

## Q4 2014 Earnings Call - 2/11/2015

### Company Participants

- Marcelo Augusto Dutra Labuto
- Rafael Sperendio

### MANAGEMENT DISCUSSION SECTION

#### Operator

Good morning, everyone; and thank you for waiting. Welcome to BB Seguridade's Fourth Quarter 2014 Earnings Conference Call.

This event is being recorded and all participants will be in a listen mode only during the company's presentation. After this, there will be a question-and-answer session. At that time, further instructions will be given. 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 in 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 the 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 IFRS principles, except when 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, Head of Investor Relations.

Please, Mr. Labuto, you may now begin.

#### **Marcelo Augusto Dutra Labuto** {BIO 18015082 <GO>}

Good morning, everyone. We have seen once again in the last year, the strength of the bancassurance in the Brazilian insurance industry and also the huge value of Banco do Brasil's customer base and its distribution network. 2014 proved to be a more challenging year than we previously expected, but we managed to beat the industry performance in all the segments we consider core in our strategy.

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So that data for the first 11 months of 2014 showed no growth for the market in pension plan contribution and life insurance. Meanwhile, Brasilprev and SHI grew at a double-digit rate. Our pension plans contribution increased 34%, and in terms of net interest, we remain responsible for over 50% of the industry performance, which allowed us to achieve the market leadership in terms of assets under management.

Even growing slightly below our own estimates in some segments, our affiliates posted strong operational performance, benefiting from our strategy to focus on higher margin products, which boosted profitability and drove earnings above our own estimates. In general, we saw the expansion in both the operational and the financial side of the business in our affiliates.

Net income reached at BRL 3.5 billion, and adjusted earnings came to BRL 3.2 billion. Adjusted return on equity reached 50%, 8 basis points above our guidance.

We are targeting continuous improvement in capital allocation and the mix of growth delivered in the last two years is aligned with this commitment. This strategy has enabled sustainable growth with low capital consumption allowing the maintain of 8% payout, even retain part of the one-off gains booked in Brasilprev, aiming to capitalize that company and prepare it for new capital requirements that will arrive to cover market risk.

For 2015, besides capital allocation efficiency and portfolio management, our agenda is focused in the improvement of operational efficiency to continue the evaluation of new products and distribution channels; and also the improvement of our governance, risk and compliance management both at BB Seguridade and in our affiliates.

We still have a very positive view on market growth in spite of a more challenging economic scenario. Although it is not possible to see growth rates above 30% in all segments as in the recent past, we do believe that there is a good room for us to grow at consistent rate outpacing the market. In a way, although growth will be incredibly challenging, we are now better structured and well aware of the importance to seek for greater assertiveness in our commercial effort and efficiency in our operations.

Always keep in mind the best practice in risk management, thus assuring predictability to our net income and that operating earnings will keep being the main source of the company's traffic. I'm grateful to investors, clients and partners for their confidence and for another year of strong earnings in our track record. In particular, I'd like to thank the branch network and distribution areas of Banco do Brasil which have a key role in the history we are building.

Thank you all. Now, I will let Rafael Sperendio guide us through the presentation.

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

Good morning. Thank you all for joining our conference call. So, starting on page three, we have some financial highlights of 2014. The main one is our adjusted net income, for

the year that reached BRL 3.2 billion; 43% higher when we compare it to 2013, equivalent to a return on average equity of 49.8%.

And here, first of all, I would like to point out here the quality of these results, the strong operating performance in our core business lines with an increasing participation of the bancassurance channel that has much better margins and very strict cost control that we have throughout 2014. So the operating result was one of the key reliables for the good performance in terms of profitability.

The combined revenues from our affiliates including insurance premiums, pension plan contributions and premium bonds collections, these combined revenues grew by 25% in 2014, well above the market. In life, mortgage life and rural segment, our combined ratio improved by 2.5 percentage points compared to 2013 with an increase in the underwriting results which is the most important part. This increase was of 46% compared to 2013 even in a more challenging scenario in terms of claims due to the climate hazard affected our crop insurance operations.

