

Q3 2017 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 Third Quarter of 2017 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, ri.bancopan.com.br, 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, everyone. Welcome to the conference call for the results of Banco PAN in the 3Q17. Starting with the highlights on page 3, we will see that PAN reported a net income of BRL111 million, taking the nine months results to a net income of 158 million. The total loan portfolio ended the quarter at BRL18.8 billion stable in the 12 months, with the retail portfolio increasing and corporate loans reducing, in line with the Bank's strategy. In the retail origination, already considering the strategic repositioning, we originated a monthly average of BRL1.3 billion, led by payroll loan, which amounted to an average of BRL642 million per month. Our annual net interest margin was 16.8% in the quarter, in line with the last quarter and above the 14% of 3Q16. We ended the quarter with a consolidated shareholder's equity of 3.5 billion, and the Basel Ratio advanced to 12.2%. At subsequent events, last week we announced the sale of our interest in Stone for BRL229 million capturing a good opportunity. And yesterday we announced a capital increase of BRL400 million, which will reinforce our capital and demonstrate the commitment and support coming from our controlling shareholders. And in addition, the Board of Directors has nominated Mr. Luiz Francisco Monteiro as new CEO for Banco PAN.

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In the next slide we have the composition of the interest margin. The net interest margin was BRL867 million in the quarter, generally -- generating an annualized NIM of 16.8%, maintaining a strong level even with lower volumes of credit assignments in the quarter. This sleek [ph] decline combined with a higher level of active interest rates have contributed to these results.

In the next slide represents the income statement. We see that the loan provisions have increased a little bit reflecting specific situations remaining under control, which led us to a gross income of BRL590 million, an increase of 17% in 12 months. On operating expenses, we did some provisions to strengthen our balance. On administrative and personnel expenses, we noticed the effects of a tough cost control and we'll see more further on, and we also reduced the origination expenses. Our income from operations totaled BRL21 million, and we had a profit of BRL111 million in the quarter, and considering the year's results, we had reached a net income of BRL158 million.

On page six, we have the retail origination detail. Here we can see the reflects of the strategic repositioning adopted by PAN in the recent quarters and we granted BRL3.8 billion in retail credits in this quarter, representing a monthly average of BRL1.3 billion. Payroll loans had an average origination of BRL642 million per month with a significant participation of INSS. In Vehicles we generated BRL275 million per month, and in credit cards we had a total of 328 million, being 269 million in institutional cards and 59 million in the payroll credit cards.

On page seven, we showed the composition of the credit portfolio. In the first table we see that payroll loans remains as the largest portfolio with BRL7.7 billion, then we see the vehicle portfolio with 5.8 billion, and next come the decline in corporate portfolio with 2.4 billion. Payroll Credit Cards remained stable at 1.2 billion, but increasing in the last 12 months, and the other products account for 9% of the portfolio. In the lower left chart, we see that the retained credit portfolio has remained stable during the year with an increase of the retail portfolio. And in the quarter the contraction is mainly related to the decrease of the corporate loans. The originated portfolio, which as of the portfolio assigned to cash ended the quarter at BRL36.7 billion.

On slide eight, we showed the quality of the retained portfolio. In the first chart, we noticed that our 90 days NPL ratio remained relatively stable in the last quarters, reflecting our conservative price policy. In the lower left chart we see the evolution of net provision expenses, which, besides this slight increase in the quarter, remained under control. Regarding the credit collection, we keep reaching good results with some low-cost initiatives. Looking the lower right chart, we see the evolution of the double AA to C ratings of the retail portfolio, totaling 93%, highly concentrated between AA and A.

On page nine, we present the breakdown of the Bank's cost and expenses, segregating the expenses related to the origination. Personnel and administrative totaled 275 million the quarter, reducing 7% on the year, but the significant influence of the 20% contraction in personnel expenses in the past 12 months, reflecting our strong efficiency control. The bottom left chart reflects this evolution, showing the decrease in the number of employees over the last quarters, as well as the bottom right chart which shows the evolution of the personnel and administrative expenses in relation to the originated

portfolio. The reduction in the origination expenses in the quarterly comparison is mainly related to the lower percentage of commissions and also the lower volume originated in this quarter.

In the next slide we show the evolution of the payroll business, in both loan and credit card. In the quarter we originated a total of BRL2.1 billion. And as we have signed part of the origination, the portfolio closed at 7.7 billion regarding the loans. And if we add the credit cards, the portfolio reaches BRL9 billion, which is 47% of Banco PAN's total credit portfolio. Analyzing the origination breakdown, the INSS represented 62%, and when we include the federal government and the army forces, the total federal risk responds to 91% of this production. In the rest we have a great diversification.

On slide 11, we have information about the Vehicle segment. In the graph above, which is the origination and also the portfolio. The origination is in line with our strategic goals focusing on multi-brand car dealers and motorcycles with a total of 825 million in the quarter. The table below show some information about the origination in these segments. For example, the high down payment ratio that we have, and the Bank's repositioning have increased significantly the vehicle financing spreads.

On page 12, we see the corporate loans portfolio, which is running out. We closed the quarter at 2.4 billion, maintaining an appropriate risk diversification with type of realization of the portfolio among different economic industries and also economic groups, and we also have a considerable level of guarantees. The 10 largest clients jointly accounted for only 3% of our total credit portfolio in the Bank.

On page 13, we show the evolution of the credit cards and insurance. In the credit cards, the portfolio ended the quarter at BRL928 million, Including 300 million with interest. And in insurance to be originated BRL47 million in premiums, the same volume and mix of last quarter.

Funding, it's shown on slide 14, we closed the quarter at 19.2 billion, showing an increase of marketing investors on time deposits, now a digital platform is growing [ph].

And in the last slide we have the information about capital. Our Basel Ratio rose 0.6 percentage points to 12.2% with 9% Tier I capital, considering the BRL400 million capital Increase announced yesterday. September's capital would go to 14.4%, bringing comfort to the implementation of Basel III and demonstrating also the commitment and support from our controlling shareholders.

With that, 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 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>}

Okay, thank you all. Thank you for the presents, 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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