Q3 2015 Earnings Call

Company Participants

- Inacio Caminha, Investor Relation Superintendent

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Banco Pan's Conference Call to discuss the Third Quarter of 2015 Results. This event is 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) 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 presentation.

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 3Q'15 results. Beginning with the highlights on page three, we noticed that Pan maintained its growth strategy. The monthly retail credit origination average was of 1.3 billion in this quarter, 25% higher than the same quarter of 2014 and 5% lower than last quarter.

Corporate loan book increased 18% in the last 12 months reaching R$4.3 billion in this quarter. Our credit portfolio ended the quarter at R$18 billion even having assigned 3.2 billion in the quarter, growing 10% year-over-year. The quality in credit concession is a priority to us and the recurring net ALL expenses stood at R$136 million less than both comparable quarters.

Our managerial net interest margin was 12.7% in the quarter and these variations relate to different volumes and mixes of portfolios assigned in each quarter. This quarter Pan presented a net profit of R$44.3 million and it is important to mention that there was no influence of the DTA revenue coming from social contribution tax rate increase.

This profit led our equity to R$3.6 billion and our Basel ratio stood at 16.3% with 11.8% core capital. On next slide, we have the net interest margin and the net results, beginning with the managerial net interest margin, this quarter we had a decrease due to the lower credit assignments results. A few factors have contributed to this decrease here and as we always mentioned, an increase in interest rates have a negative impact on the credit assignments results and to minimize this effect, we have been hedging the portfolio since its origination.

This quarter we have assigned more payroll deductible loans and this product hasn't had a cap [ph] on the rate, the credit assignment spread has been reduced. Also the origination cost of these payroll-deductible loans are higher than vehicles. So, the assignments generate a greater expense in the moment of the sale. Excluding these effects, the credit assignments -- of the credit assignments over the margin, we noticed an annual increase of 30% while assets have increased 9% and the funding has been impacted by an increase of 30% of the CDI rate.

Before going to the P&L statement, it's again important to say that the DTA revenue was completely offset by provisions. Regarding the ALL expenses, the nominal increase relates to this offset and because of these additional provisions we have strengthened our balance sheet, the recurring net ALL expenses reduced significantly as we'll see further on.

In the operating revenues and expenses, as we did in the last quarter, we also made some provisions. In G&A expenses, we had a slight increase compared to last quarter related to the credit origination and we will show that also in the coming slides. With this provisions, the net -- the income from operations ended the quarter with a loss of R$179 million but excluding all these effects, the trend [ph] will be a positive R$99 million higher than last quarter.

In the tax line, we see the DTA revenue and we get to the R$44.3 million net income. On the next page, we present a chart with the quarterly retail origination and a table showing the origination monthly average by-products. In the quarter, we granted R$4 billion in retail credits representing a monthly average of 1.3 billion, 25% higher than the 1.1 billion we saw in the same quarter of 2014. This level was supported by payroll loans that were 53% in the year, and vehicles that were 11% in the same period.

On page six, we present the credit portfolios' breakdown. On the first table, we see that vehicle financing remains as the Bank's main portfolio, accounting for 34% of the on balance portfolio. Payroll loans comes in second with 28% share, growing 58% in the last 12 months. The decrease in both portfolios in this quarter is a consequence of the credit assignments. In third place comes the corporate loan portfolio with a 24% share and the other products account for 14%.

We have been capturing some opportunities to expand guarantees with good clients that are paying more spread now and it also is important to mention that another legacy that we had ended this quarter. We used to have credit assignments with recourse in the past for more than 3 billion and this came to zero. This is an example of how the Bank gets more profitable as time goes by. The credit portfolio with retained result ended the quarter at 18 billion, as we see in the lower left chart showing an annual increase of 10%.

Our origination capacity goes beyond this, since we assigned credits without recourse. In this quarter we sold R$3.2 billion portfolios. Also due to the conservative criteria in credit origination, roughly 90% of our loans are rated between AA and C, as we show in the lower right chart, and these provisions that I've mentioned earlier made to offset the DTA revenue contributed to this reduction.