In P&C, the main highlight was the improvement in the G&A ratio, it was dropped by 120 bps this year. In pension plans, we reached BRL 112 billion in AUM and growth of 34% in 2014. This growth led Brasilprev to the second place in terms of market share in AUM when we consider P and VGBL products.

In terms of net inflows, Brasilprev stood out, once again, keeping 54% of the total market net inflows. Looking at the premium bonds, our net income grew by 145% in 2014 driven by a much better net interest margin. Brokerage income grew 31% in 2014 driven by SH1 and Brasilprev, the companies that will grow their top lines the most is in 2014.

And finally, the last point that I would like to highlight is the distribution of BRL 2.8 billion as dividend, equivalent to an 80% payout out of the BRL 3.5 billion in our accounting net income.

Next page, we have our performance compared to the industry. As you may see, considering year-to-date data available from SUSEP until November, our performance was much better than the industry in most of the segments in a comparative analysis, considering here the performance of the market without BB Seguridade in life segment, for example, our growth in premiums written reached 10.8% while the industry dropped by 1.6%. When we look at rural insurance, we grew 37% while the industry grew 26%. In pension plans, total contribution grows by 34% while the industry did not grow until November when we look at the contributions alone.

In total revenues, including insurance premiums, pension plans and premium bonds, we grew by 24%, more than 3x the market average that's stayed at a 7.2% growth until November. So, most of the lines, we showed a very good performance even in a more challenging scenario in 2014.

Moving to page five, we have the one-off items that affected our earnings. So, in 2014, we classified only two events as non-recurring. So, the first one amounted to BRL 39 million

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regarding to the reversal of provisions related to PIS and COFINS, both tax expenses in IRB. And the second one is a result of several movements that happened at Brasilprev. So I will explain very briefly, but there is a very deep description of these events in our MD&A. So, at the end of 2014 we said that we made a reversal of provision for insufficiency of contributions and provision for financial situation.

So both these provisions we were required by the regulators CNSP and SUSEP to reverse until December 2014, we did that. And in the same moment, we strengthened the provisions that we call complementary provision of contribution. And other line that we strengthened the provisions as provisions for related expenses. When we consider both these events, the reversal of this provisions and the movement of strengthening these two provisions that I have mentioned the impact was BRL 196 million in the BB Seguridade net income. So, accounting net income reached BRL 3.5 billion and the adjusted net income BRL 3.2 billion, but we paid out dividends considering the accounting net income of BRL 3.5 billion.

On page six, we have a brief overview of our performance. So, revenues including premiums written, pension plans, contributions and premium bonds collections here totaled BRL 16 billion in the quarter, an increase of 22% year-over-year. In 2014, total revenues have reached BRL 54 billion, a growth of 25%. As we can see on the right-hand side, this growth was mainly driven by pension plan contribution that grew 430 bps, its share in total revenues in 2014.

And the recurring net income in the quarter reached BRL 906 million, 28% higher year-over-year. When we look at the yearly figures in 2014, the adjusted net income reached BRL 3.2 billion, a growth of 43% compared to the adjusted figure for 2013, equivalent to return on average equity of almost 50% above our guidance for the year.

And on the earnings breakdown on the lower right-hand side, we have seen 40% of our net income came from our brokerage and 30% from life, mortgage life and rural segments, the SHI company, and 17% from pension plans from Brasilprev.

On next page, we have the contribution of the net investment income to our net profit. So, the combined net investment income of our affiliates grew by 72% on annual basis. And the performance of all affiliates, the performance overall was much better in 2014 compared to 2013. And this was the result of the higher average SELIC rate, also the higher average volume of financial investments, mainly between Brasilcap and Brasilprev.

And the other effect that we had throughout 2014 was the slower market-to-market impact in our pre-fixed inflation-protected bonds. So, if we see in relative terms here, the short-term rates with maturities of 12 months to 24 months went up 40% in 2013. If we look at the same maturities in 2014, the shortened part of the forward growth curve went up 10% to 11%, so a much smaller impact when we compare it to 2013. With this much more favorable environment, the investment income came back to a more recurring levels in terms of contributions to BB Seguridade's net income, that is around 25% as we used to see until 2013.

