at 17.6%. On the first half of 18, we saved BRL152 million in expenses compared to the first half of 17. Over the last quarter -- over the last 12 months actually, we doubled the balance of time deposits reaching BRL7 billion. And we ended the quarter with a consolidated shareholders' equity of BRL4 billion and 13.7 Basel ratio.

On the next slide, our net interest margin has remained at a strong level, totaling 898 million in the quarter. Credit provisions increased a bit as expected totaling BRL310 million

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having full control over the credits here at the bank. As a result, gross income from financial intermediation ended the quarter at BRL588 million. The administrative and personnel expenses are also under control, as we saw a relevant reduction on a semester base.

On the quarter, the increase relates to legal provisions as the judiciary ended very fast. And a slight decrease on origination expenses is related to the lower volume of credits originated in this quarter, due to the strong seasonality of the first quarter of the year. The income before tax closed the quarter at BRL101 million and we get to the net income of BRL42 million, totaling the accumulated 99 million on this semester, highlighting here the consistency and recurrence of our results.

In the next slide, we present an overview of our main business lines, focusing on individuals and also showing some of our numbers. On payroll deductible, we operate both in loans and credit cards to public servants and INSS pensioners and retirees mostly federal. On vehicles, we focus our origination through multi-brand dealers, financing vehicles, mostly between four and eight years of usage and we also financed motorcycle acting as a market leader with the specific and profitable credit profile. We also operate with credit cards and insurance, which represents a smaller portion of our portfolio of business, but it contribute to the service fee.

As I mentioned in previous quarters, the Corporate and Real Estate and Personal Credit portfolios are running off, and they have been decreasing significantly. We operate granting credit all over Brazil, with a great concentration in the Southeast and South regions, counting on more than 6,000 multi-brand vehicle dealers and more than 700 brokers originating payroll loans. We have ended the quarter with 4.4 million active clients, 2.2 million credit cards issued and 2,200 employees.

On slide six, we have very important information on new trends in the bank and show how we are prepared to accomplish our digital transformation. We have more than 200 people exclusively dedicated in this process. We have initiatives in payroll, vehicle financing to improve the experience to our clients and commercial partners. I'll explore more details of the initiatives further on. We are also investing in CRM to enhance our cross-selling. I've mentioned in the previous slide that we have more than 4.4 million clients and historically, we have had more than 20 million clients that could lead to a lot of opportunities.

Regarding collection, we are also investing in a dynamic self service channels to improve the credit recovery. And all this digital transformation is a very important agenda that will help us to enhance our positioning in the segments that we are present, mixing the traditional bank with the digital bank. We already have some apps running and some others will be launched during the next month, bringing agility, cost efficiency, a better experience to our clients and commercial partners. We have been increasing the number of our investment accounts and we are studying possibility to expand the scope since we dominate the vehicles and payroll loans ecosystems and we believe that we can maximize opportunities attracting new client.

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On the next page, we present the details of our retail origination. We have granted BRL4 billion in retail credit in the second Q representing a monthly average of 1.4 billion, and more important than volume is the maintenance of our interest margin. In payroll loans, we had an average origination of BRL800 million per month, with a significant participation of the INSS. In vehicle financing, the average was BRL294 million per month, in credit cards transactions averaged BRL262 million per month.

And regarding credit, we have been reinforcing our strategy to focus on our clients going beyond just the credit approval, but analyzing the better combination of clients profile, proposal and rates focusing also on our profitability. To achieve this, we have been investing in non-structured data, going beyond the traditional credit bureaus, and also in machine learning models to improve the credit decision, as well as maintaining a close relationship with different start-ups to be always connected to the market innovations.

On page eight. We show the composition of the credit portfolio. In the first table, we see that payroll deductible remains as the largest portfolio with BRL9.9 billion. Then we see vehicle portfolio with 6.2 billion and next comes the declining Corporate portfolio with 1.4 and Real Estate with 900 million. Credit Card portfolio had a slight decrease ending the quarter at 900 million. In the lower left chart, we see that the retained credit portfolio has presented a slight increase in the quarter, mainly due to the increase in payroll and vehicles portfolios. The originated portfolio, which adds up the portfolio assigned to Caixa, ended the quarter at 33.7 billion.

