

Q3 2021 Earnings Call

Company Participants

- Rafael Augusto Sperendio, Chief Financial Officer
- Ullisses Christian Silva Assis, Chief Executive Officer

Other Participants

- Marcelo Telles, Analyst
- Thiago Lins, Analyst

Presentation

Operator

Welcome to the conference call of BB Seguridade. Good morning, everyone. Welcome to the Earnings Release for the Third Quarter of 2021. This conference call is being recorded with simultaneous interpretation into English. (Operator Instructions) And we are going to start with the presentation of our CEO, Ullisses Assis; and our CFO, Rafael Sperendio. (Operator Instructions) After the presentation by the company's executives, we are going to start the Q&A session. (Operator Instructions)

Now moving to Ullisses for him to start the presentation. Ullisses, good morning. You may start.

Ullisses Christian Silva Assis

Good morning, Philip. Good morning, everyone. I would like to thank very much everyone for their presence here today. It's a huge pleasure to be here to announce the results of the third quarter and we are very happy with our performance on the third quarter and especially very optimistic. I think that the third quarter marks the beginning of the recovery of the company's performance. Certainly, a new cycle and the company's performance, and in spite of all the difficulties, we've been dealing with, especially because of the pandemic, and also the macroeconomic scenario, we have been demonstrating a very resilient performance.

Our business model has demonstrated to be very resilient and year-after-year, quarter-after-quarter, we have been showing an evolution in our operational performance and most interestingly whenever we analyze especially the slowdown in the IGPM and the high in SELIC for the next few quarters.

We are expecting a financial performance that will be positive to get even better. So our net investment income in the past of the company accounted for 30% of our

performance. Today, the good part of all of this is that today we have an operational performance that is almost equal to the overall result that we had with net investment income accounting for 30% and operational result much better today. And once we have a more robust operational result and a new investment income in future quarters.

Once they come together we'll be talking of much better results for the company and this is what we are seeing in the short-term. Moreover, and in addition to everything, we are very optimistic for future quarters also because of the health scenario has improved greatly with much lower impact in our performance in terms of loss ratios because as vaccination has been evolving in the country.

We are seeing performance inclined that is very much in line with pre-pandemic levels and this makes us very optimistic. I'm going to very briefly touch on some strategic aspects of the company and then Rafael will talk about numbers. And so very briefly when we analyze our normalized net income and here Rafael is going to give you more details about this normalization because of the temporary mismatch between IGPM assets and liabilities.

So every month it's updated by the IGPM for the current-month and the previous month. So right this month, there is a mismatch, that was negative in this year's results by BRL70 million positively last September by more or less 100 million. When I take out this time related effects, which are not directly impacting the business.

So there is a growth of 10% year-on-year, which is quite significant. Additionally, in terms of premiums written and talking about robust operational results, we have record sales with more than 3.5 billion premiums written in the third quarter in terms of insurance. As I said, the loss ratio has been going down significantly with significant impact in our bottom line in terms of suspension plans.

This year as a result of the work that we have been conducting and in terms of allocation in multi-market funds last we had 9% of total allocated in multi-market funds and we are closing the third quarter this year with almost 30%, a significant growth, and this has led to an improvement in the customer and EPS fewer redemptions and also lower administration fee with also a positive impact in our bottom line with a very positive performance and everything that we raised in terms of new funds almost 70% was through Brasilprev.

Moreover as far as the strategy that I mentioned before in the closing of the second quarter we're still investing in our sales year-on-year, quarter-on-quarter, and this has been growing, and it's very important strategically speaking, and as I said before, in the second quarter and I said that we would be focusing our work very much and seeking new partnerships through new channels, other than Banco do Brasil and we have 10 commercial partnerships being negotiated.

The first one will be signed on the next few days with quite interesting market effects and seeking to build a performance metrics for the mid and long term with many channels

that we hope will be representative. Now I'm going to talk about each one of these themes, starting from technological modernization digital transformation.

These are numbers that we've been reporting every quarter. Today, we have 30% of our products that are ready fully transformed ready for connection in any type of channel for digital sales through Banco do Brasil and through any other partner.

So whenever we analyze our roadmap. So this process would be complete by the end of 2023. We are advancing this deliverable by one year. So and by the end of 2022 100% of our products will be ready to be sold in any type of channel. So this is intensive work that meets with many strategies that we have especially focusing on channel expansion strategy and especially in terms of customer satisfaction.

Also and in parallel the issue of product digital transformation we've been trying to invest in analytical intelligence. So we have had a business increase arising from analytical models for omni-channel approach of 124% in the first nine months of 2021 as compared to 2021. We have BRL1.4 billion in commercial campaigns using analytical intelligence.

