Y 2016 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 Fourth Quarter of 2016 Results. This event is also being broadcasted simultaneously on the internet, both audio and slide show, which can be accessed on the company's IR website, www.bancopan.com.br/ir and Engage-X 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, everyone. I would like to thank you all for joining our conference call of Banco Pan and its subsidiaries for the results of last quarter of 2016.

Beginning with the highlights on page three, we will see that Pan maintained a strong retail credit origination averaging R$1.8 billion pretty much in line with last quarter. The annual average grew 9% over 2015. Our credit portfolio reached R$19.2 billion, even assigning 2.9 billion in the quarter growing thus 3%. The retail credits rated between AA and C improved reaching 92.4% of this portfolio.

Corporate loans ended the quarter at 3.2 billion, interrupting the falls of previous quarters. Our managerial net interest margin was 16.6% in the quarter above the last two quarters.

In this quarter, Pan posted a net income of R$197,000 improving over the previous one, impacted mainly by the higher volume of credit assignments. We'll see further, that the effect of commissions impacted the accumulated result of the year. Our equity stood at 3.4 billion and our Basel ratio at 13.3%.

On the next slide, we have the NIM breakdown. It increased 17% in the quarter to 882 million, improving because of the greater volume of credit assignments, resulting in a NIM of 16.6%. In the year, we also saw a growing NIM equivalent to 13.2% over the 12.4% in 2015.

On the next slide, we have the net results breakdown. Analyzing the fourth quarter, we started -- we start with the interest margin, and then we go through provisions which totaled R$306 million increasing mainly to -- due to Construction and Development loans, which is phase out portfolio. In the year, we observed the same behavior.

The gross results of financial intermediation presented a significant improvement, growing 14% in the quarter and 9% in the year. The reductions in operating revenues are associated with provisions for contingencies to strengthen our balance sheet. In administrative and expenses, we see a nominal maintenance both in the quarter and in the year, which represents a reduction in real terms. And the bank strong origination performance, mainly on payroll has a short-term impact on origination expenses, which explained a large part of the results of this year.

In the operating result, we had an improvement in the quarter, which led to a net income of R$197,000. In the year, we accumulated a net loss of 237 million because of the commission's effect and also because of the reinforcement for contingencies, but in the quarters, we see a positive trend.

On the next page, we have the quarterly evolution of retail origination. The concession was stable at 5.5 billion in this quarter, representing a monthly average of R$1.8 billion. And when we compare to the fourth Q 2015, there is a strong increase of 27%. Payroll remained at a strong level with significant participation of social security beneficiaries, totaling 811 million per month. Vehicles performed better and reach 595 million per month in this quarter. In credit cards, we see that institutional grew 11% and the payroll card reduced as expected, because there were no new agreements and the origination stabilized at a lower level. To get to the total, we have the other products Real Estate and Personal Credit in smaller volumes.

On page seven, we present the credit portfolio breakdown. In the first table, we see that payroll loans continue to grow nominally, accounting for 41% of the retained portfolio with R$7.8 billion. Then we have vehicle portfolio, which increased to 5.2 billion, and third, we see corporate loans at 3.2 billion. Payroll credit card reached 1.1 billion, up 9% in the quarter, and the other products account for 10% of the portfolio. The retained loan portfolio rose 2.6% in the quarter, closing at 19.2 billion.

As we can see in the lower left chart, even assigning those 2.9 billion without recourse. Next to it, we present the evolution of the originated portfolio that reached 38.3 billion, which considered in addition to that retained portfolio, the entire portfolio that we have originated and assigned without recourse since 2011. The portfolio as a whole grew 14% in 12 months, showing the strong origination capacity of Pan.

Moving on to slide eight, we have the quality of the retained portfolio. Our 90 days NPLs stood at 7.2% in the phase out movement of the Construction and Development portfolio impacts this indicator. Without it, it will be 6.8%. In the lower left chart, we observe the evolution of the net expenses provisions, which grew because of those Construction and Development loans, and also because of corporate loans, but those have a good diversification and good guarantees, giving us the comfort to go through the process of delayed provisioning and recovery.

Looking to the chart next to it, we see the evolution of AA to C ratings of the retail portfolio that reflect our credit policies with front [ph] screening, payment capacity, analysis and et cetera.

On page nine, we present the bank's cost and expenses, segregating the expenses related to credit origination. Personnel and administrative totaled 292 million in the quarter and 1.15 billion in the year, nominally stable but with improvements in real terms if we consider the inflation in the period.

In the left lower chart, we show the personnel adjustment we made. And one way of demonstrating the efficiency gains we have achieved is in the lower left -- lower right chart, which shows how personnel and administrative expenses have been in relation to the originated portfolio which is moving at a faster pace. On the origination expenses, we see the combined effect of not only accounting rule in the higher volume of new payroll loans, which was slightly lower in the quarter, but had a significant growth in the year.

Moving on to slide number 10, we present the evolution of payroll loans. We granted 2.4 billion of new loans in the quarter and even assigning a portion of this origination, the portfolio reached R$7.8 billion. Looking at their production, the social security beneficiaries represented 56%, and we have 77% if we add federal government and also armed forces. And the remaining share has a great degree of diversification.

On slide 11, we have information on vehicle loans. As we can see in the top figure, origination increased again in the quarter. The portfolio also grew due to the mix of credit assignments.

The bottom left table shows some information on the origination broken down by segment, stating both -- stating both in terms of relevance in light and motorcycle segments as well as on the percentage of down payments. It's important to highlight here that profitability is the main focus of our operations, and not market share individually.

The bottom right table shows the high diversification degree of our origination with low concentration by groups, where the 10 largest groups account for only 9% of our origination.

On page 12, we see the corporate loans portfolio. The total at 3.2 billion and without the Construction and Development loans at 2.6 billion. In the pie chart, we can see the high diversification of the portfolio by industry with 27% representing more than 30 segments.

On page 13, we give more details of this portfolio to show this diversification and also the short duration. 78% of it -- on 78% of it, we have economic groups with a balance below R$20 million and 60% of it mature in the coming 12 months.

On page 14, we show the evolution of credit card, segregating between institutional and the payroll card. Volume wise, we see a seasonality in the institutional card increasing in the quarter. And in the payroll, we made a good volume as there were no new agreements. In the year, there was a 14% increase on -- in overall volumes driven by the payroll card and we see this effect in the credit portfolio on the right chart.

On slide 15, we have the insurance premiums originated by Pan, which expanded this quarter, reaching R$54 million. This movement is related to the increase in vehicle origination. We generate 70% of premiums through credit insurance, as we can see in the right chart.

The funding shown on page 16, closed the quarter at R$19.8 billion, very little compared to last quarter.

And on the last slide, we show our capital. Our Basel ratio stood at 13.3% with 9.5% Q1 with a greater impact of the increase in the credit portfolio.

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

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Since there seems to be no questions, I would like to turn the floor over to Mr. Inacio Caminha for his final remarks.

A - Inacio Caminha {BIO 19326001 <GO>}

Thank you again for your presence. Have a good day, and see you next quarter.

Operator

Ladies and gentlemen, this concludes Banco Pan's conference call. You may now disconnect and have a good day. Thank you.