

Q2 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 Second Quarter of 2015 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 with the respective presentation. We would like to inform you that all participants will be in listen-only mode during the Company's presentation. And then 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 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 second Q '15 results.

Starting with the highlights on page three, we'd see that Pan maintained its growth strategy. The monthly retail credit origination average was R\$1.4 billion on the second quarter, 50% higher than the same quarter last year and 5% higher than last quarter. The corporate loan book increased 21% in 12 months, reaching R\$4.4 billion.

Our credit portfolio ended this quarter at R\$18.2 billion, even having assigned R\$2.8 billion in the quarter, growing 15% year-over-year and 2% quarter-over-quarter. The quality in credit concession is a priority and this can be verified by the increase in the percentage of contracts with gradings between AA and C, which represented 91.1%.

Our managerial net interest margin was 16% in the quarter, increasing over the 11% on both comparable quarters. As we always point out, different volumes and mixes of

portfolios assigned in each quarter influence these figures directly. And this quarter, Pan presented a net profit of R\$3.6 million and closed the quarter with shareholders' equity of 3.6 billion with a Basel ratio of 16.5% with 11.9% core capital.

On the next slide, slide four, we have the composition of the net interest income and net results. To make the Bank's evolution more clear, we'll begin to disclose the managerial net interest margin and even segregating the credit assignments effect.

Credit assignments results contributed to a strong margin this quarter of R\$812 million. But even excluding these assignment effects, we can notice that the return of the assets minus funding costs increased 14% in the year, even with the CDI rate rising over 21% over the last 12 months. We also see growth in credit operations and thus we have a credit margin of 16% in the quarter.

In the table below, we see the ALL expenses where the nominal increase relates to the portfolios growth, and the impact of some operations following the dynamics of the portfolio. Considering this, we had a gross income of R\$538 million in the quarter. And in other operating revenues and expenses, we made some provisions in the quarter to strengthen even more our balance sheet. In administrative and personnel expenses in addition to the originations increase, we have to keep in mind that the effect of the new rule for commissions expense accounting that generated an expense of R\$35 million.

We also saw an increase in collection costs by enhancing the recovery process and thus the income from operations ended the quarter at 25 million, leading to a net income of R\$3.6 million in the quarter.

On the next page, we present a chart with the quarterly retail origination in a table showing the different products. In the quarter, we granted R\$4.1 billion in retail credit, representing a monthly average of 1.4 billion, 55% higher than what we saw in the same quarter of 2014. This level is clearly supported by payroll loans that grew 136% in the year and vehicles also evolved growing 22% on a yearly basis.

On page six, we present the credit portfolio breakdown. On the first table, we see that vehicle financing is still the Bank's main portfolio, accounting for 35% of the on balance portfolio. Payroll loans continue to advance, more than doubling in size over the last 12 months, following second place with 29% contributing here to the portfolio's risk dilution.

In third place comes corporate loans with a share of 24% and the other products account for 12% of the portfolio. When we look at the credit portfolio with retained results in the left bottom chart, we see an evolution going to R\$18.2 billion, an increase of almost 15% year-over-year. And next to it, we see the quality of the portfolio that keeps increasing year-over-year, reaching a share of 91.1% with credit between double AA and C.

Going to page seven, we present the Bank's cost and expenses. Here segregating the expenses related to the credit origination. Personnel and administrative expenses totaled R\$276 million in the quarter. And here we have some influences, for instance collective agreements, benefits policy alignment within the Group. And also regarding

administrative expenses, we saw an intensification in the credit recovery process. When we exclude these control effects of credit recovery, we notice that the expenses followed the -- these -- the periods inflation.

In the figure below, we see the ALL expenses keeping the proportion of 1.1% of the portfolio and this is really healthy. Gross provisions of R\$274 million were driven by the portfolios increase and a few transaction, as I mentioned, and the recovery came strong at R\$80 million intensified by the moment and with a more strict collection schedule.

On slide eight, we have information on vehicle loans. As we can see in the top figure, we have maintained a balanced origination mix between dealers and resellers. The table on the bottom left shows the high degree of diversification in this portfolio's origination with the low concentration by economic groups, for instance the 10 largest groups account for only 13% of the total origination.

And next to it, we see the evolution of the origination and also the portfolio. The origination was of R\$1.9 billion in this quarter, 22% more in the annual comparison. And here we see that the portfolio that it has been decreasing basically due to the credit assignments balancing more the overall book.

On page nine, we bring two important charts with the evolution of the delinquency per Vintage of vehicle financing. The last one showing light vehicles and the right showing motorcycle delinquency per Vintage, and both charts clearly show the effects of the complete review that we have done here since 2011, and the constant fine-tuning in the models.

Moving on to slide 10, we see that Pan granted R\$2 billion in new payroll deductible loans, more than doubling the origination over the second Q '14. And here we are maintaining this level, which is also very healthy for the Bank. As a result, the portfolio itself has evolved reaching a volume of R\$5.2 billion in the end of this quarter. And we also noticed that our origination segregated by segments with the pensioners being the biggest origination channel for the Bank.

On page 11, we see the corporate loans portfolio. The corporate loans have evolved really well, seizing market opportunities and reach the balance of R\$4.4 billion in the second Q, 21% higher than the second Q of '14. And in the bottom left chart, you can see the high diversification of the portfolio by industry. Within the other industries, we have more than 30 different segments, so it is really very diversified. And regarding quality on the other chart, we see that 88% of the total portfolio is rated between A and C, which is also really pretty good for the portfolio.

About real estate on page 12, we noticed that Pan granted R\$130 million in the quarter and despite the total volume being lower, we can see an increase in home equity originations. The decrease was more related to mortgages, reflecting market conditions and thus the portfolio kept increasing ending the quarter at R\$840 million and the annual increase of 30%.

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Moving on to the next slide, we have credit cards in slide 13, and we show here the evolution of this business in the Bank. This product has been evolving and registered a total volume in transactions of R\$835 million in this quarter, increasing 13% year-over-year. Our credit cards base closed the quarter at R\$1.7 million of issued plastics.

On page 14, we have the insurance premiums originated by Pan, which totaled R\$44 million in this quarter. And here, we also see a continuous evolution and we want to expand this segment even more. Regarding the product's origination, we see that credit insurance remains as the main product with 70% of new premiums.

On Page 15, we show the evolution of consortiums sales. This product has also been evolving and considering some changes that have been done here in the Bank, we are expanding this product. It recorded a volume of R\$80 million in this quarter, growing 30% year-over-year. And we have been noticing an increased demand for this type of product here in the market, especially because of credit conditions.

And going to the funding on page 16, we continue to see an improvement, growing to follow the assets expansion of the Bank reaching R\$19.6 billion in this quarter. It is worth mentioning that in this quarter, we've raised the new credit facility with the IDB up to \$125 million for seven years. And here we conclude the presentation and open the session for questions.

Questions And Answers

Operator

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

A - Inacio Caminha {BIO 19326001 <GO>}

I thank you all for joining the call, and see you next quarter. Thank you.

Operator

This concludes the Banco Pan's Conference Call. You may now disconnect, and have a good day.

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