Moreover, and this is very good news. Obviously we won these numbers to get even better, but 65% of our customer base is using digital channels. So it really makes sense for us to provide better and better solutions and products that are more and more adapted to the digital channels for also a digital after sales because there's a significant part of our basis regularly using those services.

As you can see on the right hand side of the slide in terms of distribution. So, the share of the digital channel has been growing. So on the third quarter 2021 we have 13% of our sales through digital channels. So I'm talking especially about app and Internet pages, but especially our app have had a very significant growth and it accounts for 25% growth over 3Q'20 and 17% over 2Q'21. When we look at the business, it's been growing likewise, and it grew 28% year-on-year and 10% quarter-on-quarter in terms of the quantity of digital sales.

These numbers show an increasingly larger share and we hope that this rise will continue over the next few quarters. As you see at the bottom of this line, there are many deliverables, especially in digital transformation of products or experience of the products and we have delivered already five of them and I have some numbers of the second half of the year and there are four other projects and four other items that will be delivered by at the end of the year.

So commercial insurance and premium bonds will be 100%. We are going to have a new personnel item insurance and other one protected health for businesses and a new dental and these items will be delivered before the end of this year.

Now talking about channel diversification. It's a very important strategy for us. First, when we announced the results for the second quarter as we have a very large network as Banco do Brasil's network we have to diversify channels and I promised that would be a person involved in this project and this project is really at full steam in the company.

FINAL

We have a dedicated department for that. I and other directors have been working personally in this project and there's many businesses already going on and we have been able to really implement many novelties that are already providing results. We have separated what is expansion in crop insurance but in terms of agri business in the third quarter we have added to our external chain of network, we have added 120 new partners to distribute rural insurance.

So they are already banking correspondents of Banco do Brasil, where now they can sell rural insurance directly to their customers which really expands our scope of work. We have already 120 operating already, but by the end of the year we have 300 we have had a quite significant growth also in crop insurance of 120% as compared to the 3Q 2020 and we are also seeking new partnerships with big cooperatives and resellers. We are negotiating three of them. The first one will become effective over the next few days as soon as we complete this partnership we will announce to you.

So we really have a big focus on distributing rural insurance. When we talk about other products we have built in the third quarter the new BB Corretora as sales platform. It's the platform because this is the digital plug and play solution to sell products via external partners.

This was a major investment by our IT team even white label customize it for each one of our partners with our full range of projects and they can sell to any customer whether they are BB customers or not with all safety and quality of these products boarded in this platform and this is going to be fundamental for us just establish these partnerships.

We also the new Brasilprev's broker platform and in the past it had a significant share in the revenues of Brasilprev we have built a new platform. All products today available to Banco do Brasil's network are also present in this broker platform and we are also working strongly in terms of bringing brokers back to operating with this products with a quite interesting range of products.

And we hope to obtain significant results in the short-term. Moreover and I think that this is another very important aspect of our strategy is that we are qualifying 5,000 credit agents to sell insurance products. Today they work basically with credit and they will all be qualified to sell all our insurance products. So there will be 5,000 additional channels or agents to sell and offer our products of insurance.

So we hope that there will be a significant performance through this channel. Moreover when we talk about new partnerships, we have seven new commercial partners from different segments, and we hope to complete them over the next few months. Additionally, we are also implementing our BB Corretora sales team dedicated to wholesale focusing on large risk insurance, which is a market that in our understanding we can grow significantly and we are trying to implement actions. So that through the wholesale network, we can focus on this market segment.

And in closing I would like to talk to you about the improvements that we have been implementing and customer experience with new projects. So everything that we

FINAL

implement in terms of improvement of products, technological improvements, new partnerships, everything is focused on heavy increasingly more appropriate products for customers and the customer vision is, we need to perpetuate itself and especially with open insurance.

It is extremely important for our company that is customer-centered in essence. This is our main concern and really all our employees work with that purpose and all our actions wants to provide the best customer experience possible which will assure and we'll make sure that we are a strong company is the value that we provide to customers.

Our NPS has grown 3.5% in the first nine months of the year even above our initial goal that was 2.4 and there are some deliveries in the third quarter was significant number of care or contacts provided for example insurance consulting in palm, digital assistance by insurance specialist to 7 million customers in the mobile app BB.

We have had an increase of 200% in the first nine months of 2021 as compared to the first nine months of 2021 with 500,000 customers using the service through the WhatsApp which is a very convenient tool customers like it and since our channel with the highest NPS we are intensifying the relationship with direct communication with our customers.

So we were able to reach or to have 20 million effective contacts with 3 million unique contacts with the closer and closer to our customers with high frequency. Also the first steps platform, which is a contact in terms of family planning, childhood, education, healthcare where we have had more than 500,000 accesses.

