

## Q2 2015 Earnings Call

### Company Participants

- Rafael Sperendio, Head of Investor Relations
- Werner Romera Suffert, Chief Financial Officer

### Other Participants

- Carlos Macedo, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning everyone and thank you for waiting. Welcome to BB Seguridade's Second Quarter 2015 Earnings Conference Call. This event is being recorded and all participants may be in a listen-only mode during the company's presentation. After this there will be a question-and-answer session, at that time further instructions will be given. (Operator Instructions) This event is also being broadcast live via webcast and through BB Seguridade's website at [www.bancodobrasilseguridade.com.br](http://www.bancodobrasilseguridade.com.br). The presentation is also available on the financial information section. Participants may view the slides in any order they wish.

Before proceeding, let me mention that forward-looking statements that may be made during this conference call regarding expectations, growth estimates, projections and future strategies of BB Seguridade are based on the management's current expectations and projections of future events and financial trends that may affect the business of the group and do not guarantee future performance, since these projections involve risks and uncertainties that could extrapolate the control of management.

The information presented follows the consolidated and combined financial statements in accordance with the IFRS principles, except when and otherwise indicated so. For more information on the statements of the company, please check the MD&A.

With us today are Mr. Marcelo Labuto, BB Seguridade's CEO; Mr. Werner Suffert, CFO, and Mr. Rafael Sperendio the Head of Investor Relations. Please Mr. Sperendio, you may now begin.

#### **Rafael Sperendio** {BIO 18963159 <GO>}

Good morning all. Thank you for joining our conference call. So I'll begin here on page 3, with some highlights of the second quarter. The first one is our adjusted net income that

reached R\$995 million given to a growth of nearly 18% year-over-year, almost equally distributed between the non-interest operating results and the financial results.

Total revenues from our underwriting and accumulation businesses including Premiums written, pensions plans contributions and also premium bonds collections, grew by 8% year-over-year driven primarily by pension plan with an increase of 16% of the over the second quarter of 2014. In the insurance segment, we've a strong operating performance in both SH 1 and SH 2 which improved their combined ratios by 1.2 percentage points and 3.8 percentage points respectively.

On pension plans we reached 131 billion in May 1, a growth of 35% over the last 12 months maintaining Brasilprev the top of the ranking in P/VGBL reserves in terms of net inflows the company keeps showing a good performance reached 52.3% out of the total market net inflows. On premium bonds to Brasilcap, the income grew by 15% driven mainly by the increase in the average volume financial assets.

And brokerage revenues, which amounted to R\$673 million grew by 10% year-over-year driven mostly by the brokerage revenues from SH 1 and Brasilprev. And finally the last point, that I'd like to highlight is that the distributions of R\$1.7 billion as dividends equivalent to an 80% payout on the account. Net income of roughly R\$2.2 billion as of the first half 2015.

On page four, we have the one of items that affected our earnings. So in the second quarter, we had a reversal of this supplementary coverage provision in Brasilprev which impacted positively our results in R\$221 million meaning consumer [ph] business on one off item that occurred in this quarter mostly due to the -- sorry as I see posted up our balance sheet in Brasilprev to the new requirements for capital market with. So Brasilprev decided to go back to the procedure at that in June 2014 that it improvise the usage off and we arrive and beginning to offset any possible insufficiency being filed in their liability and equity tax. So as a result of this change in the procedure we had a reversal for the supplementary coverage provisions that we built in December 2014, which lead to a positive impact of 221 million in the net income of BB Seguridade.

Moving to page five, we have a (inaudible) to review of our performance both in the quarter and in the semesters. So revenues, premiums, contributions and collections amounted to certain R\$3 billion in the quarter, 8% higher year-over-year. Year-to-date these revenues which had R\$30.4 billion and these are 18% year-over-year and then in both comparisons, these growth are mostly driven by the performance team in Brasilprev, that you can see in the right hand side pension plans business segment increase its share in total revenues by 7.1 percentage points in the semester as we compared to the same period last year.

Our adjusted net income reached R\$995 in the quarter, a 18% year-over-year and year-to-date the adjusted net income amounted to R\$1.9 billion in the growth of 30% equivalent to and annualized return on average equity nearly 63%. On the earnings breakdown and we can see in the bottom right hand side, we see that that differently from the income breakdown SH 1 and SH 2 increase that their share in the net income mostly driven by

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strong set of operating results and then also improved net investment income while (inaudible) share mostly due to less its strong financial results as compared to the other companies and it is what was the main drive -- rather of this change in the earnings breakdown.