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So, now, going deep in our operations on page eight, we have the performance for the life, mortgage life and rural business units in the quarter, the volume of retained premiums grew by 46% quarter-on-quarter and 33% year-over-year. On an annual basis in 2014, retained premiums grew 21% driven mainly by the growth in credit life and in rural a you can see on the upper-right hand side, these lines grew the most throughout 2014. Talking about the net income of these business units, it reached BRL 1.3 billion in 2014, a growth of 43% compared to 2013 with the underwriting result growing by 46% in the year while the net investment income grew by 45%. So the company had an excellent operating performance.

As we can see on the next page, we show the performance ratios for this company. The combined ratio improved by 2.5 percentage points in 2014. In this quarter, some effects affected a little bit in comparison basis. These effects can be found in our MD&A in a more detailed description. But just to make our analysis more clean here, if we were to remove these effects from the 2014 figures, the loss ratio would be at 30.5%, the commission ratio to 26.8% and G&A ratio would be at 13.6%, all these ratios on annual basis for 2014. And when we look all of them showing a much better performance compared to their figures reported for 2013. When we adjust these effects in the combined ratio, it would be 71%, 4 percentage points below the ratio for 2013.

What I would like to highlight here, a very important point is that improvement in these combined ratios, even in a more challenged scenario that we had in 2014, mainly the crop insurance segment with the climate hazards that occurred in the beginning of the year, a drought in the south part of the country and also excess in terms of rain that affected the wheat crops in the end of third quarter, beginning of fourth quarter 2014.

So when we look among all our business units, SH1 was the one that improved the most in the operating side, which is a consequence of the more strict cost control, and a very efficient capital allocation beside the increasing contribution of bancassurance channel in this company, mainly in the life segment when we look at the profitability, the underwriting margin in the bancassurance channel, that is more than 2.5x higher than the product sold at agent channel. So, all these effects together vis-à-vis putting all together, we were able to show this improvement in the combined ratio in 2014.

On page 10, we can see our sales performance by channel in life, mortgage life and rural. When we look at the performance of the bancassurance channel, we grew by 21% in 2014. Go to the bottom of the guidance range, that was up 24%. We had some factors that impacted the performance of these channels such as elections, World Cup, and also the sales dynamics that in 2014 sales were more concentrated in the end of the year. So, we did not have an entire revenue flow of the monthly payments products, so all these affected the top-line growth in the bancassurance channel.

When we look at the independent broker channel on the upper right-hand side, excluding DPVAT, that's mandatory insurance in Brazil, the volume of premiums written decreased by 0.1% year-over-year. So, actually, we had a very tough year in the independent brokerage channel, and this is reflected when you look at the growth, the consolidated growth. Premiums written in the life segment, that was up 7% in 2013. Of course, that is well above the market, but it's worth noting that the bancassurance channel

performed even better with a growth of 10% compared to the industry growth - the industry performance that was minus 4% year-to-date until November.

Moving to P&C on page 11. In the fourth quarter, retained premiums grew by 14% year-over-year, in 2014 increased 11%, driven by both auto and casualties. Regarding sales mix, we didn't have major changes, so auto is still the main driver, accounting for 64% of total retained premiums. The net income grew by 38% in 2014, and the main driver was the net investment income, so the financial results were the main responsible that grew by 79% compared to 2013. When you look at underwriting result, it dropped by 20% in 2014, but this is more related to increased claims.

As we can see in page 12, the loss ratio rose by 300 bps in 2014, as you know, a more challenging environment for the auto and casualties segment, so it was not just related to our company, it was systemic in this case, but we managed to partially offset this increase in claims with a lower commission ratio, as you can see, minus 1.1 percentage point in 2013, a lower G&A ratio minus 1.2 percentage point. So both these affected the - managed to compensate part of this increase in losses, that's why our combined ratio worsened by 0.6 percentage points compared to the 3 percentage points increase in loss ratio.

So, moving to page 13, we have the performance related to pension plan. We had a very good year in this segment with a strong growth in contributions, so contributions grew by 35% in 2014. And also a very good performance in terms of redemption ratio, as you can see on the upper left-hand side, this graph shows the performance in the redemption with a trend that's decreasing. So the redemption ratio was again below-10% both these effects of increasing contributions and lowering redemption ratios we were able to grow net inflows about 49% in 2014.

