Y 2015 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 Fourth Quarter of 2015 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) 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 development.

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 4Q and the 2015 results. Beginning with the highlights on page three. We will notice that despite a tougher year Pan kept [ph] advancing on its growth strategy. The monthly retail credit origination average during 2015 was R$1.6 billion, 16% higher than the 2014 average. On the fourth quarter, we saw an average of R$1.4 billion affected by the overall market movement seen on payroll loans. The corporate loan book with guarantees remains stable in 12 months ending 2015 at R$4.1 billion.

Our credit portfolio ended 2015 at R$17.6 billion also stable in 12 months, even having assigned R$10.5 billion in the year. Looking to the monthly average portfolio on both years, we saw an increase of 11% reaching R$18.1 billion in 2015. The quality in credit concession is a priority to us, net ALL expenses stood at R$723 million on 2015 increasing 6% less than the average portfolio growth in the period.

Our managerial net interest margin was 12.4% in 2015 compared to 10.2% in 2014. On the quarter, it was a 11.7% and these variations relate to different volume and mixes of portfolios assigned in each quarter, but also with the banks improvements over the year. This quarter, Pan presented a net profit of R$33.7 million on the quarter, posted an R$8.1 million profit on 2015 and considering the one-off revenue in 2014, because of the insurance company sale, there was a significant improvement in the year 2015. This profit led our equity to R$3.6 billion and our Basel ratio stood at 16.5% with a 11.9% core capital.

On next slide, we have the NIM in the net results breakdown, starting with the NIM, we improved 2% over the year, reflecting the improvement in the income from operations integrated credits assignments contribution. As we target a stable credit portfolio over the year due to the economic scenario. As we always like to explain the rising interest rates have a negative effect on credit assignments and to minimize that, we are hedging the portfolios for the assignment at the time of the originations. But this hedges accounted in a different time window.

Looking to the NIM, excluding the credit assignment effects, we notice an improvement in 2015 over 2014, even though we saw a 24% increase in the CDI rate during 2015, which affected funding costs and also payroll loans profitability, for example. Regarding the ALL expenses, we see an increase -- an increase, but at a slower pace than the monthly average portfolio annual increase and when we add the credit recovery revenue we see an even positive movement, forward we'll have more details.

Looking to the administrative and personnel expenses, certain factors contributed to the increase, the increase of 16% in the origination, 33% in credit recovery costs and in both cases these expenses generate positive impacts on revenues. Also, we saw the ongoing process of benefits policy alignment within the group, which contributed to this increase in the expenses. Here we also have a relevant expense caused by the change in the accounting rules for commissions that it leads [ph] the annual comparison, we'll have more details on this on the next slide.

The income from operations ended the year at a negative R$124 million, improving -- compared to 2014. Even considering that the impacts mentioned above, and this shows that the progress made in 2015. As a result we ended the year with a net profit of R$8 million.

On the next page, we have the quarterly retail origination, we granted R$19 billion in retail credit in 2015, representing a monthly average of R$1.6 billion, 16% higher than the 1.4 in 2014. This level has been supported by payroll loans, which grew 36% over the year and also by vehicles and credit cards, this one growing 16% during the year.

On page six, we present the credit portfolio breakdown on the first table, we see that vehicle financing represents 34% of the on balance portfolio, payroll loans follows with the 29% share growing 30% in the last 12 months. In third place comes, the corporate loan portfolio with the 24% share, when including the 2% of guarantees issued. The other products accounted for 14% of the portfolio with a more relevant improvement on credit cards due to the payroll loans credit cards.

The portfolio with retained results ended the year at R$17.6 billion, as we see in the lower left chart practically stable in the annual comparison, because we chose to -- to keep this the credit exposure at this level given the scenario. Because of this, we assigned R$10.5 billion in credits without recourse and this shows our strong credit origination capacity. Taking a look at the retail portfolio quality, we have a large share of credit split between AA and C, due to the improvements on our credit model.

