

## Q2 2013 Earnings Call

### Company Participants

- Marcelo Augusto Dutra Labuto, Chief Executive Officer
- Werner Romera Suffert, Head of Investor Relations

### Other Participants

- Eduardo Nishio, Analyst
- Regina Sanchez, Analyst

### Presentation

#### Operator

Good morning everyone and thank you for waiting. Welcome to BB Seguridade Second Quarter of 2013 Earnings Conference Call. This event is being recorded and all participants will 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 through BB Seguridade's website at [www.bancodobrasilseguridade.com.br](http://www.bancodobrasilseguridade.com.br). The presentation is also available in the financial information section. Participants may view these slides in order they wish.

Before proceeding, let me mention that forward looking statements may be made during this conference call regarding expectations, growth estimations, projections and the future strategies of BB Seguridade are based on the current expectations and projections of future events and financial trends, may affect business of the Group and do not guarantee future performance since the 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 and when otherwise indicated first. For more information the statements of the Company, please check MD&A.

Today with us today, we have Mr. Marcelo Augusto Dutra Labuto, BB Seguridade's CEO; Mr. Leonardo Giuberti Mattedi, the CFO; and Mr. Werner Romera Suffert, Head of Investor Relations.

Mr. Labuto, you may now begin.

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

Good morning. This is our first earnings conference call following the IPO closing and before going through the presentation, I would like to share some thoughts about four major milestones for our company in the last quarter. As you know, we came to the market earlier this year to present our new business. Banco do Brasil has a long track record in insurance business and a huge work has been done to restructure its operation in this market.

However, BB Seguridade was a new company by that time. Only three months after the IPO, we had the opportunity to discuss important deliveries for our Company, in line with what we had committed to the market. Of course, the first and the most important milestone is the quarter earnings. Even in an advanced scenario for the net investment income of our affiliated companies, we managed to deliver results that were higher than the most optimistic estimate. As you'll see during this presentation, we achieved the record levels of revenue and improved our market leadership particularly in focused segments. I would highlight Brasilprev's performance in terms of net inflows, which reached more than 50% in market-share in the last quarter. The revenues growth of that decline in the financial results of our affiliate companies and was crucial for BB Corretora earnings. As a result, we reached 550 million net income in the quarter.

The second milestone in terms of delivery is about strategic movement. Since the IPO, we have been mentioning our intention to enter the reinsurance and dental plan segments. During the last quarter, we released the material facts that show how advanced are these transactions. The acquisition of a stake in IRB, and the partnership with Odontoprev await only the regulatory approval.

We also made a commitment related to guidance for 2013. As you know, since yesterday, the estimates are available at our website and in CVM. We expect the market to continue on a path of consistent growth and we intend to capture this growth increasing market share in the focused segments. Last but not least, the dividends payment, we always made it very clear that there was no intention to retain excess of capital, keeping only capital level sufficient to sustain the future growth. Therefore, we announced the distribution of 818 million as dividends, a 80% payout.

Thank you, again. Now, I give the floor to our head of IR, Werner Suffert, which will go through our earnings presentation.

## **Werner Romera Suffert** {BIO 18657101 <GO>}

Good morning for all. Moving to our presentation on page three. We would like to comment on the main highlights of the second quarter. BB Seguridade increased to 25% its market share and the business segment that it operates, considering insurance premiums written, excluding health insurance and collection from pension plans and premium bonds.

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This quarter, I'd say that the highlights were the pension plan and the premium bonds segments. Brasilprev increased 27% its revenues year-over-year about 18 percentage points above the market growth in the same period. If we were to consider the net inflows, we reached 53% of the markets in this quarter.

In the premium bond segment, our revenues grew by 107% year-over-year, which allowed Brasilcap to reach 35% market share and to consolidate its leadership. The insurance segment grew by 30% in terms of insurance premiums, especially in credit life, rural and ENC business.

I would like to emphasize here the healthy operational performance of SH1 and SH2. The aggregated combined ratio of these two companies reached 89% this quarter, versus 91% in the second quarter of 2012. Another positive point this quarter was the increase in bancassurance relevance that allowed BB Corretora to capture the bulk of the insurance, pension plan and premium bonds revenues growth. As a result, the brokerage income, rose 29% year-over-year to R\$447 million. And to wrap up this page, BB Seguridade reached a net income of R\$550 million up to 85% year-over-year, delivering an annualized ROE of 39%.

On page four, we show the key profitability ratios for the business segments in which BB Seguridade operates. The market share data is reflecting the accumulated view of the first half. In SH1, we have reached R\$1.8 billion in premiums written, 27.7% of return on equity and a net income of R\$148 million attributable to BB Seguridade, representing 26.9% of BB Seguridade net income. In SH2, we have also reached R\$1.8 billion in premiums written, net income attributable to BB Seguridade of R\$39.8 million and an ROE of 13.2%.