On page seven, we present the Bank's cost and expenses segregating the expenses related to credit origination.

G&A expenses without origination expenses totaled R$277 million in this quarter and especially for personal expenses and for comparison, we have to take into consideration the collective agreements, benefits, policy alignments within the group and incorporation of vehicle originations team. And in this quarter we had a reduction even considering this year's collective agreements.

The administrative expenses are also under control, increasing less than annual inflation. This quarter growth was due -- was related with systems, maintenance, expenditures and credit recovery process, which also generates revenue to the bank in the future. The annual increase in origination expenses is related to different accounting principles, in each year and also to a higher volume, and in the figure below, we see an improvement in the recurring net ALL expenses which ended the quarter at 136 million, going down to 0.8% of the portfolio. The gross provisions of 323 million includes 99 million of discretionary provisions, as I mentioned before. The recovery came strong at 88% reflecting the efforts of the credit recovery team.

On slide eight, we have information on the vehicle loans as we can see in the top figure we have maintained a balanced origination between dealers and resellers. The bottom left table shows the high diversification degree of our origination with low concentration by economic groups for example the 10 largest groups account for only 12% of our origination. The bar chart shows the evolution of the quarterly origination and the line shows the portfolio's evolution, on this quarter we granted R$1.8 billion in new loans, 11% more in the annual comparison, and the portfolio have been decreasing due to the credit assignments.

On page nine, we bring two important charts with the evolution of the delinquency per vintage of vehicle financing, the left one shows the evolution of light vehicles and the right one shows motorcycles and both charts clearly show the effects of the complete review of funds, credit models since 2011.

Moving onto payroll loans in the 3Q, Pan granted R$1.9 billion in new loans. The portfolio ended the quarter at 5 billion with a slight decrease due to credit assignments. In looking at the portfolio breakdown, we see INSS pensioners and state government as the biggest segments with 35% each.

On page 11, we see the corporate loans portfolio. This portfolio has evolved over the quarters seizing market opportunity. In this quarter it remained stable at 4.3 billion and expanded to 4.6 billion when including guarantees issued. In the bottom left chart, we can see the high diversification of the portfolio by industry and on the right side, we can see the quality of the portfolio with 89% of loans rated between A and C.

About real estate on page 12, Pan granted R$86 million in this quarter. The retraction over the last quarter reflects the current economic scenario, and also the bank's focus on originating more profitable assets due to the current level of Brazilian interest rates. The credit portfolio ended the quarter at R$847 million with an annual increase of 20%.

On page 13, we show the transaction volume evolution of the credit card business. This is a product that has been evolving and register transaction volume of R$883 million a 17% increase over the same quarter of last year. Our credit cards base closed the quarter with 1.8 million issued cards and this increase was enforced by the growth of the number of credit cards issued through the Internet and also by the release of more margin to INSS pensioners.

On page 14, we have the insurance premiums originated by Pan, which kept increasing totaling R$47 million this quarter and as we see the credit insurance remains as the main product with 77% of new premiums.

On page 15, we show the evolution of consortiums sales. This product is growing fast and recorded a volume of R$119 million growing 50% in the quarter and there is a growing demand for this product and we are focusing on that.

As for funding on page 16, we've remained stable at R$19 billion with real estate and agribusiness letters of credit gaining share in the funding products. It is worth mentioning that on August we had a phase out of another expensive legacy.

We have liquidated the senior bond issued in 2010 in the amount of $300 million by raising funds locally at lower costs. This is a similar effect as the one that I've mentioned with the credit assignments with recourse in the past.

With that, we conclude the presentation and open the session for questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) As there are no further questions, I'd like to turn the floor back over to Mr. Inacio Caminha for his final remarks. Please go ahead.

A - Inacio Caminha {BIO 19326001 <GO>}

Well, thank you everyone we'll be waiting for you in the next quarter. Thank you.

Operator

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