On page seven, we present the bank's cost and expenses segregating those related to credit origination. G&A expenses totaled R$1.1 billion in 2015, an increase below the annual inflation and that's was impacted by effects such as the increase in the credit recovery costs, benefits policy alignment within the group and the administrative expenses in general remained under control, rising less than the cumulative inflation in the year. And in the quarter, we even saw a reduction. The annual increase in origination expenses is related to the change in the accounting rule of commissions, as we mentioned. And this also affected all the quarters in 2015. And we also see in 2015 a higher volume originated as I mentioned which also contributes to this increase in the expenses.

In the graph below, we observed the quality of the bank's portfolio by net ALL expenses which continues to improve year-over-year in relation to the loan portfolio itself. In addition to the conservatism in the origination and also the portfolio mix. Another point it contributes to this effect is our focus on collection that has been showing some good results in recovery.

On slide eight. We have information on vehicle loans. As we can see in the top figure we have maintained the balance origination between dealers and resellers. The bottom left table shows the high diversification degree of our origination with a low concentration, concentration by economic groups. For instance the 10 largest groups represents only 12% of our origination. The bar chart shows the evolution of the quarterly origination and the line shows the portfolio's evolution. This year 2015, we granted R$7 billion in new loans, 6% more than 2014 maintaining a good level of originations. And the portfolio it has been decreasing due to our credit assignments.

On page nine, we bring two important charts to the evolution of delinquency per vintage of vehicle financing. Showing the improvement in light vehicles and motorcycles. Light vehicles in the left chart and motorcycles in the right. We have this improvement in the long-term. These charts also shows the effect of the complete review of Pan's credit models since 2011. On the next slide. Slide 10, we present the evolution of payroll loans. In 2015, we granted R$7 billion in new loans, an increase of 35% over 2014. In the last quarter, the market saw a reduction in new concessions and we expect this to come back. Payroll loans portfolio ended the quarter at 5 billion, a 30% increase year-over-year and looking at the portfolio breakdown, we see that INSS pensioners has the bigger individual segments with 30%.

On page 11, we see the corporate loans portfolio. Throughout 2015, we worked well -- this portfolio taking advantage of some market opportunities. In this quarter responding to a downturn in this scenario, we became more conservative, looking at the portfolio with guarantees issued, we closed the year at the same level of 2014 at R$4.1 billion. In the bottom left chart, we can see the high diversification of the portfolio by industry. By economic groups, we have an average of -- an average ticket of R$10 million and in the right side, we see the higher quality of the portfolio originated with 81% rated between A and C with more than 90% covered by real guarantee.

About real estate on page 12, we granted 437 million in 2015. We're tracking relations with 2014 because of the current economic scenario and also targeting the origination of more profitable assets, due to the current level of interest rates in Brazil. The portfolio continued to grow, closing the year at R$879 million, 15% higher than the balance in December, 14.

On page 13, we show the transaction volume evolution of Pan's credit card business. This is a product that has been evolving and was influenced by payroll loan card in the last quarter. The total transaction volume in the year was R$4 billion, a 16% increase over 2014. And we have 1.9 million of cards issued.

On page 14, we have insurance premiums originated by Pan which kept increasing annually totaling R$174 million in 2015, 20% higher than in 2014. And we see that credit insurance remains as the main products with 72% of new premiums.

Consortiums on page 15, this is a product that presented a very good volume in the quarter, recording R$201 million in the year, we had a volume of R$463 million, growing 91% compared to 2014. We have a strong demand for this product here. And this is also a key element on our strategy to increase the bank's service fee. The funding shown on page 16 remained stable in the year.

This was an important year because more legacies of our liabilities matured like the BTG also the Credit Assigned with Recourse for 2011 and also the senior bond that we had. More importantly these legacies were exchanged by funds with lower costs.

For example, in this quarter we disbursed another USD20 million on the facility that we have with the IDB. This is a seven-year loan with a very good cost and is fully hedged.

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) There seems to be no questions at this time. I would like to turn the floor over to Mr. Inacio Caminha for any closing 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 and have a good day.