

Q2 2017 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 2017 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 and MZiQ platform 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 materially 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.

I will now 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>}

Okay, thank you. Good morning, everyone. Welcome to our conference call for the disclosure of our results in the second quarter of Banco PAN and its subsidiaries.

Starting with the highlights on page three, you'll see that loan portfolio increased 7% in 12 months closing at BRL19.5 billion. In the origination of retail, already considering the strategic repositioning, we originated a monthly average of BRL1.5 billion. Net provision expenses decreased 30% in the quarter to BRL195 million.

Our annual net interest margin was 17% in the quarter. This was the best operating results in the first half that we have had since 2011, registering an income from operations of

BRL108 million. And in this quarter, PAN recorded a net income of BRL42.8 million.

With that, we ended the quarter with a consolidated shareholders' equity of BRL3.5 billion and the Basel Ratio advanced to 11.6%.

In the next slide, we have the composition of the interest margin. The net interest -- the NIM was BRL890 million in the quarter, generating an annualized NIM of 17%. We assigned a lower volume with better spread maintaining the NIM at a strong level.

In the next slide, we present our results. We see a relevant reduction in the loan provisions, both in retail and also in corporate, which led us to a gross income of BRL657 million, practically stable in relation to the previous quarter.

In the other lines, we see a significant reduction in administrative and personnel expenses, as well as origination expenses, which led to an increase in income from operations totaling BRL90 million in the quarter. Comparing the first half of '17 with '16, the advance [ph] gets stronger, -- last [ph] from a gross loss of BRL393 million in the first half of '16 to a gross profit of BRL108 million in the first half of '17, with the net income getting to BRL43 million.

On page six, we have the retail origination details. In this quarter, we see the reflects of our strategic repositioning adopted by us here at Banco PAN in relation to some of our products, because [ph] we had the decision to discontinue the origination of vehicle financing with the dealers.

We granted BRL4.4 billion in retail credit in this quarter, representing a strong monthly average of BRL1.5 billion.

Payroll loan had an average origination of BRL827 million per month with a significant share of social security of pensioners. In vehicles, we granted BRL284 million per month.

In credit cards, we had 263 million in the institutional cards in transactions during second Q and 55 million in payroll loan card. And in the other smaller products, complement the monthly volume of BRL1.5 billion.

On page seven, we show the breakdown of our credit portfolio. In the first page, we see that payroll loans remained as the largest portfolio with BRL8 billion, then comes the vehicle portfolio with BRL5.7 billion, and next, the corporate loan, with BRL2.9 billion.

Payroll credit card increased slightly to BRL1.2 billion in the quarter and the other products account for 10% of the portfolio.

The retained credit portfolio declined 3.2% in the quarter with growth 7% in 12 months ending the quarter at 19.5 billion. In the credit portfolio originated which adds up the

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retained portfolio and the portfolio assigned to Caixa, ended the quarter at 38.3 billion as you can see in the lower right chart.

On slide eight, we show our quality data from the retained portfolio. Our over 90 days ratio declined to 7.4%, driven by the improvement in retail, which represents about 85% of our portfolio. Excluding the portfolio of Construction and Development Loans which is a run-off portfolio, this indicator stands at 6.8%.

In the lower left chart, we see the evolution of the net provisioning expenses which dropped to 195 million in the quarter, a 30% decrease with contributions from corporate and also retail showing here the quality of our portfolios and also the efficiency of our collection.

Looking at the chart next to it, on the lower right side of the slide we see the evolution of the rating between AA and C of retail portfolio which also show a good evolution reflecting the results of our credit policy.

On page nine, we show the breakdown of the bank's cost and expenses segregating the expenses related to the origination. Personnel and administrative expenses totaled 278 million in the quarter, a decrease of 5% with a significant influence of personnel coming from the movement shown in the lower left chart which contracted 15% in the quarter.

The bottom right chart shows the result of the efficiency improvements we have achieved, showing the evolution of those personnel and administrative expenses in relation to the originated portfolio.

The reduction in the origination expenses in the quarterly comparison is mainly due to the lower percentage of commissions and also to the lower volume originated.

In the next slide, on slide 10, we show the evolution of the payroll business. We have both the loan and also the credit card in the quarter. PAN originated BRL2.6 billion in these two products as we assigned a part of the origination of the loans, the portfolio of the loans closed at 8 billion, and if we add the credit card portfolio, which is 1.2 billion, this combined portfolio is more than BRL9 billion reaching 47% of the Bank's total portfolio.

Analyzing the production on the right chart, we see that the INSS represented 58%, and then if we add up federal government and army forces, we get to 87% in federal risk. And in the rest, we have a very pulverized originations.

On slide 11, we have information about the vehicle segment. In the chart, in the graph above, we have the origination which is in line with our strategic goals totaling BRL853 million in the quarter.

The portfolio increased due to the mix of the loans assignment that we made in this quarter. The table below show some information about our origination in the segment

that we have -- that we are still operating which are light vehicles and motorcycles financing.

And here it is important to emphasize that the profitability is the main focus of our operations, even though we have an important market share in both, in positioning those two markets.

On page 12, we see that the portfolio of corporate finance closed this quarter at BRL2.9 billion or 2.4 billion without the Construction & Development loans, volume that we consider adequate for the current scenario in Brazil.

In the chart on the right side of the slide, we see diversification of the portfolio by industry with 25% of others represented by more than 25 sectors.

On page 13, we will give more details to show our portfolio diversification by ticket and also the show duration of the portfolio. 76% of this consist of operations below BRL20 million outstanding balance, and 63% of the portfolio matures in the next 12 months.

On page 14, we show the evolution of the credit card and office insurance. In credit cards, the portfolio ended the quarter at BRL952 million. And in insurance, they originated BRL47 million in premiums, a decrease that was expected due to our strategic repositioning in the vehicle financing.

Nevertheless, they correspond to 66% of the premiums originated. As for funding on the next slide, we closed the quarter at BRL20.2 billion. During this quarter, we launched our app to open investment accounts and we have good expectations about this new feature to bring more clients and more investors.

And in the last slide we have the information of our capital. Our Basel ratio rose 0.3% to 11.6%, with 8.5% of Tier 1 capital, in portfolio assignment, a simple [ph] way to manage our capital position.

With that, we conclude our 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 seems to be no questions at this time, I would like to turn the floor back over to Mr. Inacio Caminha for his final remarks.

A - Inacio Caminha {BIO 19326001 <GO>}

Thank you again for your presence. Have a good day, and see you next quarter.

Operator

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

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