In addition to customer experience we also have been seeking to improve the sales experience or the experience of our sales persons who know our products like our products to sell and offer to customers the best solution.

Banco do Brasil has a project called the brand ambassadors and together with Banco do Brasil on this project, we have expanded many benefits for the employees of Banco do Brasil, so that they have our projects, they can use our assistance, so that they use it better and lead an adequate value proposition for customers and this has proven to be quite effective and we have also improved and implemented an improvement in assistance to salesforce with increase of 6.4 percentage points in satisfaction and we were able to reduced by more than five percentage points in reopening incidents. So we have the best historical levels for this survey, which is very important, but not just that we are also focusing on building our portfolio and then we have two new products that we expect will be very good.

The first one is Brasilprev Flex is a product that will add accumulation and risk on a single product, so they can have a financial -- protected financial planning, and this is very, very important once we talk about private pension because private pension arose from the need to build future tranquility. So that this tranquility to be effective in effort to take place it needs to have a risk benefit added to it.

So that we have a fully customized product that is filling a gap and it's finding excellent acceptance amongst our customers and this is what we saw in the first days after the launch and another product that we didn't have is pet health cyclic and we know how much this market has been growing in the last few years this is very relevant. Our product has quite interesting differentials and this is a product that is very much sought after and we really bat on it with an increasingly wider ranging portfolio.

Now I'm going to give the floor to Rafael to talk about our numbers and I'll come back for the Q&A session. Thank you very much.

Rafael Augusto Sperendio {BIO 18963159 <GO>}

Thank you, Ullisses. Now with a little bit more detail about the results of the quarter. He has given some information and I'll show you some indicators that in our opinion are important for us to understand that the result as a whole. On the left hand side, in this chart, you can see the light green bars represent the net income accounting net income of the company this quarter and last quarter.

So we had an extraordinary item, which was the donation for the pandemic with the residual in the third quarter, which is not really very significant. So here we can observe a reduction in the accounting net income. Now when we look more carefully on a breakdown of these numbers. What we see is that last year, as the market knows very well, which is the update of assets and liabilities of Brasilprev plans, which are indexed by the IGPM. As a reminder, very briefly, the asset is always updated with the inflation rate of the current month and in September there was a deflation in IGPM of 0.64 and an inflation -- and in the next month there was an inflation of 0.16 and the inflation increased the index for adjustment of liabilities, but this is just the minor noise and its offset on the following months.

And then they came down to zero, this is a methodology that we have been using for a while, which is a segregation of this effect, which is normalized net income, which provides a benefit of 121 million and affected in 69 million the results of this quarter, if we take out this event, which is neutral or a long time for the structural performance of the company.

We had an increase of the social contribution over profit taking out 31 million according to what has been announced and approved by the law, the increase on the CSLL, and this is temporary. Going back to previous levels after January, so taking out both effects, we would have grown 10%, which is quite positive growth from our standpoint considering the business environment. Even when we look the accumulated numbers, the materials that we have published early in January and also taking out these two effects.

The net income in accrue numbers, we would have grown with the total expenses with claims related to COVID three times higher this year than we had for the entire last year. So this recovery in this growth that we see we had already somehow anticipated to have this expectation. Once we announced our numbers for the second quarter an

improvement especially in operational performance considering the expansion of the vaccination program in Brazil.

Brazil is one of the countries with the highest vaccination levels in the world in terms of total population 55% approximately and in large centers in Brazil or in Sao Paulo major towns we have 88% vaccination rate. We saw a significant drop in loss ratios concentrated more at the end of the quarter and the company in the curve of the pandemic and the country as a whole.

So, on the right hand side, the light green area represent total number of cases in dark blue, total number of deaths, and the line represents the average frequency of claims of Brasilseg. So here you can see that there is a very high correlation between all the curves. So a reversal of the loss ratio peaking in April and going back to levels very close to the ones we used to have before the pandemic and now in September and early October and this has contributed significantly to improve our operational performance.

On the other hand, in terms of investment income, you can see here an improvement, the IGPM inflation rate. And as a reminder, we also have a mismatch, a temporary mismatch, but also in terms of the index chosen, there is scarcity of IGPM index bonds in the market and alternative is to buy IPCA to bear the liabilities that we have with the customers, but this match between the two rates this year is much lower than what we had last year.

You can see a higher transfer of price pressure to end customers and this is no longer fully taken by businesses and Brasilprev suffers less pressure because of that. As we can see on the next page, on the lower right-hand side, you can see the normalized net investment income, taking out the provisional noise. For the first 12 -- 24 months and we see -- this is the first time we see the net invest income growing again.

So if we take out and once we have the confirmation of the high of the SELIC rate until next year, the net investment income is favorable again helping in the composition of the total bottom line that it accounted for all as much as 30% of our gross revenue and we are negative by BRL23 million now.