Brasilprev has posted R\$5.9 billion in contributions and a net income attributable to BB Seguridade of R\$108.4 million, with a return on equity of 59%. In Brasilcap, collections reached nearly R\$2 billion, a net income of R\$19 million attributable to BB Seguridade and a return on equity of 63.9%.

And at BB Corretora, our insurance pension plans and premium bonds distribution arm, the brokerage revenues reached R\$447 million and the net income amounted to R\$232 million, representing about 42% of BB Seguridade's adjusted net income. On a consolidated basis, our net income for the quarter was R\$550 million, with a return on equity of 39.1%.

Moving to page five, we can see that our underwriting results grew in all business lines, which reinforce our strategy of operating with positive technical margins and low reliance on financial results which has been affected by the volatility in the yield curve.

The first chart shows the performance of SH1, which posted R\$197 million net income, 26.3% higher year-over-year, driven by the underwriting results that compensate the loss of 22.1% in financial results.

In the right upper-hand corner, in SH2, the underwriting results showed a great growth of 274.7%, driven by the decrease of both loss ratio and the commission ratio, offsetting the

decline in net investment income. As a result, the new -- net income of SH2 rose 53.8% year-over-year to R\$79.6 million. In Brasilprev, net income reached R\$144.6 million, 24.7% higher than last year, with a 57% growth year-over-year, in the result with pension plans and a decrease of 19.3% in the net investment income.

Brasilcap, the results with premium bonds rose 145% year-over-year, boosted by the record growth in revenues. On the other hand, the net income decreased 21.9% year-over-year, driven by the financial results. Brasilcap was the most affected company by the financial results, given the higher exposure to pre-fixed bonds and inflation-linked securities, that accounts for more than 50% of the financial investments been suffered [ph] with the high volatility in the interest rate this quarter.

It is important to emphasize that Brasilcap is acting to overcome this scenario, changes in the portfolio profile, but always considering the match of its assets and liabilities, and also hedging its positions, which has generated a gain of R\$57 million this quarter. Further information can be found in our MD&A.

Going to page six, we can see that the adjusted net income grew by 31%, despite the weaker performance of the financial results in our affiliates and registered a net income of R\$550 million. On page seven, we will pinpoint some highlights of our performance compared to the industry. In general, we've increased our market share in the main segments, highlighting the strong growth in housing and in rural insurance, in line with the expansion of the loan portfolio of Banco do Brasil.

In the auto insurance, we grew 24.2%, 2.8 points above the industry, reaching a market share of 15.2%. In life segment, we grew 31%, while the market grew 24%. We maintain our leadership for market share of 21.8%. In the rural insurance, we've posted a growth of 60.9% versus 58.3% of the industry. As a result, we consolidated our leadership 79% market share, with 476 million in premiums written.

Moving on to page eight, our pension plan and premium bonds business also posted a growth above the market year-over-year. I would like to emphasize here, the growth was 102% in collections, with premium bonds year-over-year and a market share of 34.9%. Going forward, we will explore Brasilprev's and Brasilcap's revenues, including the concept of net inflows that allowed us to gain market share also in terms of reserves.

Looking to BB Seguridade as a whole, as consequence of business expansion, the aggregate revenues of insurance, pension plans and premium bonds grew by 36.2%, more than two times the growth posted by the market, excluding the health insurance. So total revenues reached R\$11.5 billion and BB Seguridade's market share grew to 25.2%.

Going to page nine, we can see that the strong growth in the insurance segment came with a better earnings quality. Considering SH1 and SH2 together, the combined ratio improved two percentage points. Looking to SH1 and SH2 separated, we can see that the combined ratio of SH1 that generated 1.7 points percentage driven by the two points percentage increase in the loss ratio of the life segment. On the other hand, the

combined ratio of the SH2 improved four points year-over-year, driven by the reduction in losses, commission and G&A ratios.

On page 10, I would like to emphasize the performance of our Company in the life, housing, and rural insurance segments. Even with a weaker net investment income, SH1 managed to deliver a 7.2 percentage points growth in its ROE, reaching 27.2% in the quarter. On the next page, we show that 44.7% growth that we had in premiums written. Here, I would like to highlight the credit life insurance, with a growth of 65.8% year-over-year. On the breakdown of the sales by channels, we see that bancassurance accounted for 88.6% of the total premiums versus 84.7% of the last year.

On page 12, we see a strong operational performance in SH2, as a result of a 3.4 points percentage decrease in the loss ratio, which together with lower acquisition costs and operating expenses growth combined ratio to an improvement of 3.9 points percentage.

In additional earned premiums grew by 19.1%. ROE increased 4.1 percentage points and it should be ever better. It wasn't because of the weaker financial results that linked the net income expansion.

