



Paraná Banco – 3Q11 Conference Call Speech - 11/11/2011

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Slide 1.

Good afternoon ladies and gentlemen. Thank you for coming to Paraná Banco's third quarter results conference call. At the end of this presentation, we will have a question and answer session. Let's get right to slide # 3.

Slide 3.

The net income for the quarter reached R\$24.6 million. The result was influenced by a lower contribution from the insurance business and a change in the accounting treatment of commissions on payroll-deductible loans, which changed from being linear to dropping exponentially.

Because of this, rates of return for the quarter were below those of the previous quarter. Return on equity ended the quarter at 8.9%. Return on assets 2.9%. In turn, the net interest margin stood at 11.3%.

The loan portfolio ended September up 20.6% compared to September 2010. Approximately 96% of the loan portfolio is rated between risk levels AA and C.

We highlight the growth of the middle market portfolio, which ended September with a balance of R\$267 million, 30% higher year on year.

Deposits grew by 13.8% in the year.

Total assets amounted to R\$3.3 billion, up 8.4% compared to September 2010.

Slide 4.

On slide # 4 we will comment on non-recurring events that happened in the quarter and had an impact on net income. Three factors influenced the result in 3Q11.

The first, as we had reported in June, was a reversal of a R\$2.9 million expense allowance booked in 2Q11.

The second was the production goal achievement bonus paid in July, which affected the quarter result by R\$1.0 million.

Finally, non-recurring expenses related to the investment made by Travelers in the insurance holding company in June 2011 impacted net income for the quarter by the amount of R\$1.8 million.

Adjusted to these events, net income ended 3Q11 at R\$23.6 million, a lower result than in the previous quarter and 3Q10. This result was influenced by higher administrative expenses deriving from the new criterion for commission recognition, and by a lower contribution of the insurance business in the consolidated result. This was expected as it was the first quarter that the Bank has a 56.6%, rather than 100%, interest in insurance companies.

Slide 5.

On the next slide, we can see the impact of the commission expenditure and the insurance business contribution in the result in the graphs.

In the top graph on the right you can see that the commission expenditure closed at R\$11 million for 3Q11. This value, which is adjusted for the goal achievement bonus, reflects the commission expenditure by the exponential accounting treatment. The commission expense is now recognized in an amount that follows the same curve of the recognition of interest income.. This implies that even in a stable production environment, commission expense are higher early on in the contracts. We understand that this is a beneficial impact, because it reduces the balance with expenses to be recognized and is in line with international standards.

The chart below shows us that the insurance business's adjusted net income in 3Q11 was 4.7% higher than in 2Q11. The insurance business contributed less to Paraná Banco's result, following the decrease in the Bank's interest in the insurance companies. However, the insurance result tends to grow as this business's retention capacity increases and P&C transactions become operational.

Slide 6.

On slide # 6, let's talk about the Company's financial performance.

Interest income totaled R\$386.9 million in 9M11 and interest expenses reached R\$205.5 million. In this quarter the expense provision was positively impacted by the reversal of R\$2.9 million

The net interest income before the provision for doubtful accounts, grew by 15% in the first nine months of the year compared to the same period in 2010.

The net interest margin reached 11.3% year-to-date against 11.9% in the same period in 2010. Given the recent cut in the prime rate, the funding expense which is mostly post-fixed tends to decrease, and the interest income mostly prefixed tends to remain flat.. This will be favorable to the Company from 3Q11.

Slide 7.

The graphs on slide #7 show the behavior of the efficiency ratio, return on average equity and return on average assets.

During the third quarter, the efficiency ratio increased by 7.7 percentage points compared to the previous quarter. This increase reflects the smaller contribution from the insurance business.

The adjusted ROAE was 8.9% in the third quarter, down from the previous quarter, reflecting the impact of the capital increase in the insurance business. Adjusted ROAA reached 2.9%.

Slide 8.

On slide # 8, we examined the evolution of the total loan portfolio, the PDD/loan portfolio ratio and the delinquency rate measured by the loans classified as level H.

Looking at the blue and green lines on the graph we can see that delinquency rates are stable.