On page nine, we presented 90 days NPL of the retail portfolio, which improved over the last quarter and is in the lowest level since 2011. Adding to what I've mentioned regarding the use of technology on credit concession, on the collection, we have been optimizing our process, broadening the conditions to our clients to pay their debts and using analytics to better define the discounts and the proper products to be offered and the most appropriate channel to contact those clients. The objective is to improve and to increase the digital channels that are cheaper way to collect those past due loans and we already have more than 20% recovered in that sense.

On page 10, we present the breakdown of the banks cost and expenses, segregating those related to the origination. Personnel and administrative expenses totaled 278 million in the 2Q, stable in the comparison with 2Q 17, but with a slight increase over the 1Q 18 due to the return of the judicial system that normalizes the flow of provisions. Regarding commissions, we noted the decrease, basically you related to the lower volume of origination 2Q.

And in the bottom left chart, we show the evolution of number of employees with a substantial reduction over the last quarters. And in the 2Q 18 we had -- we invested in new personnel to our digital team, which represents 10% of our employees and the idea is to continue seeking efficiency gains through this digital transformation.

In payroll on the next slide. Our strategy is to maintain our position as the relevant player with focus on Federal Servants, Federal Codes in general remaining as top five player in the INSS pensioners' market. The commercial partners, our main origination channel and

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we want this origination to be 100% digital, paperless, reducing operational costs, making the operation cost effective and profitable to both parts, creating a better experience to our clients.

On our branches, we intend to increase the origination and make it 100% paperless by 2019. We already have an app for that in place for the INSS loans. And besides that, there is demand for self-service loans. They are already contemplated on our strategy looking forward. In all those channels, we expect that in three years more than 80% of our origination becomes digital, benefiting then from higher security with facial bio-metrics and clients geo-location, as well as enabling a significant cost savings and agility for our commercial partners and branches.

In this quarter, we originated an average of BRL800 million per month, totaling 2.4 billion in new credits, approximately 94% from loans and 6% from credit cards. Regarding the portfolio, the balance of loans closed 2Q at 9.9 billion, representing 51% of the total credit portfolio. And when we analyzed the origination breakdown, we can see an important concentration on federal risk responding to 81% of the origination in the quarter being 59% within the INSS.

On slide 12, we present more details about vehicle segment. We focus origination on used vehicles, as I mentioned from four to eight years of usage and new motorcycle financing. And here, we captured the benefit from our expertise in credit and collection, optimizing the risk return relation of these operations and taking advantage of the great relationship with our commercial partners. Within the digital transformation, the idea in vehicle is to double the productivity of our commercial team by reducing time and costs to generate a loan.

As an example, we reduced 60% of the fields on the proposal without compromising security, credit analysis and the relationship with our partners. We are market leader in motor cycle financing, excluding capital finance companies. And here we benefit from our credit knowledge, long term experience and strategy to be concentrated in a specific niche, which results in an excellent performance among low income young adults. And as we can see in the graph, we had a monthly average origination of 294 million in this quarter and the portfolio increased and in the quarter at BRL6.2 billion.

On page 13, we show the evolution of credit cards and insurance. The strategy for institutional card is to expand the origination through co-branded partnerships and digital channels. In addition, we intend to maximize the cross sell through investments in CRM. The credit card portfolio ended the quarter at 900 million in insurance. We originated a monthly average of BRL18 million in premiums and we also plan to increase the products offered here.

The funding shown on slide 14, closed the quarter at BRL19.1 billion with an increase of time deposits from market investors, which doubled in the last several months. And besides that, our digital platform keeps growing, contributing to the diversification of our funding.

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On slide 15, we have information about capital. Our Basel ratio stood at 13.7 with 11.7% of Tier 1 capital increasing as a consequence of our results. And the Tier 2 decreased because of the decade of our subordinated bond.

And to conclude this presentation, we want to summarize why we are in an unique and attractive bank. So first, we have shown committed shareholders, complementary in their activity, which gives us support in execution of our business plan. We have capital and funding available. We are very well recognized in position in the markets that we operate, both in payroll-deductible and vehicle financing, which are our main products. And we have been implementing digital transformation aiming to grow our business with low costs both in France and back office.

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

Operator

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

Inacio Caminha {BIO 19326001 <GO>}

Once again, thank you all for the presence and see you next quarter. Have a good day.

Operator

This concludes Banco Pan's conference call. You may now disconnect and have a good day.

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