When we look, it also reflected on reserves. So our AUM grew by 34% over the last 12 months, as you can see on the upper right-hand side. And management fee, the lower part of this page, grew by 20% in 2014 as a result of the increase in the average balance of AUM. And when we look at the fee itself in 2014, we had a reduction in the average management fee, and this is a result of the change in the mix of products that was more concentrated in high net worth individuals and mainly in the VGBL products.

On the right side, net income reached BRL 201 million in the quarter, 21% higher year-over-year. And I would like to highlight here that despite a 23% growth in the net income, the return on equity fell as compared to 2013, and the reason was that we increased earnings retention. So, in the beginning of the presentation I mentioned that in one-off events that we had in BB Seguridade, and one of these two events was related to Brasilprev. And the shareholder decision in this case was not to distribute dividends on these amounts, so we decided to keep it in our balance sheet in order to meet the capital requirement regarding the market risk that will be fully implemented until the end of 2017. So, even though it did not affect our 80% payout, as most part of it comes from the BB Corretora that we will not be affected by this regulation.

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On next page, we have a comparison between the performance of Brasilprev and the industry. So as you can see, the industry showed great recovery in 2014 and reached a growth of 55% in terms of net inflows, even though Brasilprev still represents almost 54% of the total net inflows in the industry. On the lower part of this page, we can see the track record of our company in AUM related to P/VGBL. So, in 2014, we managed to reach the second place in AUM in this segment with an amazing performance if we look the track record of the most recent years.

On page 15 we have our performance in our premium bonds business unit. So collections reached BRL 2 billion in the quarter, 11% higher year-over-year. On an annual basis, collections grew by 7%. When we look at the sales mix on the upper-right-hand side, we can see an increase in the share of monthly payment products, in line with what we have been announcing to the market, this concern that we have to increase the product that has more recurrence that will provide more - a stable revenue streams for the company going forward.

But there is something that is not in this page and I would like to highlight is that our reserves are growing in a much higher pace than contributions. So in 2014, for example, our reserves grew by 24% while the industry, we exclude the performance of Brasilcap, reserves in the industry grew 5.3% only. This is a very important rise that reflects this expectation that I mentioned and our awareness regarding the sustainability of the results of our company. And it has also reflected in the net investment income, as you can see improved by 452% when we look on an annual basis and was the main driver for this increase of 145% in the net income and the main reason is that we have both increasing reserves and also an increase in asset profitability in the period.

This business is predominantly financial, but we have a liability that is almost entirely fixed and when we have interest rates increase, in the first moment a negative impact related to mark-to-market as we had in 2013, but after this, we have a positive effect that is the approval of this higher interest rate going forward. So this is a positive impact in our net interest margin.

Moving to BB Corretora on next page. Brokerage revenues grew by 15% quarter-on-quarter and 28% year-over-year. In 2014, we grew 31% top-line on BB Corretora driven by SH1 and Brasilprev that increased their shares in total revenues as compared to 2013. The adjusted income, BRL 372 million for the quarter, 38% higher year-over-year, and in 2014, net income rose by 41% driven by a much better operating margin, that are still under the effect of the dilution in operating support cost and also in data processing.

Next page, we show what we delivered as compared to our guidance for 2014. As you may see we achieved most of the indicators. So, the first one, the return on equity, we reached 49.8%, above the guidance, mainly as I've spoken before as a result of the improvement in operational efficiency and also higher than expected improvement in the net investment income in 2014.

In premiums written from SH1, we grew by 19% as compared to a range of 24% to 32%. And the deviation here was mainly due to lower than expected sales in other channels,

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independent broker channel mainly in the life segment. And as I've noted before, the bancassurance channel grew by 10% while the independent broker channel dropped by 1% when talking about life insurance specifically in the year.

If we look at the bancassurance performance, it was well above the market but our growth in total premiums on a consolidated basis was below the guidance. In SH2, we were in the middle of the range of 12% to 15%, in pension plans with a strong recovery that we observed throughout the year. We were within the range with a growth of 35% in contributions, and this movement shows how strong is Banco do Brasil distribution network.