Moving to page 13, we highlight the 17.7% growth in premiums written of SH2. The bancassurance channel maintained stable its relevance. In our pension plan business, we show that on page 14, was showed an increase in contributions of 26.7% year-over-year, but here I'd like to emphasize contributions net of redemptions. According to the data provided by the consulting company Quantum Axis, Brasilprev got 53% of all net inflows in the industry, increasing its market share that was already nearly 38%. This number explained the growth in reserves above the market. The ROE was 59%, almost stable year-over-year even with the worse financial results.

Moving to page 15, I'd like to highlight the 106.8% growth in premium bonds, collection over a year. It's worth mentioning that in June, Brasilcap reached its record level of collections, with unique payment plans being the main driver of the growth. As a result, Brasilcap raised its market share and consolidated its leadership both in collections and collection net of redemptions. Despite of the great operational performance, the drop in the financial results as a consequence of marked-to-market, brought the ROE 47 percentage points lower year-over-year.

On the brokerage business, on slide number 16, BB Corretora posted a 28.8% growth in brokerage revenues. Most of the revenues came from SH1 and from premium bonds, which have increased its share in BB Corretora's revenues from 12.5% to 20.1%. BB Corretora's net income grew from R\$163.3 million to R\$231.6 million year-over-year, registering a growth of 41.8% in the period.

Despite the increase of -- in the brokerage income, the reduction in other operating expenses and the 43% growth in financial results, also helped the growth of the Company's net income.

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On page 17, the chart shows the SELIC [ph] decrease of 0.5 percentage points, year-over-year and the yield curve that affected the mark-to-market, which impacted the financial results of the affiliates. If we look at the straight to the 17 [ph], the curve shifts -- steps [ph] 163 basis points, quarter-on-quarter. Hence, the impact of mark-to-market of fixed and inflation linkage bonds.

Going ahead, on page 18, we show the impact of the -- in the profitabilities of our financial investments in our companies, with SH2 and Brasilprev suffering the major reduction year-over-year.

To wrap up this presentation, we show on page 19 our guidance for 2013, which could not be released before as the Company was in quiet periods due to the IPO. We estimate a return on equity between 37% and 41%. It's important to note that this projection considers an adjustment in equity related to the payout of 80%. In SH1, we forecast premiums written to grow between 37% and 49%. In SH2, we estimate premiums written to grow between 15% and 20%. In pension plans, Brasilprev will forecast a growth between 30% and 40% in consolidations and finally, in premium bonds, we expect a growth between 50% to 65% in collections. All these growth rates are over 2012 figures.

Well, these are the most important topics we would like to point to you and we thank you all for this opportunity to bring more color on BB Seguridade's earnings in the second quarter and now we can go ahead to the Q&A session. Thank you.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions) Ms. Regina Sanchez from Itau would like to make a question.

### Q - Regina Sanchez {BIO 16404038 <GO>}

Hi, everybody, congratulations on the results, we really like it a lot. I have two questions. The first one is that we noticed that written premium growth was very strong on the BB Mapfre SH1, especially on credit life and the life insurance related to loans. And the agricultural insurance that grew above 100% quarter-over-quarter. However, earned premiums in those same segments grew only 19% and 17.5% quarter-over-quarter respectively. And also commission revenues related to this Company only increased 10% quarter-over-quarter, even with the percentage of sales through the banking channel increasing to approximately 85% of the total sales.

So how should we think about the impact in the future of this high growth rates in written premiums? I mean, how fast they will translate into higher earned premiums

and higher commission revenues at the BB Corretora. You know my understanding is that there is a deferment, but this news on very strong written premiums will translate in future earnings for the company, I mean, if you could share maybe also the average duration of

these products and how commissions in earned premiums are going to be recognized through time, I'd really appreciate, and I have a second question. Thank you.

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

Hi, Regina, thank you for your question. When you look in the quarter-on-quarter comparison, you should take into your account that there is a matter of deferrals that happens mainly with credit life and with rural insurance. So the credit life, even when you consider the earned premium and acquisition costs, both are deferred through the life of the product.

So in the credit life, the average term is nearly 36 months, while the rural insurance has an average term of nearly 12 months and while, when we look in a comparison between written premiums in the second quarter of 2012 for example, and written premiums in this quarter, you can notice that, credit life and rural insurance grew a lot in terms of share in written premiums, when you compare even in the quarter-on-quarter basis and the year-over-year basis.

And that happened in this quarter, the growth in credit life was really strong and that you can see that in the brokerage income, there is also a deferral for recognized -- sorry, the recognition of brokerage income in the broker. So going forward, you can see a little change in the mix. So you can expect the credit life growing in participation when you compare it to the last year. So I think that when you look in a ratio between the brokerage income recognized and the written premiums and even in the acquisition costs in SHI, you can expect a reduction in this ratio.

