Q3 2013 Earnings Call

Company Participants

- Willy Otto Jordan Neto, Investor Relations

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Banco Pan's conference call to discuss the third quarter of 2013 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 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.

Now I will 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 third quarter of 2013. I will follow the presentation that is available on our website, and then the other executive officers will also be available to answer your questions.

Starting with the highlights on page three of our presentation, in this quarter we had monthly average origination of R$1,129 million, which is 5% lower than the last quarter, but 28.5% higher than the third quarter '12, showing the growth of production in a longer time perspective.

The total credit portfolio stood at R$14.9 billion, and more importantly, the credit portfolio represents results, which exclude loans assigned with recourse and this provides a measure of the company's revenue earning portfolio, reached R$14.3 billion, what is 2.2% higher than the second quarter and 53% higher than the same quarter of 2012.

The net interest margin stood at 12.9% in the third quarter. That is 1.9 basis points lower than the former quarter and 1.3 basis points lower than the same period of the last year. In this quarter, the net interest margin was negatively impacted by the rising of market interest rates. As the best proof of this increase to the loan rate to the customers is not immediate, the financial market is temporarily impacted when we have a movement of increase of the market interest rates.

As a result of that, although we had another fall over ALL expenses in this quarter, which actually fell 12.3% in net terms of credit recovery revenues over the previous quarter, and also fell 60.4% compared to the third quarter of 2012, we had a consolidated net loss of R$20.5 million in the last quarter. Nevertheless, our year-to-date results remain positive in R$31.2 million with big progress in comparison with the accumulated results of the first nine months of 2012. Our consolidated shareholders' equity was R$2,514.8 million in September and the Basel index reached 12.95%.

On page four, we have the main items of the income statement. Comparing the third quarter with the second quarter, we see that the worst result of the third quarter in fact is related to the lower income from financial intermediation because of the lower net interest margin, as shown in the table at the bottom of the page. With the lower results of financial intermediation, despite other expenses have been reduced, this reduction was not sufficient to prevent the fall of the operating income. In addition, in the lines in the bottom, we have only the effects of taxes on the different results of a quarter and the other.

Comparing the third quarter of '13 with the third quarter of '12 on the other hand, we can see that the greatest variation of results in favor of the third of 2013 are due to the fall of 60.4% in the net expenses of allowance for loan losses, as we have already said, and also to the different value of credit portfolios assigned without recourse held in each quarter.

It is noteworthy that to analyze our income statement, one must consider that the line of financial instruments and derivatives primarily reflects the results with the derivative portfolio which aims to protect the exposure to our -- of our debt denominated in foreign currency. Thus the increase in that derivative has virtually symmetrical counterpart in funding operations. So we always need to keep in mind to look at the sum of these two lines where we see that there is no significant variation between the quarters compared.

On page five, we show the growth of our asset originations in the last 12 months. The average monthly originations totaled R$1,128.7 million in the third quarter, what is 5% below the 1,188.2 million in the second quarter and 28.5% over the 878.5 million in the third quarter of 2012. The highlight of this quarter was the reduction of payroll-deductible loans and consumer loans, which recorded a growth of 17.6% and 12.3% respectively over the previous quarter.

On page six, we have the composition of our credit portfolio. On the first table, we see that vehicle financing remains with the highest participation in our portfolio with 55.9% of the on balance portfolio, including leasing operations. Then comes the corporate loan portfolio with a participation of 14.7%, and then the payroll loans and real estate nearly tied with 10.3% and 10.1% of the total portfolio respectively.

The total expanded loan portfolio closed the third quarter at R$14,916.5 million, what is 1% higher than the 14.8 billion reported in June and 13.2% higher than the 13.2 billion in September 2012. Most important, the balance of the loan portfolio with retained results, as we always emphasized, grew 2.2% on the previous quarter and 21% over the same quarter of 2012, reaching approximately R$14.3 billion.

The quality of the loan portfolio continued to benefit as shown in the figure in the lower left corner of the slide of the more conservative parameters in the origination of new loans, which have been adopted since the end of 2011. In addition to the more restrictive criteria for approval, the more conservative approach also includes the growth of new car financing, payroll loans and corporate loans, reinforcing this growth strategy in lower credit risk segments.

On page seven, we have the evolution of ALL expenses and the recovery of loans in arrears. The ALL expenses were R$225.7 million in the third quarter, virtually unchanged in comparison to the R$225.4 million recorded in the second quarter, and 47.1% lower than the R$426.9 million posted in the third quarter of 2012.

Revenue from the recovery of overdue loans reached R$72 million in this third quarter, what is 43.4% higher than the R$50.2 million recorded in the second quarter and 86.1% more than the R$38.7 million reported in the third quarter of '12. Consequently, the net expense from the allowance for loan losses totaled R$153.7 million in the third quarter, what, as I had already said before, is 12.3% lower than the R$175.2 million reported in the second quarter, and once again 60.4% down on the 388.2 million registered in the third quarter of 2012.

On the next page, we show an analysis of the administrative costs and expenses of the bank. There was a 1.3% increase in these costs and expenses in comparison to the previous quarter and a growth of 2.2% compared to the third quarter of '12.

But when we exclude the effects of the provision for wage adjustments, which consists not only of the proportional adjustments for the applicable period in the quarter, but also of the '13 salaries and holiday provisions and also excluding here from the calculation in the table below, the seasonal effect of semiannual commission in the origination of vehicle financing and insurance, we see that there was a decrease of 0.8% in the total administrative costs and expenses in the quarterly comparison, and an increase of only 1.8% in the annual comparison.

