Q1 2014 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 First Quarter of 2014 Results. Today's 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 a 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 would like to turn the conference call over to Mr. Inacio Caminha, Investor Relations Superintendent, who will begin the presentation. Mr. Caminha, you may begin your conference.

Inacio Caminha {BIO 19326001 <GO>}

Good morning, everyone. I would like to thank you all for participating in this conference call of Banco Pan and its subsidiaries in 2014 first quarter.

Starting with the highlights on page three, we can see that Banco Pan had achieved significant progress in the indicators that are most important to its recovery. The origination of credit assets has maintained its growth trajectory in the long run. It reached a monthly average of BRL1.2 billion in the first quarter of 2014, 14.4% higher than the BRL1 billion in the first quarter of 2013.

And then to the quarter, it was 8.6% lower due to seasonality of the first quarter and the replacement of the real estate credit origination system. As have been done for the Banco product seeking progress profit improvement. This shows the maturity of our strategy and of expansion and business diversification, consolidating the bank at a new production level.

Therefore, our total expanded credit portfolio came to BRL16.2 billion at the end the first quarter this year, 3.4% higher than the end of December, and 15.8% higher than March 2013. More important as we have always said, if you look at the growth of the credit portfolio with retained results, which excludes from the total portfolio, the credit assigned with records in the past and thus provide a measure of the company's revenue earning portfolio. This portfolio has been growing stronger than total credit, as portfolios assigned with (Technical Difficulty), it has reached BRL15.8 billion at the end of the first quarter, 4.3% higher than the previous quarter and 21.6 more than the same quarter of 2013.

It is precisely the average interest earning assets growth that drive the expansion of the credit operations income, and therefore provides us with a more robust recurring revenue base.

Not only the credit portfolio has grown but the quality concessions remain as the target. It can be (Technical Difficulty) in the percentage of contracts with rating between AA and C which represented roughly 90% on the portfolio, 3 percentage points above the fourth quarter of 2013, and 5.9 percentage points higher than the first quarter of 2013.

In a similar line, our net allowance for loan losses expenses was BRL170 million in the first quarter, 13.2% below the net expense of 197 million in the fourth quarter of last year. And 36.1% lower than the BRL267 million in the same quarter of 2013. This results highlights then our business expansion has been achieved without compromising the credit quality at any time, which means that we have never relax the parameters of credit approval to obtain production growth. Therefore, we have been achieving for new vintages the improved with credit quality that we had planned.

This will continue reducing improving AOL expenditure and balance indicators. Then, net interest margin was 11.7% in the first quarter of 2014, 0.1 percentage points above the previous quarter and 7 percentage points below the first quarter of 2013. It's worth remembering that our net interest margin was negatively impacted in recent quarters, due to the rise in market interest rates.

Looking at the most relevant trends for our operation, we see that the three-year pre-fixed interest rate in BMF came from 8.14% per year in early January 2013 to 12.49% per year at the end of March 2014.

As the transfer of this rise on market cost to loan rates is not immediate. The financial margin remained temporarily under pressure when a movement of this magnitude occurs, even with a smaller margin on credit assignment spent results in the first quarter was significantly impacted by the lower volume of credit assignments without recourse, but this contributes positively to the credit portfolio retention.

Thus sum [ph] presented a consolidated BRL78.6 million net loss in the first quarter this year compared to 183 million net loss in the previous quarter and to a net gain of 39 million in 1Q quarter in 2013. Hence consolidated shareholders' equity closed March 2014 at BRL2.226 billion and the Basel ratio stood at 12.1%.

Turning to page four of our presentation. We have (inaudible) comparing the first quarter in 2014 and the fourth quarter in 2013, there has been a net interest margin increase associated with the growth of interest earning assets. The revenue from financial intermediation have decreased in the first quarter of this year compared to the last quarter of last year, and the first quarter of last year, due to the lower volume of credit assigned without recourse.

