Y 2013 Earnings Call

Company Participants

- Willy Otto Jordan Neto, Investor Relations Officer

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Banco Pan's Conference Call to discuss the fourth quarter and year of 2013 results. This event is also being broadcast simultaneously on the Internet, both audio and slide show, which can be accessed on the company's IR website www.bancopan.com.br/ir, 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. Willy Jordan, IR Officer, who begin the presentation. Mr. Willy, you may begin your conference.

Willy Otto Jordan Neto {BIO 15002562 <GO>}

Good morning. I would like to thank you all for participating in this conference call of Banco Pan and its subsidiaries in 2013. Starting with the highlights on page three, we can see that Pan has achieved significant progress in the indicators that are most important to its recovery. The origination of credit assets reached a monthly average of R$1,172.5 million in 2013, a figure 61.1% higher than the R$727.9 million in 2012 [ph].

In the fourth quarter of 2013, the average monthly origination already stood up to R$1.3 billion. This demonstrates the maturity of our strategy of expansion and business diversification, consolidating the bank at a new product level, production level. We believe our total expanded credit portfolio totaled R$15.7 billion at the end of the year, 5.1% higher than in the end of September and 14% higher than in December 2012.

More importantly, as we have always spoken is to look at the growth of the credit portfolio with retained results, which excludes from the total portfolio, the credit assigned with reports in the past and thus provides a measure of the company's revenue earning portfolio. This portfolio has maintained a higher growth than the total credit portfolio growth, as portfolios assigned with recourse in the past mature and reached R$15.2 billion at the end of the fourth quarter, 6.3% higher than the previous quarter and 20.5% more than in the same quarter of 2012. It is precisely the average interest earning assets growth that drives the expansion of the credit operations income and therefore provides us with a more robust recurring revenue base.

On the other hand, our net allowance for loan losses expenses was R$792.8 million in 2013, 40.3 below the net expense of 1,329 million in 2012, even with the significant credit portfolio growth. This result demonstrates that our business expansion has been achieved without compromising the credit quality at any time that is, we have never loosened the parameters of credits approval to obtain production growth. With this, we are achieving on the new vintages the improved credit quality that we had planned, which should continue to reflect in improved indicators of expenditure and balance of AOL over the credit portfolio.

Net interest margin was 11.6% in the fourth quarter, 1.3 percentage points below the previous quarter and 5.4 percentage points below the fourth quarter of '12. It is worth to remember that our net interest margin was negatively impacted throughout 2013 by the rise in the market interest rates. Looking for the most relevant terms for our operations, we see that the three-year pre-fixed interest rates in the BMF, which is close to the average maturity of our loans came from 8.14% per year in early January 2013 to 12.26% per year in the end of December, so it has increased by more than 400 basis points.

As the transfer of this rise on market costs to the lower rate is not immediate. The financial margin remains temporarily under pressure when the movement of this magnitude occurs, to partially compensate these effects, we have maintained strict discipline in relation to our administrative expenses, which registered in the fourth quarter of '13, on a recurring basis a 0.7% increase over the previous quarter and a 0.2% decrease compared to the same quarter of 2012. Thus our expenses continued its trend of significant reduction both in real terms as well as, as a percentage of our revenues.

The company's fourth quarter results were significantly impacted by two extraordinary events, both very positive for the bank, but one with a positive effect on the accounting results for the quarter and the other with a negative effect. Starting then with the event that had a positive effect on the results, in December -- on December 9, 2013, the company entered into an agreement with investors with regards to 13 CDBs issued by the bank that were challenged in court with the value adjusted to the date of the agreement by the CDBs issuance rate of R$500.4 million to settle the litigation regarding the CDBs.

As a result of this agreement, Pan who was conservatively accounting these CDBs on its liabilities by the contracted rates recognized an immediate accounting gain of R$83.5 million, and in addition will no longer have R$285.7 million of future interest expenses related to the CDBs until their respective maturities.