So on the left hand side, what you can see is from 2015 to 2020 you can see the operational result has had a very resilient and consistent performance growing 6% on average per year. Of course there is a little bit of COVID effect once we take out the COVID loss ratio effect this, it would be even greater, 100 basis points more or less.

On the other hand, this operational growth was completely taken out by the drop in the net investment income that went down as much as 34% in the 15, 20 period which led everything to be on the same level about BRL3.94 billion in the period between 15 and 20. The current scenario shows on the right hand side top chart.

So with a high in the SELIC rate in 2022 considering its level today it's a consensus as announced by the Central Bank. It will be as much as 10.3% for 2022. So in terms of average SELIC. This average SELIC is very close to the average SELIC that we used to have in 2017. So if this trend is confirmed of high in SELIC interest rate, what will happen is that

the financial result will be at a rate that it is very close to what we had in 2017, but the operational result will be much higher than what we used to have in 2017 and will be enough for us for the company to change its level in terms of bottom line as of next year.

So this is very important and we would like to highlight this fact, in terms of the improvement of the operating result in the company's total performance. So on the next page, we have our performance in insurance and this is very clear in terms of the loss ratio, but in terms of commercial performance, it has been very good, very strong as a whole 19% growth year-on-year in the third quarter with the main measures. So all lines growing 45% year-on-year in the third quarter.

So and we have a home insurance, which is a new product that we launched recently, and that also grew significantly in life growing 19% as compared to last year keeping the same rate in the year-to-date numbers. The only product that is an outlier here is the credit life. That has a drop of 15% in the whole year and we mentioned this in the second quarter transition for the new product which has lower obviously adjusting coverage to the outstanding balance rather than to the main capital.

And this generates a little bit of noise once we monitor the growth of the portfolio as a whole, but that's this product gains more share. We really hope that credit life will grow again of course it depends on the credit origination scenario also considering the behavior that we see and credit life will go back to previous levels and will recover maybe towards the end of this year, beginning of this year, we'll have a recovery of its share because it's been designed to provide the same profitability as the previous product, although it has a lower ticket. So and then the combined rate is worse than we had last year, especially if we consider the last two quarters an increase in the severity of the pandemic along 2021 has led to a loss ratio that was higher than it had in the first wave in 2020, but we have already started seeing a reversal of that trend.

And you can see the chart that I showed when I started speaking it's almost 10 points, if we compare quarter-on-quarter segregating here the COVID effect, it would be very close to the levels that the company used to generate historically about very low.

In terms of commissions. Here there is a partial compensation for the higher loss ratio, a reduction arising from the change in mix with the concentration of the rural and also with a drop of credit life holds brokerage fees higher. So on average, it ends up going down year-on-year, and also the admin and sales rates we have had very strict controlling expenses as a whole and also because of the change in the methodology that we used to book our contributions for the rural insurance stability fund that considered provisioned claims and not just disbursed claims.

So the net income is 120% as compared to the third quarter last year, very much in line with the average SELIC which is almost twice higher than what we had in the third quarter last year and net income has dropped 6%. So the drop -- has dropped 6% year-on-year even though we have had a quite significant growth of 15% in earned premiums and 15% in premiums earned in higher loss ratio.

FINAL

All this effect was offset by the high investment income, but it didn't grow considering social contribution over net income taking BRL24 million of our bottom line and that's why the net income has dropped 6% year-on-year, if it weren't for this effect, it would have had a high of 0.4% as compared to the third quarter last year.

Now talking about pension. Our collection in the third quarter has the reduction of 2% comparing to the third quarter 2020 it was very strong in terms of contributions after a period that was very atypical in terms of closing of branches and we had a backlog of flow in the second quarter, which was offset in the third quarter, but for the year, our growth collections has grown 17% record for Brasilprev for the nine months. In terms of net inflows we can see the net contribution was negative by 1 billion in the third quarter because of redemptions of 11%.

And then we have a page just talking about redemption, but the main driver for redemptions is macroeconomic. Most of the customers who are redeeming their funds this is directed to their current monthly expenses and for investments in real estate. And I will address this in further detail, but this is more related to the macroeconomic scenario than to Brasilprev and itself.

Now in terms of the reduction of inflows, and then we have a more profitable mix. Our market share went from 9.5% in September '20 to 20.9% in September '21, a very significant profit and then our average rate was twice higher than and increased by three basis points the average rate also because of a more profitable mix both for Brasilprev and for the customer.

Today Brasilprev is absolute leader in inflows in the industry as a whole accounting for 69% and another quite positive driver was the increase of the customer base. We have brought 228 new pension plans to our basis of Brasilprev in the year-to-date numbers until September. In terms of net invest income was negative by 220 million in the third quarter and positive by 33% in the third quarter '20 as compared to the third quarter 2020 not just because of the IGPM and the passive balance also comparing face value with 200 basis points.

