Q2 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 second quarter of 2013 results. This event is also being broadcast simultaneously on the internet with 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 Instruction) 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 the light of future developments.

Now, I would like to turn the conference over to Mr. Willy Jordan, IR Officer, who will 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 for the second quarter of 2013.

Starting with the highlights on page three of our presentation, this is our first results release under our new brand, which was launched on May 14, 2013. The change of our brand symbolizes a new era for Pan, which has unified all its corporate structures and brands under the same identity while preserving the specialization of each business segment.

The necessary administrative measures will also be taken to alter the company's name in line with the new brand. Besides the new brand, we also had the highlight -- as a highlight in the quarter, the acquisition for R$351 million of the credit rights over the payroll-deductible credit card portfolio of Banco Cruzeiro do Sul. The portfolio has approximately 471,000 cards, 321,000 of which are active, and its acquisition strengthens our position in the credit card and payroll-deductible loan segment.

Looking now at the quarter's results, we see that the origination of credit assets maintained its growth trajectory reaching a monthly average of R$1.188.2 million in the second quarter for 14.1% higher than the $1.41.7 million of the first quarter '13. And almost 130% higher than the 517 million of the second quarter of the last year. The production growth in the second quarter was driven by the higher origination of payroll loan, vehicle financing and real estate credit.

With all these, the total expanded credit portfolio stood at R$14.8 billion at the end of the first quarter, up 5.5% over the 14 billion portfolio of March '13 and 37.2% higher than the R$10.8 billion portfolio from June 2012.

More importantly, as we have been saying, is to look at the growth of the credit portfolio with retained result, which excludes loans assigned with recourse and thus provides the measure of the company's revenue earning portfolio.

This portfolio has kept growing faster than the total credit portfolio as the portfolios assigned with recourse in the past matured and reached R$14 billion at the end of the second quarter with a growth of 7.2% over the previous quarter and 53% over the same quarter of 2012. It is precisely the growth of our interest earning assets that pushes the expansion of our interest income and thus provides us with a more robust days of recurring revenues.

The net interest margin stood at 18.6% in the second quarter '13, slightly below the former quarter and 5.5 basis points higher than the same period of the last year. The allowance for loan losses expenses by its turn as we see in the following section, was R$225.4 million in the second quarter '13, 26.7% less than the expense of R$307.7 million in the previous quarter, and 48.9% lower than the same quarter of 2012, reflecting the trend indicated by the improvement in the early indicators of credit quality of the portfolios originated since the end of 2011. Equally important was increase in the recovery of debt that had been previously written off against the allowance for loan losses, which was a result from a complete review of our collection process.

As a result, the net expense on the allowance for loan losses totaled R$175.2 million in the second quarter '13, down 34.4% from the net expense of R$267.2 million in the first quarter and 57.2% below the net expense of $409.6 million in the second quarter of 2012. Pan recorded a consolidated net profit of R$12.7 million in the second quarter compared with R$39 million in the previous quarter and a loss of R$262.5 million in the second quarter of 2012. Our consolidated shareholders equity was thus of R$2,523 million at the end of June.

Moving to page four of our presentation, we show our shareholding structure in June. There was a slight increase in the participation of investors domiciled in Brazil in relation to the previous quarter, while the participation of corporate shareholders decreased from 97.5% to 97.1%, continuing to be mostly dominant.

On page five, we have the main income statement items. In the comparison of the second quarter '13 with the first quarter '13 and with the same quarter of 2012, the main changes, as I have mentioned before, were due to the increase of the average earning assets mainly, the credit portfolio that provided the growth of our income of credit operations and also to the different amounts of credit assignments without recourse performed in each period, and to the decrease of the allowance for loan losses. The line of derivative transactions, as always remembered here, reflects basically the results with the derivatives portfolio. As our derivatives portfolio aims to hedge the exposure of debt denominated in foreign currency. The result in derivatives has almost symmetric counterpart on funding operations expenses. So we need to always look at the sum of these two lines where we see that there is no important variation.

Thus, the positive result of R$81.9 million in derivatives due to the 9.8% depreciation of the exchange rate of the Real against the US dollar in the quarter is offset by an increase of the funding operation expenses.

In the next page, we have the asset origination for the quarter. The top figure shows the growth of the origination in the last 12 months, which made our total origination increase 130% in comparison to the second quarter, reaching a monthly average of R$1.188.2 million in the second quarter of 2013. Production growth in the second quarter was driven by a high origination in payroll loan, vehicles and real estate financing.

On page seven, we have more information about the asset origination in vehicles, which remained Pan's main business line. As we can see in the figure, on the bottom left of the page, the increase in origination was achieved despite the maintenance of more conservative criteria for the approval of new loans, which primarily reflected in the increase of average down payment, which remained at 35% with a significant growth in the last 12 months. Yet, the picture on the bottom right corner shows the high level of pulverization in our origination of vehicle loans with a low concentration by economic group. Thus, the ten largest groups account for only 15.7% of our total vehicle financing origination. So, we have low dependence on our biggest client.

On page eight, we can see that Banco Pan disbursed R$796.3 million in new payroll-deductible loans in the second quarter, 38.5% more than in the first quarter '13 and 147.1% greater than in the second quarter of 2012.

With this payroll loans was the segment, which achieved the highest growth in the second quarter. Personal loans and consumer financing accounted for R$138.3 million in new loan disbursements between March and June, 39.8% higher than in the same quarter of 2012. It is worth mentioning here, the important growth of origination through our branches throughout the year where the cost of origination is already embedded in the banks fixed costs.