It is important to remember that when comparing to the third quarter of 2012, we have to keep in mind that we have owned BFRE during the entire third quarter of 2013, remember that the acquisition was completed exactly during the third quarter of '12. So the company was not carried in our costs and expenses during the whole third quarter of last year. And we also have now the payroll-deductible credit card business acquired from Cruzeiro do Sul in April, with which we have got approximately 13 new employees.

I believe then that these numbers of costs and expenses, especially considering the bank's growth in the last year, demonstrate the discipline that we have had in relation to costs and the progress that we have achieved from the synergies with the companies and new businesses that we have incorporated.

On page nine, we have more information about the asset origination in vehicle financing. As we can see in the chart on the bottom left side of the slide, we have maintained this more conservative criteria for the approval of new loans, which reflected in the increase of the percentage of average down payment, which reached 37% this quarter and shortened the average term of the originated portfolio, which fell to 45 months.

Yet, the picture on the bottom right corner shows how the high level of consolidation in our origination of vehicle loans with the low concentration by economic groups, thus the 10 largest groups account for only 12.4% of our total vehicle financing origination. It is also worth to highlight here that although we had a lower production of vehicle financing this quarter, the market as a whole shrank so that we have actually gained market share even with this smaller origination.

On page 10, we show for the first time the evolution of the delinquency per vintage of vehicle financing with the left graph showing the evolution for the origination in motorcycles, and the graph on the right showing the evolution of car financing. The figures clearly show the effect of the review of Pan's loan approval credit system and process models, achieving a substantial improvement in the quality of the portfolios that were originated with a reduction of almost 80% in delinquency indicator since mid-2011.

On page 11, we can see that Pan disbursed R$936.4 million in new payroll-deductible loans in the third quarter, a value that is 17.6% higher than the second quarter of 2013 and 101.4% or more than double higher than the origination of the third quarter of 2012. With this, the payroll loan segment was the one which achieved the highest growth in this third quarter. Personal loans and consumer financing accounted for R$155.3 million in new loan disbursements between July and September, an increase of 12% over the previous quarter and 17.2% over the same quarter of 2012, showing the evolution of the origination capacity through our distribution network.

In the following page, we can see the corporate loans where the originations came to R$573 million in the third quarter. The expanded credit portfolio for corporate loans reached R$2,167.1 million at the end of September, including guarantees issue and corporate securities. Looking at the opening of our corporate credit portfolio by industry, we see that the portfolio continues to be diversified by sector of activity of our customers, with the most important participation still in agricultural and construction and development.

Moving to page 13, we notice that Pan granted R$286 million in mortgage loans in the third quarter of '13, 9.5 million for corporate credits as we can see in the figure, and 258.6 million for individual, this divided between R$137 million in refinancing operations, home equity operations, R$113.5 million for real estate acquisitions and R$8 million in other modalities. And also we had R$17.9 million on credits purchased by Brazilian securities for securitization.

Thus, despite the increase of 21.4% in the origination of loan for individual and of 76.7% on credits purchased for securitization in comparison to the former quarter, the lower origination of corporate real estate credit due to the revision of our model for the segment resulted in the decrease of the total mortgage lending in the third quarter 2013.

As a result of that, the real estate loan portfolio reached R$1,445.6 million in the end of September, of which R$882.8 million for corporate credit, and R$562.9 million for individuals. Of course, this distribution of the credit portfolio, which is very different from the one in origination is mostly due to the different mixes of credit portfolios that are assigned without recourse, more concentrated in loans for individual. This total mortgage portfolio is 6% higher than the R$1,363.1 million of the previous quarter and 18.5% greater than the credit portfolio of the third quarter of 2012.

As for funding on page 14, we continued 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 credits with protection. Thus funding from DPGE, for example, decreased a little more to R$475.7 million in September.

Likewise, the balance of funding from credit assignment with recourse has also been gradually reduced as the portfolios assigned mature since Pan did not held more assignments of this type under the current administration. So we can see in the figure on the bottom right corner of the slide that the balance of R$634.1 million in portfolios assigned with recourse in the end of the third quarter represented a decrease of 18.2% in comparison to the balance in the end of the previous quarter and a decrease of 42.2% compared to the balance of R$1,377.4 million that we had in the end of the third quarter of 2012. The total balance of funding in the quarter was approximately R$16.9 billion, following the funding needs for our assets.

On page 15, we have the opening of the calculation of our Basel ratio, which was 15.17% for the financial conglomerate and 12.95% for the economic financial consolidated, while our operating margin stood at R$534.4 million for the financial conglomerate and R$99.2 million in the economic financial consolidated.

Finally, on page 16, we have a chart that demonstrates our stock performance over the past 12 months. The total financial volume traded in the third quarter of 2013 was R$161.6 million with a daily average of R$2.6 million, which is 44.7% lower than the daily average of the previous quarter.

On September 30, 2013, the market value of Pan was R$2.8 billion. Our stock started the third quarter of 2013 traded at R$5.29 per share and ended the quarter at R$5.20 per share with a devaluation of 1.7% in the period. The highest price was R$6.06 per share and the minimum was R$5.05 during the quarter. In the same period, the Bovespa Index appreciated by 10.81%.

Now I will turn the floor back to the mediator to begin the question-and-answer session. Thanks again to all participants.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Since there seems to be no questions, I would like to turn the floor over to Mr. Willy Jordan for his final remarks.

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

Well, thank you once again for your interest and participation in this conference call, and I hope to see you again next year already in the conference call for our full-year 2013 results. Thank you.

Operator

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