Q3 2014 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 Third Quarter of 2014 Results. This event is also being broadcast 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 [ph] 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 conference.

Inacio Caminha {BIO 19326001 <GO>}

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

Starting with the highlights on page three, we see that Pan maintained a positive trend in the indicators that are most important to its recovery. The origination of credit assets has maintained its growth trajectory, reaching a monthly average of BRL1.3 billion in the third quarter of 2014, 10% higher than the last quarter and 14% higher than the same quarter of last year. The credit portfolio with retained result ended this quarter at BRL16.4 billion, even having assigned BRL1.4 billion, thus growing 3.5% over the previous quarter, and almost 15% over the same quarter of last year. It is precisely the interest earning assets growth that drives the expansion of this bank, and the capital increase will contribute to this.

The good quality of concession remains as a target and this can be verified by the increase in the percentage of contracts with ratings between AA and C, which represented 90.6% increasing over the two comparable quarters.

In the similar line, our net ALL expenses totaled BRL160 million in this quarter, 12% lower than the net expense in the last quarter. These results highlights that our business expansion has been achieved without compromising credit quality at any time, which means that we have never relaxed the parameters of credit approval to obtain production growth.

In this quarter, Pan presented a consolidated 69.7 million net loss compared to net losses of 70.4 million in the last quarter, and 20.5 million in the same quarter of 2013 and this is mainly because of the different dynamics of the credit assignments without recourse.

In this quarter, Central Bank approved the capital increase of BRL1.3 billion and with that Pan's consolidated shareholders equity closed December at BRL3.4 billion. This capital increase will lead our Basel ratio to 18.1% and will allow us to speed up the credit portfolio growth by decreasing the credit assignments without recourse.

As announced in August, the insurance company was sold and we are still waiting for the Central Bank's approval and we expect it to happen on the fourth quarter.

Regarding capitalization, we are currently on the preemptive rights period to subscribe the redeemable preferred shares that will last until November 19.

Turning now to page four of our presentation, we have the breakdown of the net interest margin and P&L statements. In the first table, we see an increasing volume of credit operations over the quarters, and this is their importance to the bank. Investments also increased due to the capital increase.

As we noted, a lower volume of credit assignments with higher portion of vehicle loans, we accounted a lower credit assignments revenue and then all of these factors combined reduced the net interest margin, which was 9.3% in this quarter.

On the P&L statement, we see this reflected in the lines of revenue from financial intermediation and also in the expenses from commissions due to credit assignments. If we look at the revenue from financial intermediation as a whole, we will see an increase compared to other quarters mainly because of income from derivatives and financial instruments, but this should be analyzed along with funding expenses.

When we look at funding expenses including this, it increased the expense because of higher funding balance also due to the more working days than we had in the last quarter, and also the basic rates increased significantly compared to last year. The ALL expenses came lower and with all these factors, the gross profit from financial intermediation for this quarter was BRL213 million. Operating expenses were lower compared to the other two quarters and so the net income has improved a bit compared to the last quarter, closing at 69.7 million loss.

On the next page, we have the chart with the quarterly asset origination and the table with the monthly average originations by product. Despite the current economic scenario, credit origination reached a monthly average of BRL1.3 billion in this quarter, a 10% increase compared to the production of last quarter and 14% higher than the one observed in the last year in the same quarter. We know that this increase was driven mainly by payroll loans increasing 48%, and vehicle loans increasing 7%, both compared to last quarter.

On page six, we have the composition of the loan portfolio. On first table, we notice that vehicle financing remains as the main segment in the bank, representing 46% on balance portfolio, but on the other hand, the other business lines are growing, showing the diversification that we seek. In second, we have corporate portfolio with a 22% share, followed by a payroll loan portfolio, which closed this quarter with 19% of the total portfolio, and the other products accounted for something around 13% of this portfolio.

The capital increase allows to make progress in the portfolio retention, which reached BRL16.4 billion as we see in the lower charts in the left, showing an increase of 3.5% over the last quarter and 15% comparing to the third quarter of 2013.

As shown in the chart on the right, the good quality of the portfolio continues to benefit from the more conservative posture that we had since 2011. And here we assigned these improvements, not only to more robust criteria for approvals on our products, but also to the strategy of portfolio diversification, for example, with payroll and real estate.

