

Q1 2015 Earnings Call

Company Participants

- Inacio Caminha, Superintendent, Investor Relations

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Banco Pan's Conference Call to Discuss the First Quarter of 2015 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 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 would like to thank you all for participating in this conference call of Banco Pan and its subsidiaries for the first Q of '15. Starting with the highlights on Page 3, we'd see that Pan maintains a long-term improvement in the indicators that are most important to its growth. Monthly credit origination average was BRL1.5 billion in the first quarter, 24% higher than the same quarter of 2014 and 19% lower than the last quarter related to seasonality. We'll see further on the dynamics in each product.

The credit portfolio with retained results ended this quarter at BRL17.9 billion, even having assigned 2.4 billion in the quarter, so growing 12.8% year-over-year and 1.9% quarter-over-quarter. And this is the portfolio that drives the expansion of the bank. 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 in the annual comparison, which represented 90.9% increase in total loan portfolio [ph].

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Our net interest margin was 12.2% on the quarter compared to 11.7% and 14.7% and we always point out that the difference amount in mixes of the credit assignments without recourse in each quarter, have a great influence in this ratio. In this quarter, Pan presented a consolidated loss of BRL73.5 million compared to 78.6 million loss in the first Q '14 and compared to 226.5 million profit on last quarter, when we had a great impact as well of the insurance company sale, resulting in BRL232 million net results in that quarter. Regarding our shareholders' equity, we ended the first Q of '15 at 3.5 billion and our Basel ratio stood at 16.8% with 12.3% core capital.

On the next slide, we have the breakdown of the P&L statement and the net interest margin. Looking at the main lines, we noticed that the revenue from financial intermediation has increased in the quarter, mainly due to results with derivative and financial instruments, which offset the financial expenses. So going to the first line, lending operations have two main components; first the carry [ph], which had an upside of 7% in the quarter, and increased 34% year-over-year, more than the portfolio growth itself. And also the revenues from credit assignments which were made in this quarter in a less favorable interest rate scenario, so contributing with a lower revenue.

The financial expenses analyzed together with the derivative and financial instruments had a nominal increase, but fell on a relative basis. The stock of funding increased 3% and also the CDI increased almost 9% in the quarter, so we would expect 12% increase on the expenses, but we only had 9% in the quarter, so this was positive. The ALL expenses increased following the growth in the credit portfolio and without that, we got to a gross profit of BRL370 million. Another aspect here in this statement relates to the commission expenses. There was a new Central Bank rule that demands an anticipation of a greater portion of the expense that we have and that impacted the results in BRL32 million. And the other expenses reduced in the quarter, we'll see that further on.

In this way, that the net income from operations stood at BRL109 million loss and the net income ended the quarter at 73.5 million loss. In the second table, we have the net interest margin and there we can see the direct impact of lower revenue of credit assignments that I've mentioned, but also more important, we can see the increase in the credit operations, which led to the NIM of 12.2% in this quarter.

On the next page, we have the chart with the quarterly asset origination, in the table with the monthly average origination breakdown by product. In the first Q, we originated BRL4.6 billion in new loans, representing an average of 1.5 billion per month, 24% more than what we saw in the first Q of '14. Clearly here this increase was driven mainly by payroll loans, that achieved the new level of origination, rising 92% [ph] over the last 12 months.

Seasonal effects had a great influence when we compare this quarter's origination to the last one, especially in corporate loans. And the payroll loans that had been influenced a lot in the fourth Q, by regulatory changes maintained its trend, reaching a new level well above the other quarters in the chart. And also it is worth mentioning that even in a more challenging scenario, vehicle loans also pointed a positive contribution to the first quarter, rising 7% year-over-year.

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On Page 6, we have the breakdown of the loan portfolio. On the first table, we see that vehicle finance remains as a main portfolio in the bank, but continues to reduce its share, representing 38% of the on balance portfolio. Payroll loan portfolio keeps increasing, more than doubling its share over the last 12 months, representing now the second largest portfolio with 26% and also contributing to the risk diversification of the portfolio.

In third place, we see the corporate loan portfolio with 24% and the other products accounted for 12% of the portfolio. The credit portfolio with retained results ended the quarter at BRL17.9 billion, as we see in the lower left chart, showing an increase of 13% year-over-year and 2% over the last quarter. And here, we also highlighted that our origination capacity goes beyond this increase, because we have assigned, for instance in the quarter BRL2.4 billion in credits during the quarter. Also the good quality of the loan portfolio as shown the right lower chart continues to benefit from the conservative posture of the origination of new loans and this also has helped the bank to improve its portfolio.

