Q4 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 Fourth Quarter of 2014 Results. This event is also being broadcast simultaneously on the Internet, both audio and slideshow, which can be accessed on the company's IR website, www.bancopan.com.br/ir, with 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. I'd like to thank you all for participating in this conference call of Banco Pan and its subsidiaries for the 2014 results.

Starting with the highlights on page three, we see that Pan has maintained a positive trend in the indicators that are most important to its growth. The monthly credit origination average was R$1.9 billion on the fourth Q of '14, 43% higher than the previous quarter and 41% higher than the same quarter of 2013.

It is important to mention two factors here. The last quarter is seasonally strong and regulatory changes on the payroll loans impacted this specific quarter significantly. In a few slides we'll see the origination breakdown.

When looking to the entire year, the monthly average was R$1.4 billion, 17% bigger than the average of 2013. The credit portfolio with retained result ended this quarter at R$17.5 billion, even having assigned 2.5 billion, growing almost 7% over the previous quarter and

15.5% over the same quarter of 2013. And this is the portfolio that drives the Bank's expansion.

The quality in credit concession is the priority, this can be verified by the increase in the percentage of contracts with ratings between AA and C, which represented 91.4% increasing over the two comparable quarters. In a single line, our net ALL expenses totaled R$677 million in 2014, almost 15% lower than the one presented in 2013, even growing the portfolio by almost 16% year-over-year. This shows that we have been expanding our business in a conservative manner in terms of credit origination.

Regarding our net interest margin, it was 13.2% on the fourth Q, 5 percentage points higher than the previous quarter and 2.6% -- 2.6 percentage points higher than the fourth Q of 2013; influenced by different amounts and mixes of credit assignments without recourse made in each quarter.

This last quarter of 2014, Pan presented a consolidated profit of R$226.5 million, mainly because of the conclusion of the insurance company sale which contributed with 232 million net results.

Thus, we ended 2014 with a profit of R$7.8 million, compared with a net loss of almost R$152 million in 2013. This was very important to the Bank and we will keep originating good quality assets and increasing the portfolio that will increase interest revenues.

With this net income, our shareholders' equity stood at R$3.6 billion and our Basel ratio stood at 18.7%, with 13% Common Equity Tier 1.

Now moving to the next slide, we have the breakdown of net interest margin and the P&L statement. Looking at the line of revenue from financial intermediation, as a whole, we noticed an increase in 2014, mainly due to the larger credit portfolio with retained results.

The line of lending operations includes also the revenues from credit assignments that although were made in a greater volume in 2014, were also made in a different mix and less favorable interest rate scenario. If we exclude these credit assignment effects, lending revenues would have increased 20% in 2014 against a 16% increase in the portfolio.

Funding expenses should be analyzed along with the income from derivatives and financial instruments. Overall, the increase nominally but relatively they reduced. The average of funding balance increased 16% in 2014; and CDI rate rose 34% year-over-year. So this would justify a 50% increase in those expenses, but we only saw 44% increase.

The ALL expenses came low in the annual comparison even with the credit portfolio increasing, reflecting here again the improvement in credit quality. And with all these factors, the gross profit from Financial Intermediation for 2014 was R$1.2 billion. Here, this reduction in the annual comparison relates to the comments regarding credit assignments.

Originally, income from operations presented this variation because of some non-recurring revenues in 2013. And following the statement, we noticed that the impact of insurance sale led the net income to R$7.8 million in 2014. In the second table we have the net interest margin, and it is worth highlighting the growth of volume of credit operations, which it was received here at the Bank. As I said, 2014 credit assignments without recourse would made in a less favorable interest rate scenario and also in a different mix. So, this reflected in those changes in the net interest margin, resulting in 11.2% in 2014, but with a stronger 4Q because of the increase in the credit assignments, leading the NIM to 14.2%.

On the next page we have the charts with the quarterly asset origination and a table with the monthly average origination segregated by products. In the fourth Q we originated 5.7 billion in loans, representing a monthly average of 1.9 billion in the quarter, 42% more than the origination of the previous quarter.

Clearly, this increase was driven mainly by payroll loans that increased almost 80% in the quarter, due to those regulatory changes that I mentioned; and also seasonal effects also influenced the products as a whole. Corporate loans increased 57%, real estate 21% and vehicles increased 15%, even considering the particular environment. With the annual comparison, the average monthly origination was 1.4 billion in 2014, an increase of 17% over the 1.2 billion in 2013. And this shows another level of origination that the Bank is now set-out [ph].

On page six, we have the composition of the loan portfolio. In the first table we see that vehicle financing remains as the main segment in the Bank, representing 42% of the on-balance portfolio.

But the other business lines are growing, showing the litigation that we seek here. And second, we have the corporate portfolio with 24% share, followed by payroll loan portfolio that keeps increasing and which closed this quarter with 22% of the total portfolio, more than doubling its share over this year. And other products accounted for 12% of the portfolio.

The credit portfolio with retained results ended the year at R$17.5 billion, as we see in the lower left chart, showing increase of almost 7% in the last quarter -- over the last quarter, and more than 15% more than the balance observed in December '13.