Even with increased volume of liability and higher basic interest rates, it is possible to notice a reduction in funding costs as well as a reduction in the allowance for loan losses expensive in the comparison with the last quarter of last year. Due to these changes gross profit from financial intermediation has reached BRL272 million, 4.9% higher than last quarter in 2013.

On the next page, we have the chart with the quarterly asset origination and a table with the monthly average origination by segment. In the first quarter of 2014, the origination of loans averaged BRL1.2 billion, 14.4% above the BRL1.1 billion originated in the first quarter of 2013 and 8.6% below the BRL1.3 billion in the fourth quarter of 2013.

This reduction is related to the first quarter seasonality and the change of real estate credit origination systems as mentioned before. The highlights of this quarter with the payroll deduction, which recorded growth of 9.2% in relation to the previous quarter and in profit 81.4% compared to the first quarter of 2013.

Moving on to page six, there we have the composition of the loan portfolio. On the first table, we noticed that the vehicle financing remains at the main segment for Pan, representing roughly 53% of the loan balance portfolio including leading operation. Then, in second-place we have the corporate portfolio with the 21.1 share followed by the favorable loan portfolio, which close first quarter of 2014 with a 13.8 share in the total portfolio.

The total loan portfolio reached BRL16.2 billion at the end of the first quarter of this year, 3.4% higher than the BRL15.7 billion in December '13 and almost 16% higher than the BRL14 billion in March 2013. More importantly, the loan portfolio, with retained results on the bottom right chart, grew by 4.3% in comparison to the previous quarter, and 21.6% over the same quarter of 2013, reaching a balance of approximately BRL16 billion.

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

Now moving on to page seven, we see that the allowance for loan losses was BRL236 million in the first quarter of this year. 3.9% lower and the BRL246 million in the previous quarter and 20% lower than the 308 million in the first quarter of 2013.

Price recovery reached BRL65 million in the first part of this year, 33% higher than the 49 million from the previous quarter. An impressive 61.4% higher and BRL40 million in the first quarter of last year.

Thus the net expenses of AOL was of 171 million in the first quarter this year, 13% lower and the 197 million in the previous quarter and 36% lower than the 267 million in the first quarter of last year.

Now moving onto page eight, we show an analysis of the cost and expenses of the bank. It was 5% decrease in costs and expenses compared to the last quarter of 2013. In comparison to the same quarter of 2013 we had a 6.6% increase in our nominal expense, which have increased from 370 million in the first quarter of 2013 to 394 million in the first quarter of 2014. But discount inflation and a 14.4 increase in credit origination during this period cost and expenses have fallen significantly in a real term.

On page nine, we have more information regarding the portfolio origination in the vehicle segment. We can see on the chart at the bottom left of the page, we have maintained the conservatives criteria and the approval of new loans. This has led to an increase of down payment percentage which reached 39% in the first quarter of this year and the reduction of loan average term to 44 months.

Vehicle origination has remained highly diversified and this can be clearly seen by the 13.4% origination share by the 10 largest group on the bottom right table.

On page 10, we show the evolution of the delinquency per vintage of vehicle financing. The left graph shows the evolution over the motorcycles delinquency and the right one shows the evolution for car delinquency. The figures clearly show the effect of the review of Pan's loan approval systems and process models achieving at substantial improvement in the quality of the originated portfolio, since the second half of 2011.

Moving on to the next page, we can see the evolution of the payroll deductible loans portfolio. In the first quarter this year, Pan disbursed BRL1 billion in a new payroll deductible loans which was 9.2% higher than the BRL960 million in the last quarter and 81.4% higher than the 580 million in the first quarter of last year.

With this result the balance of payroll credit portfolio reached 2.2 billion in this quarter, registering an increase of 26.4% [ph] compared to the balance of 1.7 billion in the last quarter. One thing important to mention is that we have observed an increase in volume from subsidiaries, which contributes to a reduction in the cost of origination.