On page 6, we have the contribution of the net investment income to our adjusted net income. So the combined net financial results of our affiliating the quarter of net of taxes was 36% higher year-over-year. On a year-to-date basis, net investment income grew by 51% and the better performance of our affiliate was mostly due to higher yields on investments and also higher volumes of interest earning assets. In terms of the affiliate, some investment it's worth noting that higher average SELIC rate as that was a strong performance that the inflation protected securities were the most important drivers for this road [ph]. It's always important to emphasis that we do not take an active management of our investment portfolio and so there the yearly balance sheet focus on the assets and liabilities management that having each of our affiliate contracts.

Moving to page seven, from now on we are going cover that performance of each company in a deeper details, so on page seven, we start with Life mortgage life and grew our business segment considering the premiums written, net of premiums ceded to reinsurance. We had a retraction that 3% year-over-year and year-to-date written and premiums remained at almost flat as compared to the same period last year.

In second quarter, 15 premiums written dropped by 13% year-over-year and also year-to-date the volumes was premiums written was nearly 8% lower. So the main reason is that in 2015, differently from what happened last year Banco do Brazil decided not to anticipate the working capital lines for farmers. So it affected our performance in crop insurance and besides this effect we had also a weaker performance in the life insurance sold in independent broker channel.

However, it's worth mentioning that the good performance we had in life insurance sold in the bank insurance channel and good sales performance that we had in credit life for farmers offset partially these weaker performance in the Rural and Life insurance in the independent broker channel, but we decided we have due to retraction in premiums written minus 8% year-to-date.

Retained premiums as mentioned previously it remained quite stable what being said the arrival that really built up the company revenue stream remained at flat, so even a better quality in terms of mix in increased share of life related products such as Credit Life, with additional life insurance and also Mortgage Life these products they have lower claims and they provide better margins that like we can see even we have a drop in terms of premiums written as compared to the last year, we were able to perform much better results in terms of the underwriting side, when we look in terms of net income growth.

In the first half 2015, our net income grew by 37% mostly helped by such good performance in the underwriting results, as well as the strong performance in the net investment income which grew 53% over the same period last year.

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On page eight, we can see the outcome of these dynamics that I just mentioned in terms of improving of underwriting, so when we look to the year-over-year comparative, we can see an improvement in the performance ratios that reflected in the combined ratios reached 69.3% in the quarter with an improvement of 1.2 percentage points. Year-to-date the combined ratio reached 69.7%, 5.1 percentage points year-over-year mainly explained by these lower claims in life and credit life segments as well as the improvement in the G&A ratio mostly due to lower contributions for the firm for the (inaudible) growth insurance here in Brasil.

Moving to our P&C business unit on page 9, retained premiums grew by 7% year-over-year and 5% year to date driven mostly by -- also in a casualties in general, which increased their shares in the mix of premiums.

In the quarter here the net income grew by 116% year-over-year and on a year-to-date basis, the growth was 50% boosted mainly by the growing net investment income, which improved 51% year-to-date and also by the strong set of underwriting results, which will rise 27% year-to-date driven by saying these increase was mostly driven by the improvement in the combined ratio or we're going to on page number 10, here these quarter we saw such a good improvements in claims, in all segments as compared to the second quarter last year reflect to an improvement of nearly 3.8 percentage points in the combined ratio year-over-year. Looking on a year-to-date basis, combined ratio improved by 0.2 percentage points. And when we looking to the commission in G&A ratio we had some issues in the first half of 2015 that affected the comparison basis. So we detailed the events in our G&A, but only for a comparative purposes and compared performance over the last year we set apart of these effect of these new accounting entries business reclassification that we had last year. So the commission ratio would have improved by nearly 30 bps in the first half and the G&A ratio would have declined by as 70 bps [ph] as compared to the first half 2014.

Pension plan on the next slide, we can see that in the quarter contribution increased by 15% year-over-year and the redemption ratio remained at a single digit level, when we look on a year-to-date figures, total contribution grew by 33% with a 60 bps lower redemptions ratio and on the upper right-hand side total AuM reached R\$131 billion with the growth of 35% of the last 12 months. Then the management fee grew by 29% in this financials and will be below the base of growth of asset under management, mostly due to the drop of 6 bps in the average management fee charges as a result of the higher concentration VGBL plans and focus that we have been implementing in high networking clients.

