

Q1 2019 Earnings Call

Company Participants

- Inacio Caminha, Superintendent-Investor Relations

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Banco Pan's conference call to discuss the First Quarter of 2019 Results. This event is also being broadcast simultaneously on the Internet, both audio and slide show, which can be accessed through 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 forward-looking statements. Such statements speak only as of the day they are made, and the Company is under no obligation to update them in light of future developments.

Now I'll 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 you all. Welcome to our First Q '19 earnings call. Let's begin the call talking about our digital strategy, on payroll and vehicle loans and some improvements that we had in this first quarter.

We advanced in the omni-channel origination strategy without physical barriers. On payroll loans, we launched an innovative platform that allows clients to hire loans through a paperless method, confirming or assigning the loan with facial biometrics. This technology saves costs, enhance security, gives agility, improves efficiency and profitability, thus creating an outstanding experience to everyone involved.

This platform is available to all the brokers that operates with us, and also available in all our point of services. Regarding vehicle financing, we started to expand the origination of used vehicles through single brand dealers.

In addition, we also launched the new exclusive app that allows credit pre-analysis based on just a few information, as well as the online completion and tracking of all the credit proposals, increasing agility and providing a better experience for all commercial partners and clients. So these and other initiatives foster the increase in our productivity, cost fraud and delinquency reduction and also improves the engagement of our partners and clients.

In addition to that, our current products -- In addition to our current products, we also will extend other sorts of products in 2019, becoming a full digital bank. So, we will offer checking accounts and credit cards without fees and several other credit products and services for low income individuals.

Our purpose here is to change the view of our target audience regarding access to credit and banking services, offering credit at competitive rates, supported by our expertise in credit.

We believe that Brazilian market favors this movement and has many opportunities starting with a concentrated market, with a connected population and also considering that a large portion of this population suffer with high interest rates, and low credit limits. So with low penetration of financial services.

In addition to that, the central bank has shown a positive agenda to promote a more competitive environment.

We already have 4.5 million active clients and an organic monthly flow that reached 130,000 new clients per month in this first quarter. So, all that will back the implementation of this new project.

Moving on to Slide 5, we present the financial highlights. We achieved a net income of R\$96 million this first quarter, rolling [ph] 70% in twelve months. The ROE for the first Q was 9.3%, and the adjusted ROE, which is a more fair way to assess the bank operating the margin was 21% in the quarter.

Our credit portfolio ended the quarter at R\$21.8 billion, with payroll and vehicle portfolios growing by 24% and 21% respectively in twelve months. We generated a monthly average of R\$1.6 billion in new credits. Our NIM remained strong at 15%, and we ended the quarter at 4.2 billion equity and 13.8% Basel ratio.

Regarding the quarterly results on Slide 6, the NIM as I mentioned, sit at 15%, R\$818 million in the quarter, increasing the share of carry revenues and reducing the credit assignment results contribution. Credit provisions totaled R\$276 million in the first quarter, remaining stable over the first Q '18 and also the last quarter.

So here we see a reduction to 5.3% of the credit portfolio, showing a credit quality improvement. Total expenses increased mainly due to increase in Payroll loans origination fees related to higher volumes. And income before tax remained at a strong level

reaching R\$127 million in the first quarter, and the net income of R\$96 million. The significant increase also benefited from a lower effective tax rate.

On the next slide, we present our ROE. So on the accounting base and also the adjusted unaudited ROE. The annualized was 9.3%, improving over both quarters, and the adjusted ROE that we have been presenting since last year would have reached a net income of R\$147 million, and the adjusted equity of R\$2.8 billion. So in this way we get to the 21% for this quarter.

These are two simple adjustments of two remaining legacies, that properly shows the bank's performance in the margin. On the next page, we have the details of our origination. So, we granted R\$1.6 billion per month, totaling R\$4.8 billion in the quarter, increasing 7% over last quarter.

Usually, the first quarter is seasonally stronger in payroll, and for that we reached R\$923 million per month in new loans. Vehicle financing had an average of R\$414 million in new credits per month, stabling when compared to the last quarter, but increasing 31% in twelve months.

And in credit cards, we had R\$252 million in transactions we did per month in the quarter. On page 9, we show the composition of the credit portfolio. In the first chart, the table we see that payroll deductible remains the largest portfolio, reaching R\$11.8 billion, increasing 24% in the last 12 months. Then, we see vehicle financing with R\$7.4 billion, advancing 21% year-over-year.

And then, we have the declining corporate and real estate portfolios with R\$930 million and R\$737 million in the end of the quarter. The credit card portfolio ended the quarter at R\$834 million. And with all that, the balance portfolio went up 6% over last quarter, and increased 14% year-over-year totaling to R\$22 billion that we see.

