Q2 2014 Earnings Call

FINAL

Bloomberg Transcript

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 2014 Results. This event is also being broadcasted simultaneously on the Internet, both audio and slideshow, 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 know 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 were 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>}

Good morning, ladies and gentlemen. I'd like to thank you all for participating in this conference call of Banco Pan and its subsidiaries for the second quarter of 2014.

Starting with the highlights on page three, we see that Banco Pan maintained a positive trend in the indicators that are most important to its recovery. The origination of assets has maintained its growth trajectory in the long run, reaching a monthly average of R$1.22 billion in the first-half of 2014, 4.6% higher than the R$1.17 billion in the first-half of 2013.

The quarterly comparison factored in some events, such as the World Cup, the payroll deduction loan portability, the current moment of the auto loan financing market and internally the refinement of the real estate credit origination systems that has been done for the other business lines -- business lines in the bank.

Thus the second quarter leveled with the first one at R$1.2 billion. The credit portfolio with retained result ended this quarter at R$15.9 million, the same level of last quarter, but 13.5% higher than the same quarter of last year. It is precisely the interest earning assets growth that drives the expansion of the bank and the ongoing capital increase will allow us to keep growing it.

The good quality concession also remains as a target as we can verify by the increase in the percentage of contracts with ratings between AA and C, which represent -- represented almost 90% increasing of the two comparable quarters. In a similar line, our net ALL expenses totaled R$352 million in the first-half of this year, 20% lower than the net expenses in the first-half of last year. This results highlights our business expansion being done without compromising credit quality at any time, which means that we have never relax the parameters of credit approval to obtain production growth.

And net interest margin was 12.1% in the second quarter, above the 11.7% of the previous quarter, but 2.7 percentage points below the second quarter of last year. And the trade fund represented a consolidated net loss of R$70.4 million compared to 78.6 million net loss in the previous quarter into a net gain of 12.7 million in the same quarter of last year.

The shareholders' equity closed June to R$2,157 million and the Basel ratios stood at 11.5%. It's worth remembering that our Board of Directors has approved an ongoing capital increase up to 1.5 billion in common and preferred shares that one concluded and authorized by the Central Bank will strengthen our capital base and thus allowing us to speed up the credit portfolio growth by decreasing the credit assignments without recourse as a long-term strategy.

Now turning on to page four, we have the breakdown of the net interest margin already mentioned and the main items of the income statement. Regarding the P&L comparing both quarters of this year, there has been a net interest margin increase associated with the growth of interest earning assets. The revenue from financial intermediation have increased in the second quarter compared to the first one, due to an increase in the volume of credit assignment without recourse. And this lead to a gross profit from financial intermediation to reach R$280[ph] million, 3% higher than last quarter.

On the next page, on slide five. We have a chart with the quarterly asset origination and the table with the monthly average origination by segment. This quarter the origination averaged 1.2 billion in line with both comparable quarters due to the factors I already mentioned, like World Cup, Payroll loan portability and vehicle market moment, as well as the refinement in the real state credit origination process just like we did in other business lines. And the highlight in this quarter was for the corporate loan, which reported stronger origination supported by the thin maturity level.

On page six, we have the composition of the loan portfolio. And on the first table, we can see that vehicle financing remains as the main segments in the bank with almost -- with half of the bank's portfolio. In second place, we have the corporate portfolio with 22% share and payroll loan with 14%. And you can observe that in each quarter, we advance in the -- in the strategy of diversifying the portfolio.

The loan portfolio with retain results in the chart on the left bottom has remained stable comparing to the last quarter, mainly due to the higher volume of credit finance diminished the minimum capital required. And on the other hand, it has increased almost 14%, when comparing to the same quarter of last year reaching this almost R$16 billion as a upcoming balance. And again, the ongoing capital increase will enable this portfolio to grow even more.

On the figure on the right side, we observe that the quality has been maintained and this derives from the more conservative position in the origination of new loans. And also for the focus on lower-risk segment, which involves corporate, real estate, payroll and new car financing.

