

Conference Call Transcript
Banco PAN (BPAN4 BZ) – 3Q19 Results
November 5, 2019

Operator:

Good afternoon, ladies and gentlemen, and welcome to Banco Pan's conference call to discuss the 3Q19 results.

This event is also being broadcasted 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. Should any participant need assistance during this call, please press *0 to reach the operator.

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. Inácio Caminha, Investor Relations Superintendent, who will begin the presentation. Mr. Inácio Caminha, you may begin your conference.

Inácio Caminha:

Thank you. Good morning to everyone. Welcome to our earnings call for the 3Q19. We had another good quarter, with important results, so let us begin with the highlights on slide three.

On September, we concluded our follow on of R\$1.04 billion, half of it primary and half secondary sold by Caixapar. The primary stake will strengthen our capital structure to foster credit growth.

We posted a net income of R\$134 million in this quarter, representing 14% increase over the last quarter and a 174% increase in 12 months. This generated a ROE of 11.9%, and an adjusted ROE, improving significantly in 12 months. This is the best way to evaluate the Bank's performance.

We originated monthly an average of R\$1.8 billion in new credits in this quarter, 10% higher than last quarter and 24% higher than 3Q18.

Our credit portfolio ended the quarter at R\$23.6 billion, growing 20% in the annual comparison. And if you look at the core portfolio, which includes payroll, vehicles and credit card, it increased 25% in 12 months.

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Our NIM remained strong at 18.5%. And regarding funding, we ended the quarter at R\$23.3 billion, increasing time deposits by 44% in 12 months, representing 52% of the total funding. We ended the quarter at R\$4.8 billion equity, with 15.7% Basel Ratio, considering the capital increase.

Regarding the quarterly results, on slide four we have some highlights. In the first chart, in the upper left side, we show the evolution of our NIM, which stood at 18.5%, as a result of the strong spread on credit portfolio and gains on credit assignments.

The provisions on retail portfolio remained stable, and those related to the run-off portfolio reduced. So we got to a net allowance over the portfolio of 4.3%

Regarding expenses, we had a reduction in origination expenses, given the anticipation we did last quarter, and there was an increase in personnel and administrative expenses, which totaled R\$365 million.

There were some one-offs here, for example, the follow on expenses of R\$17 million and after data processing, in addition to the increase in the number of employees, salary readjustments and deferred expenditure related to the digital transformation.

Income before tax reached R\$188 million in this quarter, and the net income totaled R\$135 million, with a significant increase, showing the assertiveness of our strategy.

If you look at the slide five, we have the 9M accumulated results. The NIM stood at R\$2.9 billion improving over the 9M18, and net provisions over portfolio reduced from 4.8% to 4.5%.

Expenses increased because of the one-offs in this quarter that I mentioned, but also following the origination growth, in hiring and other investments in technology. Nevertheless, results before tax totaled R\$480 million, reaching R\$348 million net income in 9M19, increasing 136% over the same period of 2018. . .

Regarding the ROE, on slide six, we present the accounting base and also the adjusted, both annualized. The accounting stood at 11.9% in the quarter, improving over the comparable 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 R\$193 million in the quarter. And also, if we adjust the equity by excluding the excess of deferred tax assets, we get to R\$3.3 billion. Thus, the adjusted ROE comes to 23.7% per year this quarter. These are simple adjustments of two remaining legacies that properly show the Bank's performance in the margin.

On the next page, we have the details of our retail origination. We have granted R\$1.8 billion in this quarter per month, totaling R\$5.4 billion in new credits, increasing 10% over last quarter and 25% over the 3Q18.

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In payroll loans, we reached an average origination of R\$1 billion per month in the quarter, growing 7% in the quarter and 25% in 12 months. Vehicle financing got to R\$470 million per month in the quarter, increasing 13% in three months and 29% in 12 months.

The transactions with our credit cards also increased, they got R\$311 million per month, showing an increase of 14% in three months and 17% in 12 months.

We have received this quarter an average 550,000 credit requests per month, and we granted credit to an average of 123,000 new clients per month this quarter. So we ended the quarter with 4.7 million clients under management.

On page eight, we show the composition of our credit portfolio. In the first table, we notice that payroll deductible loan remains as the largest portfolio with almost R\$13 billion, increasing 25% in 12 months. Then we have vehicle financing portfolio at R\$8.2 billion, advancing 26% year-over-year, and next comes the declining corporate portfolio with R\$811 million, and also the real estate portfolio with R\$580 million.

The credit card portfolio ended the quarter at R\$953 million, increasing 15% in 12 months, and so we get to the R\$23.6 billion total retained portfolio, which advanced 5% in three months and 20% in 12 months. The originated portfolio, which adds up the portfolio assigned to controlling shareholders, ended the quarter at R\$32.2 billion.