**Q - Regina Sanchez** {BIO 16404038 <GO>}

Ok, perfect and then this means that we can expect actually that the company will benefit from this very strong written premium growth in the next 12 months to two years, I mean, considering the duration of these products, is that correct?

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

Yes, Regina, that's correct.

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

For sure that, there is a carry up in these products in the results going forward, mainly in credit life product.

**Q - Regina Sanchez** {BIO 16404038 <GO>}

Ok, great and my second question, also regarding the credit life product, which is growing very fast. If you could comment about the penetration of these products, that is related to the loan portfolio. What is the penetration as a percentage of the outstanding loan portfolio or if you don't have as a percentage of the outstanding loan portfolio, at least as a percentage of the loans that you are originating in terms of this consumer segment portfolio and if you are expanding the offer of these products to other types of consumer loans as the eco-finance for instance, that I'm correct, you just started actually at

the end of the second quarter probably, it was still on a pilot testing period and you're going to start to grow in the second half of this year.

So anything that you can share in terms of penetration data and also, please clarify if this includes housing insurance or not in this figure. Thank you.

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

Thank you Regina for your question. The first part of the question, our penetration in the credit life of loan portfolio of Banco do Brasil that we can sell credit life in -- for individuals, we have 32%, the penetration now, this 32% and we estimate that this penetration will grow individuals and we still have all the SME portfolio to increase -- to develop and increase the penetration of insurance related to the credit. So we think that in the near -- in the next quarters, we will see a growth in credit life, in credit related to insurance and SHI.

**Q - Regina Sanchez** {BIO 16404038 <GO>}

Ok, just to clarify, this 32%, it's on origination of the consumer loans or in the outstanding balance?

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

Regina, just to clarify, 32% is the outstanding balance, that's 32% of the -- our loan portfolio, we have insurance nowadays and we can increase -- and this is without mortgage, the housing insurance.

**Q - Regina Sanchez** {BIO 16404038 <GO>}

Ok, perfect. Thank you very much and congratulations again on the results.

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

Thank you, Regina.

**Operator**

(Operator Instructions) Mr. Eduardo Nishio from Brasil Plural would like to make a question.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Good morning, thank you for the opportunity. I have a question on the premium bonds segment. I would like to, if you could comment in general about the guidance and then specifically about the premium bonds, isn't it a little bit conservative, your guidance for the full year, given that if you have to launch the premium bonds in Sao Paulo state on Nossa Caixa previous branches, how much do you expect that to impact in the fourth quarter this year in terms of growth? Thank you.

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

Thank you Nishio for your question. It's all right, our guidance for premium bonds in 2013 are conservative, because we still are dealing with the possibility of selling the products in Banco Nossa Caixa branches, ex-Banco Nossa Caixa branches and this will happen in maybe September this year. So we are being a little bit conservative on this number, but we think that maybe for Brasilcap you will see well, a number near the top of the range, because if we start our operations in these 550 branches in September, this will increase our resulting income [ph] in Brasilcap.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Ok, thank you and if you could let us know a little bit, and update us on IRB acquisition and the plans there, what are your thoughts about the speed of restructuring you're planning to carry on IRB? Thank you.

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

Thank you Nishio for your question. We estimate that in the end of August, we will finish the financial part of the acquisition and we'll be able to put our -- to change the core of IRB and after that, we will see if our partners, the next steps of the business. But of course, we really think that IRB will help a lot in our -- mainly in the big risk segments, in SH2 and in rural and SH1. So, this will happen next year. We are not -- in our business plan, we don't have it yet the information related to revenues from IRB, so this will be a plus in our point of view. So all the estimates that we have even ROE are without IRB results.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Ok, so just that -- do you see any, how -- in terms of numbers, do you see a lot of space to improve the operations in IRB, it's running between 15%, 20% ROE. Do you see any chance for that to expand further, after all that -- all the respective insurers buy stakes there and the restructuring kicks in?

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

Thank you, Nishio. Our expectations after changing the board and having -- changing the way of IRB doing business, increase in the businesses or the partners, business that we can add value to IRB, we think that we will achieve a 20% -- near 20% ROE and this will happen because of the increase of business that the partners will bring to the company and the knowledge they already have in this market.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Great, thank you.

**Operator**

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

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

Well, I would like to thank you all for joining our earnings conference call. More information can be found in our investor relations website [bancodobrasilseguridade.com.br](http://bancodobrasilseguridade.com.br). If you have any follow-up questions, please direct it to our Investor Relations Department. Thank you very much.

## Operator

With this, we conclude the BB Seguridade's conference call for today. As a reminder, the materials on this conference call is available on the 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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