Our net income grew by 26% in the first half of 2015 boosted mainly by the growth in revenues with management fees and also by the higher spread between the company's assets and liabilities. On the year-to-date basis return on average equity was 8.7 percentage points lower year-over-year mostly due to its increasing retained earnings of the reversal of the supplementary coverage provision in the second quarter.

So we were to adjust with shareholders equity considering the distribution on segment. The adjusted ROE would be 48%, 3.1 percentage points lower than in the first half of 2014 and mostly explained by increased earnings retention in December last year to face new

rules regarding the capital requirements related to the market we have -- that was going to be implemented by 2016 and 2017.

On page 12, we a comparison between the performance as Brasilprev and industry performance, so as you can see Brasilprev keeps the yield [ph] very well in net incomes with a growth 34% year-to-date in accounting for nearly 57% of the industries better net inflows. Looking at P/VGBL reserves, we kept the leadership and ended June we think 8% market share in AuM in these segments.

On our next page we have our performance in premium bonds, so collection achieved roughly R\$2 billion in the quarter remaining flat as compared to the second quarter 2014. Year-to-date collections grew by 1% and higher concentration in monthly payment bonds each accounted for nearly 44% up of our collections while in the first half of 2014, its share was nearly 37%. The net income grew by 8% year-over-year and 32% year-to-date, mainly driven by the growth in the net investment income as a result of the higher average balance of the interest earning assets and also higher average yields on investment.

Moving to BB Corretora next page, brokerage revenues grew by 10% year-over-year and 17% year-to-date and in both cases, SH 1 and Brasilprev they were main drivers. The net investment income achieved at 389 million in the quarter 14% up year-over-year and year-to date net income grew 24% and the main driver growth increase in brokerage revenues and also the improvement seen in the operating margin as well as the growth in the net investment income.

Talking about the net margin was particularly improved by 170 bps year-over-year in that 350 bps year-to-date and this was mostly driven by the mismatch that we have in terms of revenues that have a heavy component that is to get on the material [ph] basis while we expect this put in our cash basis as the brokerage income arising from SH 1 had a large share while deferrals components result and expand directly associated to its -- we could see such a improvement in the net margin in 2015 as compared to previous years.

Here finally to ramp up the presentation, page 15 we have the guidance monitoring the first item is the growth in net income, we reached 30% year-over-year and above our forecast and the main reason was that we were able to have a net investment income much better than we estimated mostly, because of the higher average SELIC rate as well as a good performance of inflation protected securities.

The following one regarding the growth in SH 1 premiums we recorded a reduction of 8% in the first half of 2015 as compared to the same period last year. Below the performance that we were estimating the guidance in obligations [ph] that appeared mostly because of the lower than expected performance in crop insurance, premiums written as well as in the life insurance premiums. So in the independent broker channels. So considering the result of Seguridade to -- the first half of 2015 and also our forecast in the second half this year, we decided to revise our estimates.

So now we're going to have a range from fees 5% to 8% growth for 2015 as a whole. In pension plans reserves P/VGBL grew by 38.5% over the last 12 months above our

estimates and the deviation can be mostly explained by the easy comps accounts that we had in this first half, due to the favorable scenario for pension plan contributions in the early 2014. Our expectation is that throughout the second half of 2015, as a comparison basis become harder the P/VGBL reserves will converge to our range of 27% to 36%, that's what we are expecting for the year.

So this finishes our presentation, I would like to thank you all again and now we are open to the Q&A session.

## Questions And Answers

### Operator

Ladies and gentlemen we will now begin the question and answer session. (Operator Instructions) Question comes from Mr. Carlos Macedo from Goldman Sachs.

#### Q - Carlos Macedo {BIO 15158925 <GO>}

I have a couple of questions, first on SH 1 you revise your guidance downwards for growth of written premiums, it's still seems like a fairly ambitious guidance given the starting point, more sold than the actual ending point. I understand their seasonality involved in it, but it is getting their factor just of the crop insurance improving, or do you expect any other lines to really turn the corner in the second half of the year that from an economic perspective it looks like it's going to be worse than the first.

Second question on Brasilprev 9.3% a slight weakening there in the redemption ratio is there any costs are concerned do you see that the seasonal, do you see that as a just a blip we know that unemployment's going up. Is there any reason for us to believe that ratio could go up given the environment? Thanks.