On page nine, we present our strategy regarding credit and collection. Since 2017 we have implemented machine learning models to improve credit decisions, analyzing more than 1,000 variables of structured and non-structured data, bringing agility and efficiency on granting credit. Besides that, our clients benefit from a more assertive credit proposal, according to their credit profile and personal needs.

We have also been working to improve the assertiveness of our credit collection through digital platforms. This quarter, we recovered R\$161 million through digital platforms, representing more than 25% of total collection, and this brings more dynamism and customization to negotiations, as well as saving costs.

Looking at the 90 days NPL, we have it under control, and our main target is the strong profitability that we have in the overall portfolio.

On page ten, we have some details on payroll. Our strategy is to keep being a relevant player focused on federal loans, figuring among the top originators in the INSS loans market.

This quarter, we originated an average of R\$1 billion per month, totaling R\$3 billion in new credit. Out of those, 93% related to loans and 7% related to credit cards.

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When we look at the origination breakdown, we continued to have an important concentration in federal risk, 91% represented by federal loans, out of which 62% relates to INSS. The portfolio ended the quarter at R\$12.9 billion, representing 55% of the total portfolio.

And we continue advancing in the implementation of our digital formalization platform. This is a revolutionary tool that we have been using to originate credit digitally. We have reached R\$1.2 billion in credit formalized digitally. These loans are signed with facial recognition, making the operation more scalable, safe and profitable, and represented 25% of the quarter origination.

On slide 11, we have details on vehicle financing. The focus is to finance used cars, mainly between four and eight years of use, through multi-brand and single-brand dealerships, and also new motorcycles.

In motorcycle financing, we are the market leader, excluding a captive finance company, and we benefit a lot from our credit knowledge and long-term experience, resulting in an excellent performance among low-income young adults.

As I have mentioned before, we had a monthly average origination of R\$470 million this 3Q19. The portfolio continues to increase, ending at R\$8.2 billion, with an adequate level of loan to value, and also relating to the terms of these loans.

In line with the digital transformation, we have an exclusive app with a simulator that allows credit pre-analysis with few pieces of information, providing a lot of agility and a better experience for our commercial partners and to the final customers. An example is that our sales team productivity increased 42% in 12 months.

And also, in October we launched the digital formalization platform for vehicle financing, as we already have for payroll loans, adding more benefits and efficiency to this business.

On page 12, we show the evolution of credit cards. We have been improving new credit card sales boosted by cards without fees. This quarter, we have issued 172,000 credit cards, increasing 210% in 12 months. This important movement was leveraged by sales actions, performance marketing, improvements in cross-sell, analytics and CRM, driving clients to request the credit card directly through our website.

We are also scaling the business through digital partners, marketplaces, and this quarter we added a partnership with Mooba, an important cashback platform with more than 2 million clients.

We continue investing in improvements of our credit card app, expanding self-service, financial control features and expenses monitoring. Since the launch of this app in the 3Q18, we had more than 1million downloads.

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The credit card portfolio ended the quarter with a balance of R\$953 million, with a total of R\$934 million in transactions, growing 14% in three months and 17% in 12 months.

On page 13, we show the evolution of insurance. We originated a monthly average of R\$25 million in premiums in the last quarter, following the vehicle origination chain.

As for funding, on slide 14, we increased to R\$23.3 billion this quarter, and funding through time deposits reached R\$12 billion in September, increasing 44% in the last 12 months, and contributing to the diversification of our funding through direct clients and also through distribution platform. And funding with shareholders represented only 29% of the total funding.

On slide 15, we have the information about capital. Our Basel ratio stood at 15.7%, entirely of CET1, already considering the capital increase of R\$522 million, depending on Central Bank approval.

On the last slide, we have some details on the Full Digital Bank that is already available to our employees and a number of clients, and soon will be available to the market in general.

This will complete our client approach strategy, which is already well established in the B2B front and gains now a new front in B2C. This will place us at another level of B2C relationship, that currently exists basically in the credit card business and on a portion of payroll business.

With the launch of this digital account, our clients will have a complete and integrated banking products and services platform, and we are also building a partnership ecosystem to provide nonbanking services to engage even more our clients, improving cross sell, lifetime value at low acquisition and servicing cost.

Besides the current 550,000 monthly client flow and the 15 million client base, we have proven credit expertise by granting more than R\$158 billion in consumer credit since 2011.

We believe that credit is the best attraction and engagement tool, and we have a lot to offer to our clients

With that, we conclude this quarter presentation, and make room for questions.

Operator:

Since there seems to be no further questions, I would like to turn the floor over to Mr. Inácio Caminha for his final remarks.

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Inácio Caminha:

Thank you all for the presence. Have a nice 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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