On page seven, we see that the net ALL expenses was of R$181 million in this quarter, above the 171 million of last quarter. And if you break down this value, we noted that this growth is explained by particular behavior in the corporate portfolio, while consumer loan and financing has presented a reduction of something around 5% in the net expenses, which is in line with what the Bank has been trying to achieve with its credit approval process.

On slide eight, we show a summary of expenses of the Bank and there has been a 1% decrease in the cost compared to the last quarter and a 2.5% decrease compared to the same quarter of 2013.

The increase that we see on other administrative expenses is mainly related to credit origination expenses and marketing, which will also faster the production on next quarters. Therefore discounting inflation, expenses has fallen significantly in real-times maintaining a decline and the rational use of the Bank's resources.

On page nine, we have more information about the vehicle origination and we observe that the mix has been very similar in both quarters. And the chart on the left bottom also shows that the average down payment and average term of the originated portfolio was in line with last quarter and also keeping a conservative approach. Net for origination, we also see that is very privileged and it's the 10 largest groups for instance only accounts for 11% of the origination, which is very good.

On the next slide, we had two important chart with the evolution of delinquency per vintage of vehicle financing. The last one shows light vehicles and the right ones shows the motorcycles delinquency per vintage. And that is clean in both figures in both the charts that how the process that has been reviewed in the bank has been contributing to the better performance of the originated portfolio since the second-half of 2011.

Moving on to the next slide, we have the evolution of the payrolls deductible loan portfolio. And in this quarter fund disbursed R$846 million and this type of loans affected by the factors already mentioned such as World Cup and portability in this segment. And it is interesting to notice that these factors, they affected both the origination on the bankers and also in the correspondent banking. Even though the portfolio balance raised almost 4% reaching 2.3 billion in this quarter.

On slide 12, we can see that corporate origination loans reached R$915 million, which is 22% higher than the previous one. And the industry has captive this movement of diversifying within its own segment. The portfolio itself reached R$3.66 billion at the end of this quarter, 9% higher than last one and 23% higher than the second quarter of 2013.

Moving forward to the next slide, we noticed that Banco Pan granted R$160 million in mortgage loans in this quarter and this reduction also the first quarter is explained by the refinement on the origination systems and processes as occurred in other business lines to reach the desired origination. The highlight in this quarter was the origination at Brazilian Security acquiring R$26 million in real estate receivables.

On page 14, we have some data on the insurance portfolio. We also see that credit insurance remains as the main source of premiums. But the other has consortium, vehicle compulsory insurance and credit cards increasing its shareholder on the premium revenue.

Looking at the evolution of the premiums, we had R$174 million, premiums this quarter. And the net income stood at R$16 million, an increase of 27% compared to the last quarter. Shareholders' equity stood at 151 million in the end of this quarter, 11% above the last one. And just to make a quick note here that the drop from the fourth quarter to the first one was due to a dividend distribution of R$55 million.

As for funding on page 15, we continue to extend reaching 18.8 billion and we kept the trend of exchanging more expensive liability inherited from the past by-lines with more competitive market costs, reflecting the improvement in funds, credit risk perception. Both starts on the bottom shows this movement and DPGE for instance ended at R$217 million and credits assigned with recourse decreased 34%, ending at R$245 million.

On page 16, we show the Basel ratio, which stood at 11.5%. It is noteworthy that our operating agreement allow us to refine credits without recourse and operate safely, even at lower levels of Basel ratio.

The operating margin stood at R$40 million, and as we mentioned before, the ongoing capital increase by common and preferred shares up to 1.5 billion will allow us to grow significantly our portfolio. This way, increasing our revenue and expediting the tax credit consumption as planned.

Finally, on page 17, you'll have some information related to our stock. From now on, our trading ticker will be BPAN4 for preferred shares and the total financial volume traded this quarter was up R$33 million with the daily average of R$560,000. In this period, the stock price fell 5% in the quarter quoted at R$3.44, flat the Bovespa grew by almost 6% and at the end of June, the market value of fund was R$1.8 billion.

And with that, we conclude the presentation and I now turn the session for questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) It seems -- 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>}

Thank you all again for participating in this conference call. I look forward to seeing you on the next quarter. And have a great day.

Operator

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