On page seven, we show an analysis of the bank's cost and expenses, which reported an increase of 3% over the previous quarter. And this was driven mainly by the collective arrangements -- collective agreement on personnel expenses. On a nearly comparison, we had a reduction of 0.6% and it is interesting to notice that the inflation this period was 6.7%. So we kept falling in both real and nominal terms. The credit recovery has remained as an important positive contribution over the past few quarters. And this quarter, we had a BRL69 million revenue in line with last quarter.

The ALL expenses also improved, both for individuals and corporations. For individuals, we had a reduction of 7% from 220 million in the last quarter to 205 million in this quarter. And for corporations, we had a 25% decrease from BRL33 million to BRL25 million this quarter, this lead the ALL expenses net to 160 million down from 181 million in the last quarter. It is noteworthy that this expense has reduced even with the growing portfolio.

On slide eight, we have the information on the performance of the vehicle portfolio. As we can see in the top figure, we have maintained the origination distribution between dealers and resellers. The picture on the bottom left shows the high diversification degree on vehicle on the origination with low concentration by economic groups. For example, if we look at the 10 largest groups, they accounted for only 11% of our total originations.

The bar chart shows the evolution of quarterly origination and the line shows the portfolio evolution. And this quarter we granted BRL1.7 billion in new loans, 7% more than the previous quarter and the reduction as we see in the portfolio is related to the credit assignments made without recourse.

Going to page nine, we bring two important charts with the evolution of the delinquency per vintage for vehicle financing. The last one shows the evolution for car lending and the right one shows the delinquency per vintage on motorcycle originations. These charts both clearly show the effects of the complete review process that we had on credit approval systems and modeling, achieving substantial improvement in the quality of originated portfolio.

On the next page, we see the evolution of the payroll loans. In this quarter, we disbursed BRL1.2 billion in new payroll deductible loans, 48% higher than the previous quarter and this was a historical record in originations for such loans. With this result, payroll loan portfolio has evolved well, reaching BRL3.2 billion, an increase of 40% compared to the last quarter. We also show the origin of our production where the INSS, the pensioners remains as the biggest segment with 38% of our originations.

Going to page 11, we have the corporate loans information. There we see that the production totaled 829 million this quarter, 13% lower than the last quarter, but 41% higher than the same quarter of last year, in line with our expectations. The expanded portfolio that includes guarantees with the balance of 3.7 billion at the end of September in line with the one recorded in the end of June, but 23% higher than the balance recorded last September.

In the bottom left figure, we can see the high diversification of origination by industry. And on the other side, we see the high quality of the portfolio with credits between A and C corresponds to 89% of the total loan portfolio.

On the next page, page 12, we notice that Pan granted BRL137 million in real estate loans this quarter and this is explained by the conservative criteria in the origination as we have observed in the other lines of businesses. The credit portfolio was well in this quarter, closing at BRL704 million.

On page 13, we show the evolution of the results for the insurance company. In the pie chart, we see that credit insurance remains as the main product for us, extended warranty also draws attention. In its first quarter of operation, it accounted for almost 4% of the total premium and this is very good. In the figure, beside [ph] we have the 12 months accumulated premiums, which totaled BRL182 million this quarter.

Below show Pan's insurance consolidated net income, which was BRL11.5 million this quarter, it came down from last quarter due to the tax installing program division [ph], we generated an expense of 5.3 million, but had a positive managerial results. Pan insurance shareholders' equity totaled BRL161 million in September of this year.

On page 14, we show the transaction volume evolution of Pan credit card business lines. And this is the product that has been gaining focus and expanded 15% in the year, reaching BRL756 million of transaction volume in this quarter. The credit card base concluded this quarter with 1.8 million cards issued.

As for funding on page 15, we continue to grow its outstanding balance, reaching BRL20.1 billion in this quarter, 7.4% higher than the last quarter. And the two charts below shows the legacy's [ph] maturity both DPGE and credit assignments made with recourse before 2011. These two source of funding have been replaced by funding with more competitive market costs, reflecting improvement in funds, credit risk perception by the market.

And finally on page 16, we show the Basel ratio to the financial conglomerate, which was reinforced by the capital increase ended on August and stood at 18.1%, 12.8% of common equity Tier 1. This quarter's operating margin stood at BRL1.3 billion.

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

Questions And Answers

Operator

Yes, thank you. Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Since as there are no questions at the present hour, I would like to turn the call back to Mr. Inacio Caminha for any final remarks.

A - Inacio Caminha {BIO 19326001 <GO>}

Thank you all for your presence. Have a great day, and see you next quarter. Thank you.

Operator

Thank you. This concludes Banco Pan's conference call. You may disconnect your lines. Have a nice day.