We can also see a 20.6% annual growth in the loan portfolio in the blue columns. Our strategy is to achieve sustainable growth, which means maintaining a good quality portfolio. The balance of the loan portfolio assigned in 3Q11 represented less than 0.3% of the consolidated portfolio.

Slide 9.

On slide # 9 let's talk more about the quality of the loan portfolio and its provision.

In the table at top of the slide, we can see the coverage of the portfolio and the levels of actual loss. The coverage for overdue loans over 90 days was 102.0% and overdue more than 180 days was 178.4%. We consider this level of provision sufficient, since the effective loss rate of our loan portfolio is only 0.4%, as shown on the last row of the table.

The bottom of the slide compares the quality of the Paraná Banco portfolio against the market in general, and we can see that our delinquency rates are very satisfactory, remaining below the average of the financial system as a whole.

Slide 10.

On the next slide, we will talk a little bit about the performance of the payroll-deductible loan portfolio. Portfolio growth in the quarter was 3.1%, and 18.4% in the year.

Origination in the quarter reached R\$300.2 million and remained stable when compared to the previous quarter.

At the end of the September, the payroll-deductible loan portfolio was composed as follows: 45% through agreements with state governments, 27% with municipalities, 23% with INSS (Social Security) and 6% with other federal entities. In September, 96.3% of the payroll-deductible loan portfolio was concentrated between risk levels AA and C.

Slide 11.

The next slide shows the geographical distribution of distribution channels used by the Bank.

The Bank distributes payroll-deductible loans through 15 Paraná Crédito stores, 57 exclusive brokers and 360 multi-brand brokers in all major regions of the country. In the quarter we went through a restructuring process of the exclusive brokers channel, and now Paraná Banco's business model is aligned with the Central Bank requirements.

In 3Q11, 20% of loan origination came from Paraná Crédito stores, 29% from exclusive brokers and 51% from its traditional network of brokers.

Slide 12.

Slide # 12 presents the performance of the portfolio in the middle market. This quarter, we satisfactorily finished a pilot project to prospect for new clients which tested the efficiency of exploring previously selected client bases. We intended to filter clients by pre-analysis. The effectiveness of this strategy was very positive since it allowed for us to access new clients more assertively.

In September, having explored only 5% of the potential clients base, 27% of middle market clients were also JMalucelli Seguradora clients. The intention now is to expand this project to other companies in the JMalucelli Group.

Also in this quarter, we set up new middle market products: vendor, comprador, supplier assignment, CDCI and 13th salary working capital.

Slide 13.

On the next slide, we can see that the balance of the middle market portfolio closed September, 2011 at R\$267 million, a growth of 29.7% compared to September, 2010.



This growth has maintained the quality of assets. In September, 98.0% of the middle market portfolio was rated AA to C

Slide 14.

On slide #14 we are talking about funding. We can see that the most of our funding structure consists of time deposits, followed by the issuance of DPGEs (Time Deposits Secured by the Brazilian Credit Guarantee Fund), and securities issued abroad in the amount of 100 million dollars.

Compared to 3Q10, total funding grew by 9%, closing September at R\$1.8 billion. Most deposits were concentrated in institutional investors, followed by corporations, financial institutions, individuals and related parties.

Slide 15.

Jumping to slide # 15, we'll talk about the bank's capital structure.

Even after Circular Letter 3,515 of the Central Bank of Brazil became effective, increasing the Risk Weighting Factor for payroll-deductible loan transactions maturing in over 36 months from 100% to 150% beginning in July 2011, our capital adequacy ratio closed September at 34.4%. Our comfortable capital adequacy ratio has now become a competitive edge.

Slide 16.

On slide # 16, we show the ratings of the four agencies that periodically analyze Paraná Banco. All agencies rate us as low credit risk.

Slide 17.

Slide #17 shows our buyback programs since 2008. So far 23 million and 600 thousand shares at an average price of R\$7.27 have been purchased. We have an open buyback program with a balance of 115,000 treasury shares. We believe that the buyback programs create value for shareholders, and this is evident in the graph to the right of the slide which shows an increasing earnings per share trend line.

In 3Q11, R\$0.18 in earnings were distributed resulting in a 64% payout in the quarter.