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

Hi, Carlos, this is Rafael. Thank you for the question. Regarding the guidance that we have for SH 1 of course we see, it's not an easy guidance, it's a very challenging for the year, but we do expect and we can see when we look at the numbers of July, that we are performing according to our expectations, and then most important driver for this second half will be a Rural insurance overall market, the crop insurance that has now as I mentioned during the presentation in these year the Banco do Brazil decided much to anticipate their working capital alliance for farmers. So as we Rural insurance all the three lines that we have in crop insurance the Rural line [ph] and credit life for farmers.

All three depend on the credit growth, we do expect as now, from now on the Bank is providing the working capital alliance for these farmers, we're going to see a very good performance in the Rural insurance, in the second half this year, it's also worth noting that in the second half we're going to have easy comp basis, differently from 2014 as the working capital alliance, they were anticipated for the first half and the second half, we had a weaker performance in terms of overall loan growth and also credit and -- Rural insurance in the second half.

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This year it's going to be completely different we will have a higher consideration loans in the second half and also a higher concentration that premiums written in this second half this year. So the easy comps, we help a lot in the second half of 2015. Regarding your question about redemption ratio, we are not seeing after now any major influence of the unemployment, increasing the unemployment ratio. So we reached 9.3%, but when we look at our historical series, there is no concern about this -- when we look 40 bps increase year-over-year redemption ratio that, it needs to be around high 9 and 10 [ph] when look at the more long-term series.

So there is no major concern regarding the unemployment rate and also important to emphasis that we have one of the best redemption ratio in the industry.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Okay, thanks Rafael.

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

Thank you

**Operator**

Our next question comes from Gustavo with BTG Pactual.

**Q - Unidentified Participant**

I have a couple of questions as well. Starting with pension plans on your presentation, that your market share in terms of reserves is now larger than the two main competitors. So it seems to us that you had the Banco do Brazil are lower, relatively lower exposure to pension plans, but now that gap has been closed.

So is it far to assume that you becoming more dependent on the gross of the pension plans market rather than dependent on your own efforts of growing in terms of pension plans that we should see a deceleration going forward, I'm not talking about the second half but for 2016 and '17 and then I have a second question afterwards.

**A - Werner Romera Suffert** {BIO 18657101 <GO>}

Hi Mr. Gustavo. Werner speaking. We still have a room to increase our market share in asset under management in the pension plans and this growth will be due to increase in the civil portfolios and that we have in Banco do Brazil, so this clients may still, some of them as we explained sometimes they are still in a -- retailed banking portfolio, they are moving to only issue clients portfolio and this will be -- we will increase the potential of this portfolio in Brasilprev and we will be able remain increasing faster than the market in the next couple of years based upon the business strategy that we will have.

**Q - Unidentified Participant**

That's clear thanks. My second question is regarding the operating margins of broker. Do you believe that as you accelerate growth in SH 1 and it slowed down a bit in Brasilprev

you should post normalization that the operating margin of the broker going to previous levels of 2014 or do you see that an EBITDA margin of above 80% is the sustainable level for the broker for the next couple of years?

### **A - Rafael Sperendio** {BIO 18963159 <GO>}

Hi Gastov, Rafael speaking. Thank you for the question regarding the net margin of the broker such an increase that we have been seeing of our 2015 was mostly due to the lower volume of sales itself. It's also worth noting that when we have that the revenues, broker level and mostly the ones that comes from our insurance and we can see our underwriting business unit SH 1 and SH 2 they're referred according to risk term of the product, while the expenses that we reimburse Banco do Brazil they are paid on net cash basis.

So as in the first half, we had this slow down in the rural insurance mainly but we had less sales in terms of quantity or products sold. When we look at the brokerage income itself and we break it down, you can see that the composite of deferrals of our unearned commissions being accrued too an increase it a lot mainly in the first quarter and was very material in the second quarter while the other component that it's been mostly related to the sales being performed in the period itself equated the share. So it's like that we had an income without an expense associated to this revenue that we have been looking that increases at the market.

From the second half on, we can even see that what happens in the second quarter when we look in that quarter on quarter basis, the net margin dropped from 58.1% to 57.8%, this is already build by next working number of sales increasing so, the margin is going a little down.

From this second half on we will, we too expect a good performance for the rural insurance. So probably the number of sales will keep increasing and probably it's hard to really emphasis that we do expect a certain normalized net margin for the broker but we expect that it probably will come down to the levels seen in the end of the 2014.

