Q1 2016 Earnings Call

Company Participants

- Inacio Caminha, Investor Relations Superintendent

FINAL

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Banco Pan's Conference Call to discuss the First Quarter of 2016 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. 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) Please note, this event is being recorded.

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 first Q '16 results. Beginning with the highlights on page three, we noticed that despite the seasonality of the first quarter Pan kept advancing on its growth strategy.

The monthly retail credit origination average during the first Q '16 was of R$1.5 billion, 3% higher than last quarter. The corporate loan book with guarantees ended the quarter at R$3.7 billion, contracting over last quarter following the scenario.

Our credit portfolio stood at 17.5 billion at the end of the quarter because of the 2.1 [ph] billion in credit assignments that we made without recourse in the quarter. We'll see that the mix has changed on our books. And now payroll loans is the largest portfolio.

Our managerial net interest margin was 11.6% in the quarter and we have maintained this level. This quarter Pan posted a negative result of R$96.1 and we'll explore that on the coming slides.

Our equity stood at R$3.55 billion and our Basel Ratio stood at 14.5%, with 10.5% core capital, because of the negative impact of BIS III implementation schedule, mainly related here to 0.6 reduction from macro prudential adjustments, and 0.6% reduction related to Tier II decay.

On next slide, we have the net interest margin and the net results break down. On the first table, we can see that the managerial net interest margin was R$606 million or 11.6%. The results from credit assignments have increased due to the decrease in interest rate futures.

On the other hand, as we have been hedging these portfolios for the assignment at the time of the origination, in this quarter we had a negative impact on derivatives, which affected the overall NIM.

On the second table, we have the yellow expenses and it has increased in the first quarter, really related to the economic scenario, and also to the bank's conservatism, mainly coming from SME's. We'll have more details further on.

The administrative expenses have been impacted by the change in accounting rules for commissions in 2016, distorting not only the NO, but also the quarterly comparison, personnel expenses remain stable Q-over-Q, but tends to come down as a result of some internal changes that we have been through. Forward in the presentation, we'll have more details regarding both expenses.

We presented an operational loss of R$167 million in the first quarter and as a result, we ended the quarter with a negative result of R$96 million.

On the next page, we have the quarterly retail origination and a table showing the average monthly origination by product. We granted R$4.5 billion in retail credits this quarter, representing a monthly average of 1.5 billion, 3% higher than the previous quarter and 6% lower comparing to the first Q '15. And here we notice, some movements. On payroll for example the first Q '15 has been influenced by the increase in Pan or that happened at the end of 2014.

And on the 4Q '15 the entire market faced the decrease of origination in volumes. But then in the first Q '16, we resumed production reaching 33% growth in the quarter. On the eco loans besides the seasonality of the first quarter, the market is facing a challenging scenario. In credit cards also we have seasonality in this period, but we saw an annual growth of 18% supported by the payroll cards transactions.

On real estate, the home equity origination also reflects seasonality of the first quarter, but we had a better -- a better figure of this specific product, the home equity comparing to the last year first Q. End consumer loans remained stable.

On page six, we present the credit portfolios breakdown. On the first table, we see that due to the strong origination in the first quarter, the credit assignment mix, but that payroll now represents 32% of the unbalanced portfolio.

Vehicle financing follows with a 31% share and in third place comes SMEs, that cover loan portfolio with 22% including guarantees issue. Among these three products, only payroll loans grew on both annual and quarterly comparisons.

The other products that we have account for 15% of the portfolio, with a more relevant improvement on credit cards, due to payroll loans credit cards. The credit portfolio ended the first quarter so at R$17.5 billion, as we see in the lower left chart. We assigned 2.2 billion in credit without recourse, generating some annual and quarterly decreases.

Our solid origination on the other hand allows us to choose if you want to grow or maintain the portfolio, and then we can adjust this by doing the credit assignments addressing the credit exposure that we want to have here in the bank. And besides the economic scenario, we see in the lower right chart that the portfolio quality has remained in a good level due to the conservatism and improvements on our credit modeling for retail.