The other extraordinary event was the addition to the Tax Recovery Program, the REFIS referring to the PIS and COFINS contributions between 2006 and 2012. Thus on November 28, 2013, Pan paid R$536.2 million cash, benefiting from the 100% reduction in interest, interest on fines and fines levied on the amount of these contributions, which corresponded to a total economy of R$288.9 million for the bank and bringing the litigation over the matter to an end.

The addition to REFIS generated a positive accounting results of R$29.2 million from the difference between the amount that was provisioned for that liability and what was effectively paid. But it has also generated a negative impact of R$175.2 million on the fourth quarter '13 results, due to the non-activation of the tax loss resulting from the addition.

The payment is a tax deductible expense and as we didn't have a positive result this year, we would have to account for it as a tax credit from accumulated losses. Since we already have among our assets a large amount of tax credits from accumulated losses, we have decided not to activate this new amount now, but it's worth remembering that this tax loss can be activated in the future, depending on the utilization of the tax losses already activated.

Under the impact of these extraordinary events, Pan presented in the fourth quarter of 2013, a consolidated balance sheet, a R$182.9 million net loss compared to a R$20.5 million net loss in the previous quarter and to the negative result of R$38.4 million in the same quarter of 2012.

However, when we adjust the results for the fourth quarter of '13 to exclude the effect of the non-recurring events, we find that the negative result was much lower at R$31.9 million. In 2013, the bank has an accumulated consolidated negative result of R$151.7 million compared to the accumulated consolidated negative result of R$496 million in 2012 [ph]. Yet, the accumulated consolidated adjusted result in 2013, excluding the effect of non-recurring events of the fourth quarter was virtually no recording losses of around R$700,000. Pan's consolidated shareholder's equity closed December 2013 at R$2304.9 million and the financial group basel rate stood at 13.4%.

Turning to page four of our presentation, we have the main items of the income statement. In the comparison between 2013 and 2012, there was a significant increase in the revenues from financial intermediation mainly because of the growth in lending operations, which in turn is due to the growth of our average assets and the higher volume of portfolio assignments without recourse in 2013. This combined with the drop of the expenses on financial intermediation resulted in a gross profit of R$1,360 million, 276.4% higher than in 2012.

On the next page, we have the chart with the quarterly asset originations and the table with the monthly average originations by segment. In the fourth quarter of '13 the origination of loans averaged R$1.3 billion, an increase of 15.3% compared to the 1.1 billion origination in the third quarter of '13 and 31.1% higher than R$994.2 million from the fourth quarter of 2012. The highlights of this quarter were the corporate credits, vehicles and real estate productions, which recorded growth of 47.2%, 15.4% and 12.3% quarter-on-quarter respectively. In annual terms, the Payroll Loans segment was the main highlight with 127.2% production growth over 2012 remembering that the real estate credits, which show the highest growth in the table were incorporated only on July 2012. So the number for 2012 here in the table is respective only to the second half of year.

On page six, we have the composition of the loan portfolio. In the first table, we see that vehicle financing remains the main market segment for Pan, representing 54.5% of the loan [ph] balance portfolio including leasing operations. In the second place, we have the corporate portfolio with a 21.4% share followed by the payroll loan portfolio, which closed the fourth quarter of '13 with 11.4% share of the total portfolio.

The total loan portfolio reached R$15.7 billion at the end of the fourth quarter and more importantly in the bottom right graph, the loan portfolio we've retained results grew by 6.3% in the comparison to the previous quarter and 20.5% over the same quarter of 2012, reaching a balance of approximately R$15.2 billion as already said.

As shown in the figure, on the bottom left, the quality of the loan portfolio continues to benefit from the more conservative position in the origination of new loans, which have been adopted since the end of 2011. The position includes in addition to more stringent approval criteria also the growth of the portfolios of new cars, payroll and corporate loans reinforcing thence a growth strategy in lower risk segments.