### **Q - Unidentified Participant**

Perfect, thanks.

### **Operator**

Our next question comes from (inaudible).

### **Q - Unidentified Participant**

Hello everyone, thanks for the questions. I have two actually. First one it's a more structural one and sorry to try to go to 2016, but just, just trying to understand, I mean when we will look to 2016 the economy doesn't look like better than 2015 and when I look at your portfolio like SH 1 even ex [ph] agricultural insurance it's growing below 5% and SH 2 it's being effect by the macro as well maybe Brasilcap.



So what are the triggers for the BB Seguridade start to growing again double-digit on the premium side, I mean new products, new distribution channels. What do you guys can tell us about that, because it looks like right now the portfolio it's a little bit tight to the macro or Banco do Brazil loan portfolio or even governments to decide in terms of agriculture insurance. So what we can think about going forward in terms of drivers for growth.

And then I do my second question later. Thank you.

#### **A - Rafael Sperendio** {BIO 18963159 <GO>}

Hi Francisco [ph] Thanks for your question. I would say that the main driver for us to remain the bancassurance channel. So improving our sales in bancassurance side, this we will guide the premiums in our company, but also it will to withstand our margins, because we will have the margins that flows via the insurance side and the distribution side of BB Seguridade and BB Corretora will be positively impacted by these sales. So the main driver for us, in the way we are facing 2016, is increase our performance in the bancassurance side, of course, we have other initiatives to increase sales via other channels.

But looking at the margins in the short term, we still rely on bancassurance to keep growing and the top line and the bottom line of the BB Seguridade.

#### **Q - Unidentified Participant**

Just a follow-up, that in terms of bancassurance itself what can be done? That it's not been doing right now. I mean, if I understood correctly, I mean you guys can change a little bit a mix more bancassurance in outside brokers that to improve your margin, but your sales itself I mean, what can be done in the bancassurance debt they improve?

#### **A - Rafael Sperendio** {BIO 18963159 <GO>}

We are renewing the life insurance portfolio as we -- I think looking to talk about this in the Portuguese Earnings Call, but when we have also, we are increasing also the focus on the Shiloh [ph] clients, which this the new way Banco do Brazil they are implementing this new portfolio inside. Their client base, it will help us to increase the penetration of our products inside this very important portfolio from Banco do Brazil, that Shiloh clients. So these are figures of our growth for 2016.

And of course we will have also initiatives and other channels, but looking at the short-term 2016 only the main driver will be this segments and mainly this upper side of the retail banking client base from Banco do Brazil that they Shiloh.

#### **Q - Unidentified Participant**

That's more clear, thanks. If you follow me on second question. Government are increasing tax on financial institutions and insurance companies are included and there was an year to date that probably the contribution, the social contribution might increase even more to from 15% to 22.5% and I believe that affects the most of BB Seguridade subsidiaries, how you guys are approaching there, that issue can we imagine that you

guys can transfer part of this burn to prices. How can we think of the impact on your numbers? Thank you.

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

Hi, Francisco, Rafael speaking, regarding these increase in (inaudible) we have been already testing that the impact we have some deferred tax assets, mostly in our insurance business unit when we look at Brasilprev and Brasilcap. We don't have this effect, but as soon as we have more details of these new taxation boost, we will affect the impact and as soon as we have the information we can disclose to market, but up to now we do not have any figure to disclose.

**Q - Unidentified Participant**

Right, so there are credit assets that should be re-evaluated and somehow offset the higher tax rate right?

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

Partially it's also worth noting that very differently from banks that have a huge outstanding balance that related to provision for long lasted when we talk about our case, underwriting [ph] operating companies, this is much, much smaller rate came of that partially in the very early stage, but then afterwards we will have this impacting earnings.

**Q - Unidentified Participant**

Perfect, Rafael. Thank you. Thanks so much guys and congrats for the results.

**Operator**

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Rafael Sperendio to proceed with his closing statements. Please Mr. Sperendio go ahead.

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

I would like to thank you all again for joining in the second quarter conference call. Myself and my team and Investor Relations division of the company remains available and e-mail and our website and via phone calls. Thank you.

**Operator**

With this we conclude BB Seguridade conference call for today. As a reminder the material used in this conference call is available on BB Seguridade Investor Relations website. Thank you very much for your participation and have a nice day. You may now disconnect.

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