It's almost in parallel with the structure that we have. This ended up causing a negative marking and affected the performance of the results of Brasilprev in the third quarter and this explains our profit because operationally our efficiency index has had a good performance an improvement in year-to-date numbers and maintenance in the third quarter year-on-year. Also in terms of revenues plus the investment income. So it's still going through with different times in Brasilprev because of our structure.

In terms of capital, so even though the structure affects, the net investment income. It's beneficial along the year, we were able to have BRL2.7 billion assets in IGPM added to the portfolio to increase the hedge of traditional plan reserves and to have a better matching assets and liabilities and solvency ratio was 144.7% with our capital excess of BRL1.5 billion.

FINAL

So even if we hadn't had maybe allocation in the second quarter, the company today would have capital above our appetite, which is considerably above the regulatory minimum which shows that we are very conservative in the second quarter to avoid any type of surprise in a scenario, which is still very uncertain today.

On the next page we have a brief summary of the operations. We have in terms of the premium bonds and dental insurance. So here you can see a 2.7 growth to 4.3 points. And thanks to the positive result in hedge in a significant portion of our pre-exposure, which is available for sale in this offset the 22% reduction in collections, which this year has been very much concentrated in bonds of monthly pay.

So they have a higher NPS and also a higher recurring in our portfolio, but the average ticket is much lower than single payment project. So in the transition of the portfolio, this ends up generating or having us slightly higher impact in terms of collection. In terms of our dental plans in Brasildental, 5% growth in revenues year-on-year precisely because of higher utilization of the plans differently of what happened last year, but even so the net income grew 5% year-on-year.

The main highlight in the operation increase on the share of digital channels in a sales portal accounting for 65% of digital channels and partnerships as compared to total sales of the last year as compared to September 2020. Now the brokerage business. We had a 3% growth in brokerage revenues. So the net margin has grown 1.6 percentage points year-on-year because of the high in a SELIC and the adjusted net income grew more than revenues because the total of investments of BB Corretora are post-fixed with having the benefit of increase in a SELIC rate. Going to the final part of the presentation.

So here on the guidance. So in terms of operational results we are performing right at the center of our guidance. Brasilseg, we have a site that we reviewed up in the second quarter. Once again we exceeded it in the third quarter. Thanks to the very strong performance that we've been seeing. In the segment of rural insurance in terms of pension was slightly below and the range and here we decided to review down estimates from 4% to 7% to zero to 2% growth for 2021.

And as you can see here on the next page with a little bit more detail of what drove us to reduce the guidance to review down the guidance. As we said contributions that have robust in Banco do Brasil's distribution network. So this is slightly different from what I showed before. This is the first eight months of the year, which is the latest numbers published by which makes it possible for us to compare ourselves to the market.

So we had about one-third market share and keeping the leadership, but then on the other hand, we noted that along this year as a whole there has been an increase in outflows, it's not just redemptions, but also payments of benefits. It's important to remember that Brasilprev also suffered with COVID with the reversal of this -- in the case of the death of the policyholder.

So this has led to outflows to a higher level than we usually had or than we had in 2020, but this happened for the market as a whole as you can see here in the gray line on the

FINAL

right on the top right hand corner. So even so the Brazil the third lowest ratio among the 10 top pension companies. And then and I had said it before, but one of the reasons for that customers have mentioned as a justification to redeem part of their funds in pension 66% said that the redemption was to pay debt or to bear expenses or to invest in real estate, which is something that is confirmed here in the chart, that's something that we are seeing in the chart as a whole and this information is by the Central Bank of Brazil and we can see in pink this line represents the total household debt of Brazilian families, which grew at a pace that was higher than the growth of indebtedness except for housing, which shows a higher debt level with emphasis especially on real estate financing, which is very much in line with what we have been seeing with an increase in the need of financial funds by customers and higher redemptions.

For this reason this is much more related to the environment and we understand we should review the growth of reserves of PGBL and VGBL. So from to a range from 0% to 2%. So these were the main points that I wanted to highlight in the presentation.

Now we may move onto the Q&A session.

Questions And Answers

Operator

Thank you, Rafael. [Operator instruction] The first question is by Mario Pierry from Bank of America Merrill Lynch. He asked the question on the chat and he is asking how do you see the growth of premiums of Brasilseg in 2022. Is there any room to increase prices of the products to offset the higher loss ratio in 2021 or would growth come from increase in volume?