On page seven, we show an analysis of the costs and expenses of the bank. There was a 2.7% increase in the costs and expenses compared to the third quarter. However, excluding the non-recurring effects of legal fees in the fourth quarter of '13 related to the addition to REFIS and litigation settlement on the CDBs. We got total adjusted expenses of R$408.6 million in the fourth quarter were as only 0.7% higher than the costs of the previous quarter remembering that we had the salary adjustments for bank employees in this last quarter.

Regarding the annual comparison considering the mentioned adjustments for extraordinary expenses in the fourth quarter of '13 and also making the reversal of the extraordinary revision of criteria for calculating the PIS and COFINS contributions related to 2011 and 2012 hailed on the last quarter of 2012. We had a fall of 0.2% in our nominal expenses, which decreased from R$409.4 million in the fourth quarter of 2012 to 408.5 million in the fourth quarter of 2013. Logically the reduction achieved in real terms was much more expressive of around 6% over the year.

On the figure below, we see that the allowance for the loan losses was of R$245.7 million in the fourth quarter of '13, 8.9% higher than the R$225.7 million in the previous quarter and 27.6% lower than the 339.5 million in the fourth quarter of '12. It is noteworthy however that ALL expenses were favored in the third quarter by the reversal of provisions totaling R$24 million due to the renegotiation of a loan in the Corporate segment. Excluding this extraordinary effect ALL expenses fell 1.6% in the fourth quarter of '13 from the previous quarter.

The credit recovery reached R$49 million in the fourth quarter, that was 31.9% lower than the 72 million from the previous quarter and 12.4% higher than the 43.6 million in the fourth quarter of 2012. In the third quarter of '13 the recovery of loans had also been favored by an extraordinary event, a recovery of R$13.9 million related to another transaction in the Corporate segment. Thus the net expense of ALL was of 196.7 million in the fourth quarter of '13, 27.9 % up to the 153.7 million in the third quarter and 33.5% lower than the 153.7 million in the fourth quarter of 2012. In 2013, as we have said the net costs of ALL showed a significant decrease of 40.3% compared to 2012.

On page eight, we have more information regarding the portfolio origination in the Vehicle Financing segment. As we can see in the chart at the bottom left of the page, we have maintained the conservative criteria in the approval of new loans, which was reflected in the increase of down payment percentage, which reached 38% of those in this quarter and the maintenance of loan average term in 45 months. As shown in the lower right box, we kept a high degree of polarization in the Vehicle Financing segment, which presented a low concentration by economic growth, where the 10 largest groups account for only 11.97% of our total origination.

On page nine, we show the evolution of the delinquency per vintage of vehicle financing. With the left graph, showing the evolution for the motorcycle, the originations and the right one showing the evolution of cars financing. The figures could clearly show the effects of the review of Pan's loan approval systems and process models achieving a substantial improvement in the quality of the originated portfolios since the second half of 2011.

On page 10, we can see the evolution of the payroll deductible loans portfolio. In the fourth quarter of '13, Pan disbursed R$953.5 million in new payroll deductible loans, a value that was 1.8% higher than in the third quarter and 104% higher than the R$467.3 million originated in the fourth quarter of 2012.

As we have said, the Payroll Loans segment was the one which achieved the highest growth in 2013, reaching a production that was 127.2% higher than in 2012. With this result, the balance of the payroll credit card portfolio, sorry -- the balance of the payroll credit portfolio reached 1.9 billion in the fourth quarter of '13 registering an increase of 13.6% compared to the balance of R$1.6 billion in the previous quarter.

On page 11, we can see the corporate loans. In the fourth quarter, the origination reached R$863.8 million that was 47.2% higher than the R$587 million of the third quarter and 13.5% above the R$761.4 million in the fourth quarter of 2012. The amounts mentioned here includes the origination of loans to construction and development firms previously reported in the real estate section. Thus the expanded credit portfolio for corporate loans including guarantees issued and corporate securities reached a balance of R$3.2 billion in the end of December, 9.1% higher than the 3 billion recorded in September '13 and 34% higher than the balance of R$2.4 billion in December 2012.