And here we can notice the significant evolution since the first Q of 2011. And our origination capacity goes beyond it, because we always have to keep in mind that we assigned credits during this period. The good quality of the loan portfolio, as shown in the lower right chart, continues to benefit from the more conservative posture in the origination of new loans, which have been adopted since the start of the new management in 2011. And here, also there is an impact coming from portfolio diversification and more robust criterias in credit rankings.

On page seven, we show an analysis of the Bank's costs and expenses. With the annual comparison, we had an increase of 4%, while accumulated inflation for the period was

6.4%, keeping falling in real terms. And the increase that we see on the quarter over the third quarter of 2014 was influenced by the incorporation of employees coming from promoters, which in turn will reduce the cost of origination regarding commissions; and also by a higher tax burden related to the high revenue on the credit assignments that we saw in this quarter.

In the chart below, ALL expenses were 237 million in the fourth Q, presenting a nominal increase. Credit recovery remain as an important positive contribution to our results with a 72 million revenue in the fourth Q. And so, net ALL expenses increased to R$165 million; and this relates to the greater amount of disbursements that we saw in corporate loans. When we talk about individuals portfolio, there was a reduction on the expenses of 1%. And even growing nominally, the ALL net expenses, it reduced when compared to the credit portfolio and this is -- but it's more important to the Bank.

On slide eight, we have information on vehicle loans. As we can see in the top figure, we have maintained the origination distribution between dealers and resellers table. The picture on the bottom left shows the order in which diversification degree on our vehicle loans origination with low consideration by economic group, for example, the ten largest groups account for only 14% of our origination.

The bar chart shows the evolution of quarterly origination; and in the line, we can find the portfolio evolution.

In this quarter we granted R$1.9 billion in new loans, 15% more than the previous quarter. In 2014, we granted R$6.7 billion, pretty much in line with 2013. And the portfolio has reduced with the credit assignments (inaudible).

On page nine, we bring two important charts with the evolution of the Delinquency per Vintage of vehicle financing. The last one shows the evolution of light vehicle and the right one shows Delinquency per Vintage on motorcycle origination. Both clearly show the effects of the complete review that we have done here in Banco Pan.

On the next page, we can see the evolution of payroll deductible loans. In 2014 we granted 5.4 billion in payroll deductible loans, 64% more than we did in 2013. In the fourth Q, there was -- this was 2.2 billion, even higher growth comparing to the last quarter; influenced by changes, as I mentioned, in this specific segment. But despite of that, it was an important evolution on a year basis.

With this result, payroll loan portfolio has evolved well, reaching 3.9 billion; and we also show the region of our production where the INSS, our pensioners remains as the biggest segment with 40%.

On page 11, we see corporate lending, which granted [ph] 3.9 billion in 2014, 25% higher than 2013. In the quarter, the volume was 1.3 billion, almost 60% over last quarter. Thus, the expanded Credit portfolio reached the balance of 4.2 billion at the end of December '14, 26% higher than the balance of December '13.

In the bottom left figure, we can see the high diversification of origination by industry. And on the right side, we see the high quality of the originated portfolio is a target, with 90% of the total loan portfolio rated between A and C. Here, it's worth mentioning that we have a very low exposure to the companies mentioned in the ongoing investigations in Brazil, representing less than 0.25% of Pan's loan portfolio.

Going to page 12, we notice that Pan granted R$166 million in real estate loans in the fourth Q. And this was a product that has undergone a major transformation over this year, over 2014, as we have done with other banks' products. And this involves a system change, more conservative on credits, and team renewal. The portfolio evolved closed in 2014 at $R767 million.

On page 13, we have the insurance premiums originated by Pan. And as I said before, the sale was completed this quarter. And at the same moment, Pan signed an agreement to originate insurance premiums for 20 years, receiving a fees. So this product continues to be important to the Bank. And the pie chart represent below the breakdown of premiums originated by Pan, and credit insurance remains as the main product with almost 81%.

On page 14, we show the transactional volume evolution of Pan's credit card business line. This is an important product and has been gaining focus and expanded the transactional volume in 15% over the year, reaching R$3.1 billion in 2014. The increase for the quarter was 18% and the credit card base closed 2014 with 1.8 million issued cards.

As for funding shown on page 15, it continued its growth, reaching R$20.3 billion, 15% higher than the outstanding balance in December '13, supporting here the growth of the Bank's assets.

Besides the evolution of Interbank deposits, we also see an increase in the volume of LCIs and LCAs, which reached R$2.4 billion. And here we have a very poor [ph] source of funding with very attractive rates. And the two charts below show the legacy's maturity, both of them account for a little more than 1% only of the total funding of the Bank.

On page 16, we show the Basel ratio to the financial conglomerate, which was enforced by the capital increase ended in -- on August '14, and now strengthened by the results of the sale of Pan Seguros and Pan Corretora, reaching 18.7% with 13.5% of common equity Tier 1. This quarter's operating margin stood at 1.5 billion.

And here, we conclude the presentation and open the session for questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) As there seem to be no questions, I'd like to turn the floor back over to Mr. Inacio Caminha for his final remarks.

A - Inacio Caminha {BIO 19326001 <GO>}

Again, I thank you all for the presence. Have a nice day. See you next quarter.

Operator

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