A - Ullisses Christian Silva Assis

Thank you very much for the question. So I'm going to mention it briefly. What we see is the following. Yes, we do see some space to increase our collections at Brasilseg. The Brazilian market is under explored in terms of insurance as a whole. We have been adapting our products precisely to take a better value proposition to customers with the assistances and benefits that will take customer to a new level in their relationship with the insurance company. Also in the perception of the value of the project in itself. This is very important for especially when we think of continuity. We hope to have fewer exits. So for rural insurance, it's been growing this year, and I think that we have room to grow when we look our funded areas especially compared to the United States, we are much lower. So this is a product that has become increasingly popular in terms of agri business especially this product company is effective prices of casting itself of the customers. So as the production cost goes up, insurance goes up too and we have been seeing it this year. So, as our customer base in Banco do Brasil, we estimate that we have room to grow, because the penetration is still low, and we analyze that we are trying to find new channels to distribute. We also receive a very high potential in terms of distributing this product. In terms of adjustments we will always paying attention at the market we need to be competitive. We want to add a product that is of interest and appropriate costs and I wouldn't say that we are close to that much to the opposite and we are always trying to

see the behavior of the market, so that we can have competitive products and so that we can deliver an efficient value proposition to customers, but the effective as we think that insurance market may can grow a lot and we can grow within Banco do Brasil customer base and we are also going to grow outside that customer base because of the work that we are doing in terms of having more partners and increasing distribution channels we hope that this will provide results already on the short-term. Rafael, if you want to complement?

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

So especially in terms of agri business we have been observing since last year, significant growth of the volumes mentioned all crop insurance and this has remained at a level of 800 million in terms of prospects for next year. This is very positive as a reminder Brazil has a major deficit of protection as compared to other more developed markets today about 15% of the planted area health is protected by insurance in comparison to the American market where the protection rate is 80%. So there is still a lot of space for the market to grow and this is why we have a quite positive vision in terms of the performance of Brasilseg over the next few years. So this is perfectly sustainable in terms of the growth and this is very much in line with what we have delivered in the last few periods.

Operator

The next question comes from Marcelo Telles from Credit Suisse. He's going to ask the question.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you very much, Rafael, for the opportunity. My question is about redemption rates. We have seen an increase in redemptions or outflows during the quarter and you explained it due to COVID and macroeconomic factors. What is it like to be. There is a higher interest rate, but then on the other hand the economy is worse. So how do you see this redemption rate from now on. How are you anticipating that it will go?

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Well, the main factors that drove higher rate were much more related to the macroeconomic scenario. So this improvement also depends on the recovery of the economy, the global economy, and how this will interfere in a domestic economy. The product becomes less attractive also because we're looking total income considering the maintenance of investments for a long-term and in terms of what it should effectively happen. Today this is the product that makes it possible, but that provides an after-tax return, they have the lowest rate possible 10% considering the regressive after 10 years. There are no other investment product provides this functionality considering such a long-term investment. Another factor that also contributes is succession in terms of VGBL. It's a life insurance and the funds can be fully reverse to the beneficiary, very shortly without they will, and we have noted the importance of this type of product. Now during the pandemic and so if in case of an expected death of the policyholder the member can have access to the funds on a few days just regardless of the will and no proceedings and no other investment products today in Brazil provides this type of possibility. So it's still is an attractive product may be you need a slightly more intense in terms of financial

FINAL

education to make it clear to customers that pension is the last one to be access to also because of the tax benefit. So we see that today. This is not completely clear to the Brazilian population. And sometimes they use these funds at different priorities sooner than it should have been. And this is one point. Now the effective improvement will need to wait and observe the real pace of recovery of the economy, job creation, higher income for this to be reversed in an improvement in terms of the level of redemptions as a whole. So in terms of what the pandemic impacted in our outflow rate there was about BRL1 billion extra in terms of benefits, then we had last year as a whole. And now this is more under control and as we demonstrated here. So there needs to having access to your savings to meet your current needs. This will depend very much on the global and domestic recovery.

Q - Marcelo Telles {BIO 3560829 <GO>}

Great, Rafael. Can I ask an additional question if you allow me. Could you explain in terms of portability. How do you think this environment today with all the initiatives that you have also had in terms of increasing customer retention. How do you see the portability from now on in terms of higher interest rates this might go down and reduce the inclination of customers to migrate toward other platforms. This is good or not. And very successfully in terms of multi-market in terms of admin fee that is better and how do you see the issue of portability for this scenario?