Going to page 12, we noticed that Pan granted R$310.4 million in mortgage loans in the fourth quarter that was 12.3% higher than the previous quarter, R$298.1 million in loans to individuals of which 155.6 million in refinancing operations like home equity operations and 137.9 million for real estate acquisition and we also had R$12.3 million on credits purchased by Brazilian Securities for securitization. The real estate loan portfolio reached R$648.3

million in the end of December, this result is 15.3% higher than the 562.3 million accumulated in the previous quarter and 32.4% higher than the balance of R$489.5 million in the fourth quarter of 2012.

On page 13, we show for the first time the evolution of the insurance portfolio. In the (inaudible) chart, we show the revenues from insurance premiums accumulated in the last 12 months. That in the fourth quarter of 2013, totaled R$163.9 million up 3.7% compared to the third quarter and with a significant growth of 32.8% compared to the 123 million recorded in 2012.

Pan Seguros recorded a consolidated net income of R$22.5 million in the fourth quarter, including the non-recurring net effect of R$7.8 million from the company's adhesion to the Government's Tax Recovery Program, the REFIS. Consequently, net income in the fourth quarter of '13 was 87.2% above the 12 million obtained in the third quarter of '13 and 56.9% higher than the R$9.7 million earned in the fourth quarter of 2012. In 2013, the consolidated net income of Pan Seguros was off R$54.3 million, debt was 45.9% above the R$37.2 million in 2012. The company's shareholders' equity reached R$181.3 million on December 31, 2013; 7.8% above the R$168.2 million reported in the fourth quarter of 2012.

As for funding on page 14, we continue to record the exchange of more expensive liabilities inherited from the past by lines with more competitive market costs reflecting the improvements in Pan's credit risk perception. Thus funding from DPGE decreased the little more ending the fourth quarter at R$421 million, 20% below the 526 million from the fourth quarter of the previous year.

Likewise, the balance of funding through credit assignments with recourse has been gradually reduced as the portfolio has assigned in the past matured, since Pan did not held more assignments of this type under the current administration. Thus the balance of R$498.7 million in portfolios assigned with recourse in the end of the fourth quarter represented a decrease of 56.9% compared to the balance of R$1,157.8 million in the end of the fourth quarter of '12. The total balance of funding at the end of this quarter was approximately R$17.6 billion, an increase of 21.4% compared to the R$14.5 billion in the fourth quarter of 2012.

On page 15, we have the opening of the calculation of the basal ratio, which was 13.4% for the financial conglomerate compared to 15.2% in September and 14.1% in December '12. The operating margin for the financial conglomerate through that R$267.6 million.

Finally, on page 16, we have a chart that demonstrates our stock performance over the last 12 months. The total financial volume traded in the fourth quarter 2013 was of R$154.1 million with a daily average of R$2.4 million, which was 1.8% lower than the daily average of the previous quarter. In 2013, the total financial volume created was of R$755 million with a daily average of R$3 million, 12% higher than the daily average of 2012.

On December 31, 2013 the market value of Pan was R$2.5 billion. The stock started the fourth quarter of 2013 traded at R$5.20 per share and ended the quarter at 4.59 per share with a devaluation of 11.7% in the period, while the IBOV, Bovespa Index fell more by 15.5% in the year.

Now I'll turn the floor back for the questions and answer section. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) As I'm showing no further questions, I'd like to turn the floor back over to Mr. Willy Jordan for his final remarks.

A - Willy Otto Jordan Neto {BIO 15002562 <GO>}

Well, I would like to thank you once again for being present here in our 2013 results conference call, and we hope to see you again on our first quarter of 2014 results conference call. Thank you.

Operator

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