Now moving on to the next slide, we have the corporate loans origination, it reached BRL771 million in the first quarter, a 11% lower than the BRL870 million last quarter and 2% below the BRL787 million in the first quarter of last year. This origination has been impacted by seasonality, and demand from client. Thus the expanded credit portfolio for corporate loans including guarantees issued and corporate securities reached the balance of 3.3 billion at the end of March 2% higher than the 3.3 billion recorded in December, and 25% higher than the 2.6 billion in March 2013.

Moving on to page 13, we noticed that Pan granted BRL204 million in mortgage loan in this quarter, 15.4% higher than the same quarter in 2013, that is BRL202 million in loans individual comprised of 112 million for refinancing operation, 87 million for real estate acquisition, and 3.4 million for other types of credit.

And also we purchased BRL1.2 million in credit to do securitize, compared to the previous quarter the origination in the first quarter was impacted by the seasonality and the changes made in some internal systems, as occurred during the improvement process of other lines of business. So origination was 34% lower than last quarter. The real estate loan portfolio stood at BRL602 million at the end of March, 7% down on the 650 million at the end of previous quarter, and 30% higher than the 464 million in the first quarter of 2013.

Now moving on to page 14, we show the evolution of the insurance portfolio. In the upper right chart, we see the revenues from insurance premiums accumulated in the last 12 months, they totaled BRL170 million in the first quarter this year, up 4% compared to the last quarter and with the significant growth of 30% compared to the 131 million recorded in the first quarter of last year.

Pan Seguros recorded a consolidated net income of BRL13 million in this quarter, with the decrease of 43% compared to the BRL22 million presented in the last quarter, which registered an extraordinary revenue. And an increase of 7.5% in comparison to the same quarter of 2013. In the chart below due to the dividend distribution of BRL55 million during the first quarter, Pan Seguros shareholders' equity stood at 137 million in March compared 181 million in the last quarter.

As for funding on page 15, we continue to record the exchange of more expensive liabilities inherited from the past by lines with more attractive costs reflecting the improvement in the Pan's credit risk perception. Thus funding from DPGE has decreased significantly and in the first quarter at BRL229 million, 56% below the 524 million from the first quarter of previous year.

Likewise, the balance of funding through credit assignments with recourse had been gradually reduced as the portfolio has assigned in the past matured, since Pan did not hold more assignment of this type under the current administration. Thus the balance of BRL307 million in portfolios assigned with recourse at the end of this year represented a decrease of 62% compared to the balance of 973 million at the end of the first quarter of 2013.

The total balance of funding at the end of this quarter was approximately BRL18 billion an increase of 22% compared to the BRL15 billion in the first quarter of 2013 with the highlights to the real estate and other business letters of credit, which represents a multi-investor and low-cost type of funding for the Bank.

On page 16, we show the Basel ratio. It stood at 12.1% compared to the 13.4 reached at the end of 2013 and 14.3 in March 2013. It is noteworthy that our operating agreement allows us to Pan's credits without recourse and operate safely within that lower levels of Basel ratio. The operating margin for the first quarter 2014 stood at BRL132 million.

And finally, on page 17 we have a chart that shows our stock performance over the past 12 months. The total financial volume traded in the first quarter was of BRL106 [ph] million with the daily average of roughly BRL2 million, 47% [ph] lower than the daily average of the previous quarter.

On March 31 this year, the market value of Pan was BRL2 billion. The stock started the first quarter, traded for BRL4.35 and ended the quarter at BRL3.75, with the drop-off almost 14% in the period, while the IBOV, Bovespa Index fell more by grew by 0.16% [ph] in the same period.

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

Operator

Okay.

Questions And Answers

Operator

Ladies and gentlemen, at this time, we'll begin the question-and-answer session. (Operator Instructions) Ladies and gentlemen, at this time, ensuring no questions, I'd like to turn the conference back over to Mr. Caminha for any closing remarks.

A - Inacio Caminha {BIO 19326001 <GO>}

Well, I would to thank you all again for participating in this conference call of Banco Pan and wish everyone a great day.

Operator

Ladies and gentlemen this concludes Banco Pan's conference call. You may now disconnect. Have a great day.