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Well in terms of portability. We see a stability of the rate at about 2% of the assets under management. This is what we've been seeing and we have been analyzing. We haven't been seeing any major changes in this number. Looking into the future I agree with your reasoning. Once SELIC rate goes up we will possibly have a slightly higher profile of risk aversion by customers. It's no longer so much necessary for them to take risk to have a higher return. And as a consequence there will be a lower pressure and lower competition for fees charge for the management of assets. So all of this depends on how long SELIC rate will remain at a certain level. Next year where there would be more stability not a reversal of the allocation profile in terms of what you still have in the past. I don't think that this will happen in the mid-term. Now having a stability of the current levels is something that is reasonable and then we would need to see what happens with SELIC and what would be the next step in terms of allocation. We see that this year the funds have had a better performance and the funds have somehow with higher exposure even though interest rates in Brazil that the nominal in actual. There has been a quite significant open the spread improve the return of investment funds. And this type of product has gained relevance and this is important for the development of the Brazilian economy as a whole. So if you look five years ago individuals didn't have private credit, today they can have many companies that could not have access to the stock exchange or going public. So the environment of lower interest rates has led to a higher access both by corporations and individuals to products other than fixed income or government bonds and now this movement is likely to possibly stabilize as SELIC goes back to the two digit level and let's see how long it's going to stay at that level.

Q - Marcelo Telles {BIO 3560829 <GO>}

Very clear. Thank you very much.

Operator

And we have a question from Kyle Prater through the chat. He want to know more about the dynamics of credit life in a year, it's not going so well. What explains this dynamic and what we are seeing next year in terms of this product?

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Thank you, Kyle for the question. In terms of credit life, it has suffered a little bit in terms of commercial performance. But this is related to the price premium that we had. So we used to have a coverage that was fixed 100% of the main capital along the operation and we know that customers didn't remain in the portfolio throughout the operation. And most times it is renewable before their maturity and we decided to change the coverage model to the outstanding balance model and once we are at a quite delicate situation in terms of underwriting, we end up underwriting the risk for a certain time, but customers end up determining a shorter time than what was initially expected with a new product we have also introduced the new model where premiums have a larger share in the short-term with a higher risk in the short-term and it goes down as time goes by, as coverage also goes down with the outstanding balance. So the expectation of profitability of this product is the same as it used to have in the previous product, although it is in spite of the lower price of course this is all going to depend on the economic scenario and also in credit origination. So as credit origination goes up we also expect that our penetration in the portfolio also goes up, there are some adjustments to be made in the product, yes, this is a change that we have introduced, and we are now refining it. So the expectation is to improve the performance of this product in November and December and more positive in 2022 as a whole.

Operator

We have a question from Thiago Lins from Goldman Sachs. And he is going to speak his question. Thiago you may speak.

Q - Thiago Lins

Yes. Can you hear me?

Q - Marcelo Telles {BIO 3560829 <GO>}

Yes, we can.

Q - Thiago Lins

My question is about diversification of channels and I would like to understand where are the opportunities that you would see. More specifically in terms of banking correspondents and what do you expect from this channel any type of exclusivity for banking correspondents?

A - Ullisses Christian Silva Assis

FINAL

Bloomberg Transcript

Thank you for the question. So let's see. I see a major opportunity for us to work in this market with other partners. So why wasn't this line in other portfolio. We had some technological limitations. So we could exceed it and overcome. Today, we are going to work and we are going to have the 5,000 agents by commissions with a very appropriate portfolio and we'll be selling. So we used to have this limitation that we could only sell to customers of the bank and with the new platform we'll be selling in open fee so to speak. So this platform is essential for us to expand our network of partners and now we are negotiating this and we are talking to companies from many different industries and then have some synergy and can complement our business and also in terms of being able to distribute our products. When we talk about future prospects. Of course we want to expand sales and now we are talking about just about correspondents and partnerships that we are seeking with agro and other channels. However it's difficult for you to give you any numbers that we'll be able to obtain through those channels and special percentages in terms of our total revenues of our revenue in the bank network has been growing year-on-year and it's really major. When we talk about sales from pension funds, we sell 200 million per day. So any new channel, do we hope it's going to be representative. Yes, we do. But the sales numbers that we have to do within the strength with bank assurance and Banco do Brasil network, this is very significant. So I think how much this is going to represent of our business of its share in the business in the future. So an extra 5,000 arms. So it will provide momentum just in terms of lower tickets and they include both traditional and digital partners and they are new business models. And we have 100% broker, which is cyclical and we've been learning with distribution through digital media. That's why we have advanced in the technological transformation. We are having a year earlier and we want to be fast and obviously there is a whole issue of open insurance and we are seeing open insurance as a major opportunity because we have many products to be distributed both for 100% digital products analytical intelligence for us to know how to use data. So we see a very promising scenario and I hope that this new market that we are opening diversifying channels and we hope that will be representative in our bottom line in the short and mid-term. If I give you any numbers now I would be just guessing, but we hope that this channels also because of we are going to have more channels this will be significant. And that's why we need to be ready to customize to distributing these new channels, because for many of them, we will need to distribute lower ticket products for other not. We need to be ready for that and this is our main homework now at the moment why we have already been able through the sales platform of BB brokerage and we'll be able to close the first partnerships over the next few days.