On Page 7, we show an analysis of the Bank's cost and expenses and because of that new accounting rule regarding commissions payment that I've mentioned, we disclosed the expenses related to credit origination in the table. The expenses ex-origination totaled BRL313 million in the first quarter, decreasing 6.6% over the last one. As I said before in this quarter, we had 32 million expense due to this new rule and basically, this requires an anticipation of a greater part of the commission. There is a transition period and this anticipation will increase annually until 2017, but this is not an increase in the expenses, it's just more an anticipation. You have more in the moment of the origination and less expenses in the coming quarters related to that specific origination.

In the chart below, the ALL expenses amounted 252 million in the first quarter, while credit recovery totaled BRL62 million resulting in a net ALL expense of 190 million at the end of the quarter and this also is related to the seasonality of the quarter and also to the portfolio increase. Regarding the credit recovery, it increased 9% annually in retail, because there was an 8 million corporate recovery in the first Q '14. So if you exclude that, you see an improvement in the retail recovery.

On Slide 8, we have information on vehicle loans. As we can see in the top figure, we have maintained balanced origination between dealers and resellers. The table on the bottom left shows the high diversification degree of our origination, with low concentration by economic groups, for example the 10 largest groups account for only 13% of our origination.

And the charts next away, it shows the evolution of the quarterly origination and also the balance of the portfolio. In this quarter, we granted BRL1.7 billion in new loans, 70% more than what we had granted in the first Q '14 and the portfolio itself has been decreasing just because of the mix of the credit assignments.

On Page 9, we bring two important charts that show the evolution of delinquency per vintage of vehicle financing. The left one shows the evolution for light vehicles and the

right one for motorcycles and both charts clearly show the effects of the complete review in Pan's credit models since 2011.

On the next page, we can see the evolution of the payroll deductible loans. In the first Q '15, Pan granted 2 billion new loans, almost doubling the production in the annual comparison. With this result, the payroll loan portfolio has evolved well, reaching 4.7 billion, becoming the second largest portfolio of the Bank. We also show the origin of our production, where the pensioners remains as the biggest segment with 39% of the reduction.

On Page 11, we see the corporate lending. The origination this quarter was BRL647 million, impacted by seasonality in the economic environment. Thus the credit portfolio reached a balance of 4.2 billion at the end of March, 25% higher than the balance in the first Q '14 and pretty much in line with the balance of last quarter. In the bottom left chart, we can see the high diversification of the portfolio by industry. And on the right side, we can see the high quality of the originated portfolio with 88% of the total rated between A and C.

Going to Page 12, we noticed that Pan granted BRL151 million in real estate loans in the quarter as a consequence of seasonality again and also Pan's conservatism. The credit portfolio increased annually 36%, closing the first quarter at BRL822 million.

On page 13, we show that the transaction volume evolution of Pan credit card business line. This is a product that has been gaining focus and expanded quarterly transaction volume 13% year-over-year, reaching BRL770 million in this quarter. The credit card base closed the first Q with 1.8 million issued cards.

On Page 14, we have insurance premiums originated by Pan, which totaled BRL42 million in this quarter. We continue to grow our production in this segment, also having in mind that we have an agreement until 2034 to originate insurance premiums, receiving a fee for that. In the pie chart, we present a breakdown of the premiums and we can see that credit insurance is the main product, with almost 70%.

The funding on Page 15 continue its growth, reaching BRL20.9 billion, 14% higher than first Q '14, supporting the growth of the Bank's assets. In the table, we can highlight the evolution of the real estate in Agribusiness letters of credit, reaching a balance of 2.7 billion, which are more pulverized source of funding with really attractive rates and both charts below show the legacy's [ph] maturity. Now these two types of funding represent less than 1% of the total funding at the end of the quarter.

On Page 16, we show the Basel ratio and it ended the quarter at 16.8%, with 12.3% of common equity Tier 1. The margin stood at 1.1 billion.

And with that, 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) Having no questions, I would like to turn the floor over to Mr. Inacio Caminha for his final remarks.

A - Inacio Caminha {BIO 19326001 <GO>}

Well, I thank you all for the presence. Have a nice day. Thank you.

Operator

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

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