So, if you remember, in the beginning of the year when we showed the March figures, we were performing at minus 16% as compared to a range of 33% to 47%. And at that time, we said that we are going to observe the market behavior and then we would decide if we will revise or not the range. So, as the industry recovered the performance, we decided to keep this guidance and we delivered what we were estimating for 2014.

And to finalize, we have the last item, the one for premium bonds, we performed slightly above the guidance with a growth of 6.7% in the range of 3% to 6%.

And finally, to wrap up the presentation, on page 18, we provide our guidance for 2015. So, the first one, the adjusted net income of BRL 3.6 billion to BRL 3.9 billion, which represents a growth of 12% to 21% in earnings per share as compared to 2014. Premiums written in SH1, we expect a growth between 15% to 21%. In pension plans, we changed the indicator in 2015, so now we have a guidance to be in that VGBL AUM growth from 27% to 36%, what actually is the main driver in terms of earnings for this business unit, so it comprises not only the gross income, but also redemptions and also the profitability of these reserves that we will manage to achieve throughout the year. And also, I would like to highlight that for this year, we chosen not to disclose guidance for P&C, neither for premium bonds. Both these segments, we do expect a growth in the long-term more aligned to the market, so that's why we did not disclose our estimate for these segments.

And that's all. This finishes our presentation. I would like to thank you all once again, and now we are open for the Q&A session. Thank you.

## Q&A

### Operator

Our first question comes from Thiago (36:47) with Itaú BBA.

Hi, guys. Congratulations for the results; and thanks for the opportunity. I have two questions. The first one is regarding the credit life in the 4Q. We saw that the premium of credit life showed a big jump in the 4Q, more than double year-over-year. So I believe it was caused by a solid performance of the SME. Could you comment about what BB Seguridade did to boost the performance of the credit life in the 4Q and what is your expectation for this segment during this year?

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And the second question is about the expenses, the expenses in the broker business. Is it possible to see the operating expenses in the broker business extending below the commissions during the year?

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

Thiago, (37:45) this is Rafael. Thank you for your question. So, starting with your first question regarding the performance in the credit life segment, when we look at the quarterly figures for the fourth quarter, we reached almost BRL 980 million in terms of premiums written. If we were to break it down, one-third came from the credit life for SME and the two-thirds from credit life for individuals.

Of course, there are the - when we look in nominal terms, credit life for SME was the main driver, as we have easy comp here compared to September in terms of premiums written in the third quarter was (38:38) BRL 61 million while in the fourth quarter it was over BRL 350 million. So when we look at the - in terms of the main driver for 2015, we do believe that credit life SME is the line that will be the main driver for this company throughout 2015. Just to give you some color on this, nowadays, when we look at the penetration in this segment, only we reached 8.6% of the total operations, the addressable portfolio up to now.

Regarding your second question on the expenses at the Corretora, we believe that there is room to expenses growth at a lower pace compared to revenues in 2015. Of course, it's hard to say how much, but there is room to show a lower increase in the expenses compared to revenues in 2015.

**Q - Operator**

Okay. Thank you. Just one follow-up in the SME. BB Seguridade did any change in the CRM or in the IT to cause this boost in the volume of sales?

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

Not really. What happened throughout the fourth quarter was that we change the focus. So, we changed the weight on the targets of the distribution at Banco do Brasil and we increased the share of the credit life for SME and that's why it performed much better in the fourth quarter as compared to the third quarter of 2014.

**Q - Operator**

Okay. Thank you. That's all from me.

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

Thank you.

**Operator**

This concludes today's question-and-answer session. I'd like to invite Mr. Rafael Sperendio to proceed with his closing statements. Please, Mr. Rafael Sperendio, go ahead.

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

Thank you all for joining our fourth quarter earnings conference call. More information can be found in our MD&A in our website. And I also would like to emphasize that our IR team is also available for any further clarification. Thank you all once again. And have a good day.

## Operator

With this, we conclude BB Seguridade's conference call for today. As a reminder, the material used in this conference call is available on BB Seguridade's investment relations website. Thank you very much for your participation. Have a nice day. You may now disconnect.

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