Q - Thiago Lins

Thank you, Ullisses. Your explanation is very clear and understood what you said in terms of open fee, but if we think in terms of banking correspondents generating credits to Banco do Brasil consigned credit so was it sold free of insurance? So is there any risk of cannibalization and then banking correspondents might capture?

A - Ullisses Christian Silva Assis

So I think they're going to capture sales because we work with two modalities. Of course everything that comes in terms of credit generated by the different channels that is insurance fee, of course we always offer insurance to the customer. So the stock modality. So it is in a customer accounted post. So the snip sale that by the time when you can provide more specialized consulting and so we had zero production. So, yes, we're going

to capture. Now when we analyze the rates that we have in terms of penetration of these projects and this snip of operations in the bank we get to some segments as much as 60% conversions. So we're analyzing from that standpoint and calculating the number how much banking corresponds sell every month. Well if penetrations are close to what we have been with Banco do Brasil network. Yes, we will be able to have good results.

Q - Thiago Lins

Thank you. Very clear.

Operator

Now I have another question asked on the chat from JPMorgan. He wants to know about the partnership with the bank. Is there any discussions going on and any updates that we can give on that theme. This is the question by Domingos Falavina.

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

So in terms of the agreement we have with Banco do Brasil, as a reminder, after format and a dynamic. We have exclusive rights by insurance companies Brasilseg, Brazilprev, Brazildental in offering the products, its desk and with these agreements, we have an agreement of refund for the use of the structure between the broker and Banco do Brasil. So none of this has changed, the dynamics is exactly the same. Since the beginning of the partnership and since the IPO. So there is a 20 year contract without any early termination clause. Banco do Brasil channel today is the most significant for us and will remain so. And along the presentation and in the answers that Ullisses has answered that there are many initiatives going on in terms of BB Seguridade precisely to work complementary to the bank. So there are some difficulties that we have in place in some products especially in low ticket products and we have other situations where we are limited to the work of the bank with customers and in the case of non-fundable areas. So we are discussing partnerships with offering products for customers today do not finance their products with Banco do Brasil and there are other partnerships that we're discussing to expand the model which is something very important. In the environment that Ullisses mentioned in terms of open insurance. So all the initiatives today have the main objective of working complementary to Banco do Brasil and preparing the company for the mid and long term especially within this environment with a more open architecture.

Operator

Now we have another question from Mario Pierry from the Bank of America, asking us to quantify the impact of COVID claims in the results of the third quarter?

A - Ullisses Christian Silva Assis

So the more direct impact obviously the pandemic has many other consequences more secondary impacts, but in terms of claims more directly speaking in the third quarter the latest information available is an impact of BRL95 million something close to 100 obviously this number will change as time goes by. So total claims doesn't change, but classification between COVID and non-COVID it takes a little while because we need to receive information from customers, sometimes it takes a while for this information to get

to the insurance company. Today the average time for us to really classify claim as COVID or not is about 60 days. Sometimes it's even longer than 90 days or 120 days. So but today we have 95 million expenses and this is just to take out in our participation in the company.

Operator

Now in closing I have a question coming from many shareholders. Regarding the payout for 2021 and expectations for 2022 if there is anything that we can see already?

A - Ullisses Christian Silva Assis

Well currently considering the current scenario that I mentioned in the presentation there is a considerable capital surplus at Brasilprev, but today we don't think it would be prudent to reduce that capital. The scenario is still very uncertain and we want to be more cautious, maybe in 2021, the more feasible payout would be very close to what we had in 2020. For 2022 we are going to be very careful and how the business scenario evolves, but we do not have any indications for this rate to be the same or lower. Today the likelihood is more concentrated and the payout rate for 2022 to be higher than what we had in '20 and we will see in 2021 and obviously I'm not assuming any other more structural change in our business model in itself. So keeping the current model that the current regulation 2022 we are going to have a higher payout then we will have in 2021 and then we had in 2020.

Operator

That's it. I think that we have no more time for questions and answers. Now we are ending our third quarter earnings release. We would like you to answer the question that you will get once you log off from the conference call. Ullisses and Rafael, any final remarks?

A - Rafael Augusto Sperendio {BIO 18963159 <GO>}

Well, I am available to provide any -- to answer any questions -- to provide any clarification both myself and Investor Relations team are fully available to answer any questions you may have in the future. Thank you all very much for your participation.

A - Ullisses Christian Silva Assis

And now Ullisses speaking, I'm always available to you. Thank you very much for your attendance and once again we are sure that the third quarter will mark the beginning of a new level for the company in terms of results and we are very optimistic for the near future. Thank you all very much.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have

no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript