

Q3 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 Third 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, 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 participating in this conference call of Banco Pan and its subsidiaries for the third Q '16 results.

Beginning with the highlights on page three, we'll see that Pan maintain the strong retail credit origination averaging BRL1.8 billion per month in this quarter, 4% higher than last quarter, driven by payroll loans, credit card and also vehicle financing. Our credit portfolio increased 3% on the quarter, closing at BRL18.7 billion even considering the credit refinements of BRL2.6 billion. The retail credits rated between AA and C kept improving, reaching 92.3% of this portfolio. Corporate loan book with guarantees ended the quarter at 3.2 billion, contracting mainly due to market conditions. Our managerial net interest margin was 13.9% in the quarter, above last quarters. And this quarter Pan posted a negative net result of BRL13 million in the quarter, improving over the last, mainly because of greater volume of credit assignments and also lower provisioning expenses. Our equity stood at 3.4 billion and our Basel ratio stood at 13.4%.

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On the next slide, we have the name breakdown. It increased in the quarter to 751 million or 13.9%, improving as I mentioned basically because of greater volume of credit assignments, which totaled BRL2.6 billion in the quarter.

On the next slide, we have the net results breakdown. Following from the net interest margin, we have the ALL expenses that decreased in this quarter, mainly related to corporate loans. This variation in administrative expenses is strongly associated with growth in origination of payroll deductible loans, which generates higher expenses accounted at the time of the origination. In personnel expenses, we see that the impact of the labor agreements and we also have optimized our structure, which reduced this cost on an annual basis. We'll see that in details ahead.

We presented an operational loss of BRL44 million in the quarter. As a result, we ended the quarter with a negative net result of BRL13 million.

On the next page, we have the quarterly retail origination in a table showing the average monthly origination by product. We granted BRL5.5 billion in retail credits in the quarter, representing the monthly average of 1.8 billion, 4% higher than previous quarter and 9% higher in the last 12 months. Payroll held a significant level with an important share of INS[ph] pensioners reaching a total of 856 million per month.

Vehicles recovered in the quarter reaching 542 million per month. On credit cards, we present the breakdown to show the payroll loan, posting a 50% increase over last quarter influenced by release of margin federal employees card, and the institutional card remains stable. To get to the total, we have real estate and consumer loan in lower volumes.

On page seven, we present the credit portfolio breakdown. On the first table we see that due to the strong origination in the quarter, payroll on accounts now for 41% of our loan balance portfolio with BRL7.6 billion. Vehicle financing follows with a 27% share. And then third comes corporate loans with 17% share. Among these three products, just payroll increased in the quarter and year.

Payroll loan credit card got to almost BRL1 billion, increasing 30% in the quarter, and the other products account for 10% of the portfolio. The on balance credit portfolio increased 3% in the quarter, closing at BRL18.7 billion, as we can see in the lower left chart. And next to it on the right side, we present the evolution of the originated portfolio that reached BRL36.8 billion, which considers not only the retained portfolio, but also the credits that we have originated and assigned since 2011. The originated portfolio so increase 11% in the last 12 months showing our strong origination capacity.

On slide eight, we have the quality of the portfolio. Our total NPL ratios remained relatively stable, since 2015 considering the economic environment with the soft positive trend in this year. As we notice in the long-term view, this ratio peaked at 17% in June '12, and reduced since then because of better credit modeling and also portfolio mix. In the lower left chart, we see that the net expenses with provisions improved in the quarter.

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And next we see the percentage of credits rated between AA and C, which also kept increasing due to the conservative posture in credit origination.

On page nine, we present the bank's cost and expenses, segregating the expenses related to credit origination. In personnel and administrative expenses they totaled 295 million in the quarter. In the quarter for personnel, we see the impact of the labor agreements and also dismissals, but in the last 12 months we managed to reduce 15% of our headcount as shown also in the lower left chart.

On the administrative side, we had more expensive with collection in the quarter. We are also pursuing efficiency gains as noticed by the annual reduction in nominal and also real terms in the table. One way of showing that inefficiency is in the lower right chart when we compare the evolution of the originated credit portfolio to these expenses.

On the origination expenses, we see the effect of the growth of payroll origination, the credit itself and also the credit card, and here it is important to note that the expenses accounted in the short-term are heavier but the operation generates less expense in the following months.

On slide 10, we have the information on vehicle loans. As we can see in the top figure, the origination increased in the quarter after a few declines in previous quarters. And the portfolio decreased because of credit assignments. The bottom left table shows some information on origination, broken down by segment, stating our relevance in light vehicles and motorcycles, and also with a significant down payment.

It's important to mention that profitability is our primary target, and not market share. The bottom right table shows the high diversification degree of our origination with low concentration by economic groups. For instance, only 10% is originated -- higher originated by the 10 largest groups.

On the next slide, we present the evolution of payroll loans. This quarter we granted 2.6 billion in new loans, maintaining the level of last quarter. Looking at the origination, INSS pensioners accounted for 43% and when we add federal government and army forces, we get to 67% and the rest is very (inaudible). Even assigning a portion of this origination, the portfolio reached BRL7.6 billion.

On page 12, we see corporate loans portfolio. As a consequence of the scenario, this portfolio reduced to 3.2 billion in the quarter. And in the pie chart, we can see the high diversification of the portfolio by industry, where the other's group gather more than 30 segments.

On next page, we show some information regarding ticket distribution in maturity of this portfolio. Anything interesting to notice that 76% of it relates to economic groups with the balance below BRL20 million, and also 67% matures in the following 12 months.

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On page 14, we show the transaction volume evolution of funds, credit card business line segregated between institutional and payroll. This product has a seasonal behavior shown by the institutional or conventional credit card. In the annual comparison, we practically kept the same level, but more strict in terms of credit limits. Payroll card is expanding, evolving 50% in the quarter with a great contribution from additional margin for federal employees card that started by the end of June '16.

On slide 15, we have the insurance premiums generated by Pan, which expanded 20% in the quarter, reaching 48 million. And we see that credit insurance for vehicle loans remains as the main product accounting for 68% of new premiums.

The funding shown on page 16, closed the quarter at BRL19.8 billion, almost in the same level of previous quarters.

And moving on to the last slide, we have our capital, the Basel index stood at 13.4%, decreasing because of credit portfolio increase. And our CT1 stood at 9.6%, and is interesting to notice that we can manage our capital through the credit assignments to one of our controlling shareholders through the funding agreements.

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

Questions And Answers

Operator

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

A - Inacio Caminha {BIO 19326001 <GO>}

Well, thank you again for the presence. Have a nice day, and see you next quarter.

Operator

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

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