The originated portfolio which adds up the portfolio assigned to Caixa ended the quarter at R\$32.1 billion, and we tend to see an increase on the retained portfolio and a reduction of the assigned portfolio moving forward.

On Page 10, we present the retail portfolio 90 days NPL, which improved over last quarter reaching 5.3%, the lowest level since 2011. Here, we got in credits, we have been reinforcing our strategy of focusing on our clients needs.

So, we have been expanding the use of machine learning models to improve brand [ph] decision. With these analysis, we can assess more than 1,000 variables, considering structured and non-structured data, bringing the best credit alternative to our clients, and also agility and efficiency to our operations.

We also have been using digital platforms for collection. So in this first quarter we recovered R\$137 million through digital platforms representing more than 20% of our

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collection, bringing more dynamism and customization to negotiations, as well as saving costs.

In payroll, moving on to Slide 11, our strategy is to keep being a relevant player, focused on federal loans, figuring among the top five originators in the Social Security program. So, in this quarter we originated R\$923 million per month, totaling R\$2.8 billion in new credits, out of those 93% relates to loans and 70% to credit cards.

Looking at the origination breakdown, we see an important share on federal risk, responding to 89% in this first quarter, and the Social Security, the INSS alone represents 65%. The portfolio ended at R\$11.8 billion representing 55% of the total portfolio of the bank. And in line with this digital strategy, the facial biometric allows to having [ph] of Payroll loans 100% paperless.

So, in this way the digital process makes the operation more efficient, safe and profitable. We have expanded the solution throughout Brazil on April, and the digital formalization has achieved 80% of the eligible loans at our point of service, and 25% of Payroll loans originated by the brokers.

For that, we held 11 events throughout Brazil, reaching more than 4,000 brokers to explain the platform and the feedback was great. On slide 12, we present more details about the Vehicle segment. Here again, the focus on the operation is financing used cars mostly between four and eight years of usage in numerous cycles.

So, in these two markets, we capture the benefits of our credit and collection expertise to optimize the risk return ratio, also benefiting from the excellent relationship with our business partners. We operate through multi-brands, dealers and as I've mentioned, we've started again to operate with single-brand dealers only focused on used cars.

In line with the digital transformation, we have developed an exclusive app with a simulator that allows credit pre-analysis based on just a few bits of information, bringing a lot of agility and a better experience for our commercial partners and clients.

These and other investments in technology have allowed a significant increase in productivity of our sales team, which has already advanced about 42% between June 2018 and March 2019. In Motorcycle financing, we are the market leader excluding captive finance company. And again, we benefit from the credit knowledge that we have, the long term experience in these markets resulting in an excellent performance among low-income young adults.

As I mentioned, the monthly origination averaged R\$414 million per month in the quarter, and the portfolio increased reaching R\$7.4 billion.

On page 13, we show the evolution of credit cards. We have been improving credit cards origination by issuing credit cards without fees. As a result, the issuance has increased 24%, on a year basis compared to the first quarter of '18.

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Leveraged here by a more efficient cross-sell through analytics and CRM analysis. We intend to expand the origination through digital partnerships, so marketplaces. This quarter we launched an important co-branded digital card partnership with Meliuz, which is a local cashback leader, a local leader in the cashback markets.

Our strategy also contemplates capturing proposals directly from our website. So in the sense, we made some relevant improvements on the website to facilitate the self-hiring process. We have also invested in the improvement of our credit card APP expanding self-service, financial control features and expense monitoring. Since it's launched in third Q '18, we have had more than 360,000 downloads. The portfolio ended the quarter at R\$834 million.

On page 14, we show the evolution of insurances. So, here we originated a monthly average of R\$22 million in premiums in the quarter. Following the increase that we have in vehicle finance origination, pretty much stable over last quarter.

The funding balance shown on Slide 15 increased to R\$21.5 billion in March. Time deposits reached -- increased 66% in the last twelve months, reaching R\$10.3 billion. This expansion contributes to the diversification of our funding, and also reflects the strong distribution that we have through direct clients and also through distribution platform.

And it is also important to mention that since the first Q '17, we have increased the share of market funding from 40% to 67% of total funding at the bank.

On Slide 16, we have the information about Capital. So the Basel ratios stood at 13.8% with 11.9% tier 1, core capital tier 1, basically due to the increase of our credit portfolio. I think that this quarter results comes from the assertiveness of our strategy. We started the new growth cycle improving our current business with a greater operational efficiency, targeted also with tailored credit analysis according to each individual credit profile, and also expanding our credit products portfolios, always focused on our client's needs, and with a view of its request.

With this, we conclude the presentation and open the line for questions.

Questions And Answers

Operator

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

A - Inacio Caminha {BIO 19326001 <GO>}

Thank you again for the presence. Have a nice day and see you next quarter.

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