Q2 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 second quarter of 2016 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) Please note, this conference is being recorded.

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. Caminha, you may begin your conference.

Inacio Caminha {BIO 19326001 <GO>}

Thank you. Good morning. I would like to thank you all for participating in this conference call of Banco Pan and its companies for the second Q '16 results.

Beginning with the highlights on page three, we'll see that the strong monthly retail credit origination average during the second Q was BRL1.7 billion, 18% higher than the last quarter, driving by payroll loans. The corporate loan book with guarantees ended the quarter at BRL3.4 billion, contracting over the last quarter due to market conditions.

Our credit portfolio increased 4% in the quarter, closing at BRL18.2 billion, even considering the BRL2.1 billion in credit assignments. Our managerial net interest margin was 11.8% in the quarter, in line with last quarter. This quarter Pan posted a negative result of BRL128 million, and we'll explore more -- the main drivers on the coming slides. Our equity stood at BRL3.4 billion and our Basel ratio stood at 14%, with 10% core capital.

On next slide we have the breakdown of the net interest margin and the net results. On the first table we can see that the managerial net interest margin was BRL628 million or 11.8%. On the second table, we go to the ALL expenses that reduced in the second quarter mainly related to corporate loans although retail already performed better.

On the operating revenues and expenses we made additional legal provisions resulting in more expenses, but strengthening our balance. The variation that we had in administrative expenses is strongly associated with the growth in origination of payroll-deductible loans, which generated higher expenses at the time of origination and we will see more detail on the next slide. Personnel expenses reduced and we will also have more detail on that. So we presented an operational loss of BRL206 million in this quarter, and as a result, we ended the quarter with a negative result of BRL128 million.

Moving forward to the next page, we have the we have the quarterly retail origination and a table showing the average monthly origination by product. We granted BRL5.2 billion in retail credits in the quarter, representing a monthly average of BRL1.7 billion, 18% higher than the previous quarter and 5% increase on an year basis. Here we have some movement. Payroll boosted the total as we can see in the chart, mainly through INSS, the pensioners; in total, it reached an average of BRL850 million. Vehicles has been following the market movement, but it still was a solid figures.

The credit origination took advantage of the additional release of margin for the federal employees in the quarter, boosting the payroll. In terms of real estate credit, the Home Equity performed a little better, normally speaking, and consumer loans were a bit below.

On page six we present the credit portfolio's breakdown. On the first table we see that due to the strong origination in the second quarter and the credit assignment mix, payroll loans now represent 38% of the unbalanced portfolio, vehicle financing follows with a 28% share, and then third comes corporate loans with 19% including guarantees. Among these three products, just payroll increased in both year and in quarter. The other products account for 15% of the portfolio with a more relevant improvement on credit cards due to payroll loan credit cards.

The portfolio ended the second Q at BRL18.2 billion, as we see in the lower left chart, increasing 4% in the quarter. And here our solid credit origination allows us to manage our portfolio adjusting the credit exposure through the credit assignments. We see in the lower right chart that the portfolio quality has remained in a good level due to our conservatism and improvement on our credit models.

On page seven we present the Bank's costs and expenses, segregating those related to origination. Personnel and administrative totaled BRL276 million this quarter. In personnel, we see the reflections of the movements made in the bank. And in the administrative side, we had more expenses with systems and also collections.

On the origination expenses, we see this type of the growth of payroll origination. Here it is important to note that the short-term is heavier in terms of expenditure, but the operational -- the de-operation generate less expenses in the future and also then we have the interest revenue as well.

In the chart below we observe the net ALL expenses. We observe an improvement in these expenses with a greater relevance in corporate operations, although retail has also shown a positive movement. Looking at the recovery, we noticed a reduction, but this is related with not having any relevant corporate recovery in the quarter.

On slide eight we have information on vehicle loans. As we can see in the top figure, we have maintained the origination breakdown not only between products, but also by origins between dealers and resellers. The bottom-left table shows the high diversification degree of our origination, with low concentration by economic groups, for example, we have the ten largest groups accounting for only 11% of our origination.

The bar chart shows the evolution of the quarterly origination, and the line shows the portfolio evolution. We granted BRL1.5 billion in this quarter and the portfolio has been reducing due to the credit assignments that we've mentioned.

On page nine we bring two charts with the evolution of the delinquency per vintage of vehicle financing, showing the improvement in light vehicles in the left and also the motorcycles in the right, still running much below the past figures. And these both chart show how the complete review in our credit models have worked out since 2011.

On next slide we present the evolution of payroll loans. We granted BRL2.5 billion in new loans, an increase of 41% over last quarter, driven by pensioners, INSS. The payroll portfolio has evolved very, very strongly, reaching BRL6.9 billion. Looking at the breakdown we see that the pensioners are the bigger individual segment with 38% of our portfolio.

On page 11 we have the corporate loans portfolio. As a consequence of the scenario and lower demand from our clients, this portfolio reduced to BRL3.4 billion in this quarter. In the lower-left chart, we have the diversification by industry, where the other group aggregates more than 30 segments; and also when we look at the average ticket, we have around BRL10 million which is also really diversifying in terms of economic groups. And in the right side, we have the high quality of the portfolio with 71% of loans rated between AA and C, with an adequate level of guarantees.

On page 12 we see that fund granted BRL78 million in real estate loans during this quarter with a slight increase when we are looking at the Home Equity and also with a recovery in credits acquisition. The portfolio grew, closing at BRL905 million.

On page 13 we show the transaction volume evolution of our credit card business. This product is increasing consistently, recording a transaction of BRL987 million in this quarter, an increase of 18% over the same quarter of 2015. And here this result was influenced by the contribution of payroll card, which has doubled in volume over the last 12 months.

As for insurance on page 14, we presented a slight decrease in this quarter, reaching BRL40 million following the movement in vehicles origination, which is the main source of premium. As we can see, it represents 67% of our origination in terms of sources [ph].

On page 15 we show the evolution of the consortium sales. This product presented a very good volume in the quarter, reaching BRL423 million in sales and the breakdown of between products here we have 96% coming from real estate quotas. This has been the primary segment and also this product is important to increase our service revenues in general.

The funding shown on page 16 closed the quarter at BRL19.5 billion, almost on the same level of previous quarters. This quarter we repurchased $43 million, out of the $500 million subordinated bond.

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) Since there seem to be no questions, I would like to turn the floor back over to Mr. Inacio Caminha for his final remarks.

A - Inacio Caminha {BIO 19326001 <GO>}

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

Operator

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