On page seven, we present the bank's cost and expenses, segregating the expenses related to credit origination. Personnel and administrative expenses totaled R$285 million in first Q. Personnel expenses remained stable comparing to previous quarter. We have made some changes in the first quarter that should bring improvements in the coming quarters for this line.

As for the administrative expenses, the annual increase is linked to few different sources, such as collecting expenses, IT and also marketing. And we have an ongoing project here in the bank targeting internal efficiency.

On the origination expenses, we see the effect on the Central Bank's accounting rule, that stated a higher percentage for 2016. In general, it went from 2% upfront expense to 4%, reducing the amount differed.

In the chart below, we observe the net ALL expense and because of this scenario, it has increased driven by SMEs provisions. And here the guarantees that we have reduce the actual loss after executing the collateral.

Looking at the credit recovery, we notice that the bank has been reaching good results. But always, the first quarter is seasonally weak.

On slide eight, we have information on vehicle loans. As we can see in the top figure, we have maintained a balanced origination between dealers and resellers. The bottom left table shows the high diversification degree of our origination, with low concentration by economic groups. For example, the ten largest groups account for only 12% of our origination.

And the bar chart shows the evolution of the quarterly origination, and the line shows the portfolios evolution. In this quarter we granted R$1.6 billion in new loans and the portfolio has been decreasing due to the credit assignment.

This quarter we have launched a new origination platform for vehicle financing. We concluded a tax period and now our sales team is been trained. This will improve our processes, making it more simple to operate and to originate new loans.

On page nine, we bring two charts with the evolution of the delinquency per vintage in vehicle financing, showing the improvements in light vehicles in the left and also motorcycles in the right one. And here, we clearly see that the positive effects of all the enhancements and changes in the credit modeling since 2011.

On next slide, we present the evolution of payroll loans. The ungranted R$1.8 billion in new loans, an increase of 33% over the previous Q. The payroll deductible credit portfolio has evolved positively during the first Q, reaching 6.5 -- R$5.6 billion and contributing to the diversification of the banks portfolio.

Looking at the portfolio breakdown, we see the INSS, the pensioners as the biggest individual segments with 36%. On page 11, we see the corporate loans portfolio. We became more conservative this quarter and noticed a weaker demand from our clients. So the portfolio ended up reducing to 3.7 billion in this quarter.

In the bottom left chart, we can see the high diversification of portfolio by industry. And the others group gather more than 30 different segments. By economic groups, we have an average tickets of around R$10 million. And on the right side, we see the high quality of the originated portfolio with 76% of the -- of loans rated between AA and C, with an adequate level of guarantees.

On page 12, we see that Pan grant in R$51 million in Home Equity during this quarter, reflecting a seasonal reduction over last quarter, but increasing annually coming from this 35 million to 51. The portfolio continued to grow closing the quarter at R$897 million.

On page 13, we show the transaction volume of our credit card business. This product is increasing consistently, recording a transaction volume of R$909 million in this quarter, increasing 18% over the same quarter of '15. And this result was influenced by payroll loan card, which has doubled in volume over the past 12 months.

On page 14, we have insurance premiums originated by Pan, which increased annually and also quarterly reaching R$43 million. And we see that credit insurance remained as the main product, with insurance on vehicle segment accounting for 70% of new premiums.

On Page 15, we show the evolution of consortium sales. This product presented a very good volume in the quarter, recording R$251 million. With a strong demand this is a product which is key on our strategy to increase the Bank's service fee.

And funding on page 16, remain stable around R$19 billion in the last quarter, following the maintenance of our assets.

With this, we conclude the presentation and open the line for questions.

Questions And Answers

Operator

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

A - Inacio Caminha {BIO 19326001 <GO>}

Well. Thank you again for the presence. Have a nice day and see you next quarter. Bye-bye.

Operator

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