In the following page, we can see the corporate loan where the origination came to R$667.2 million in the second quarter of 2013. The expanded credit portfolio for corporate loan reached to R$2.197.4 million in the end of June, including guarantees issued and corporate securities.

Looking at the opening of our corporate credit portfolio by industry, we can see that the portfolio is well diversified by sector with the most important participations in agricultural and construction and development barely reaching 20% of the total portfolio.

Going to page 10, we noticed that Pan granted R$331.2 million in mortgage loans in 2000 -- in the second quarter of '13 being 108.1 million for companies and 223.1 million for individuals. As a result, the real estate loan portfolio reached R$1.363.2 million at the end of June of which 841.5 million for companies and 521.7 million for individuals. This result is 7% higher than the previous quarter.

On page 11, we have the opening of our credit portfolio. In the first table, we can see that vehicle financing remained the main segment in Pan's credit portfolio with 55.4% of the on-balance credit portfolio, including leasing operations. Then comes the corporate credit portfolio with 15.1% share, and then the real estate and payroll loans nearly tied with 10.1% and 9.8% of the total credit portfolio, respectively.

The total credit portfolio was R$14.8 billion in the end of the second quarter, 5.5% higher than the credit portfolio of 14 billion in March and 37.2% higher than the 10.8 billion portfolio in June 2012. More importantly, the balance of the loan portfolio with retained results, as I said before, in the lower left corner figure, grew 7.2% in the previous quarter and 53% over the last 12 months, reaching approximately R$14 billion.

The credit quality of our portfolio starts to benefit as we can see in the chart, in the bottom right corner of the page, from the more conservative approach in credit origination, which has been adopted since the end of 2011. This approach includes a more restrictive credit approval criteria as well as the growth in lower risk market segments such as new car financing, payroll loans and corporate loans.

On page 12, we show a comparison of the cost and administrative expenses in relation to the previous quarter and to the same quarter of 2012. It is worth to remember here that the costs and expenses were impacted in the first half of 2013 by the merger of BFRE, with it, we added to the staff of Banco Pan, 683 employees, and in addition in May 2013, we incorporated the operational platform of Banco Cruzeiro do Sul's payroll credit card business, including its 30 employees causing us to reach by the end of June, a total of 3,635 employees in the Group.

Thus, the sum of personal expenses, taxes and other administrative expenses totaled R$486.9 million in the second quarter. Now, excluding from this value, the variable expenses related to commissions for the assignments of loans without recourse, cost and expenses totaled R$400.5 million, that is 8.2% higher than in the previous quarter in the same base of comparison.

It is always worth to remember that this value includes commissions over credit origination, which is an expense that we wish to deal [ph]. Nevertheless, the adequacy of our cost structure to Banco Pan's revenue origination capacity is analyzed continuously. If the economic and market environment interferes in the execution of our business plan, additional adjustment measures will be taken to ensure that this adequacy will prevail.

In the figure at the bottom of the page, we have the evolution of ALL expenses and the recovery of loans in arrears.

The ALL expenses were R$225.4 million in the second quarter, 26.8% less than the expense of the previous quarter. Yet, the recovery of loans previously written off against the allowance for loan losses totaled R$50.2 million, a record in our series, making the net expense of ALL fall to R$175.2 million in the second quarter '13, which is 34.4% lower than the net expense of R$267.2 million in the previous quarter and 57.2% less than the net expense of R$409.6 million in the second quarter of 2012.

As for funding on page 13, we continue to record the exchange of more expensive liabilities inherited from the past by lines with more competitive market costs, reflecting the improvement in Pan's credit risk perception. Thus, funding from DPGE decreased a little more to R$490.1 million in June.

Likewise, the balance of funding through credit assignments with recourse to the market has been gradually reduced as the portfolios assigned in the past mature since Pan did not have more assignments of this type under the current administration. Thus, the balance of R$796.2 million in portfolios assigned with recourse in the end of the second quarter represented a decrease of 18.2% compared to the balance at the end of the previous quarter and the decrease of 51.1% compared to the balance of R$1.629.4 million at the end of the second quarter '12. The total balance of funding in the quarter was approximately R$16.7 billion, following the funding need for our assets.

On page 14, we show the opening of the calculation of our Basel ratio, which was 15.49% for the financial conglomerate and 12.70% for the economic financial consolidated, while the operating margin stood at R$705.3 million for the financial conglomerate and R$218.9 million in the economic financial consolidated. Both the Basel index and the operating margin showed significant growth in the second quarter.

On page 15, finally, we have a chart that demonstrates our stock performance over the past 12 months. The total financial volume traded in the second quarter of 2013 was of R$275.3 million with a daily average of R$4.7 million, a significant growth over of 42.4% in the liquidity of our stocks over the daily average of the previous quarter.

On June 30, 2013, the market value of Banco Pan was R$2.9 billion, the stock started the second quarter of 2013 traded at R$7.06 and ended the quarter at R$5.35 with a devaluation of 24.2% in the period. The highest price was R$7.06 per share and the minimum was R$4.99 per share during the second quarter, in the same period, the Bovespa Index depreciated by 15.8%.

I now step back the word to the mediator to begin the question-and-answer section. Thank you again for all the participants.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) We appear to have no questions at this time. So I'd like to turn the floor back over to Willy Jordan for his final remarks.

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

Well, thank you once again for participating in our second quarter results conference call. And I hope to see you all again in three months for our third quarter results. Have a good day.

Operator

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