

Q1 2015 Earnings Call

Company Participants

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

Other Participants

- Rafael Frade, Analyst
- Tiago Batista, Analyst
- Unidentified Participant

Presentation

Operator

Good morning everyone and thank you for waiting. Welcome to BB Seguridade's First Quarter 2015 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. The presentation is also available in the financial information section. Participants may view the slides in any order they wish.

Before proceeding, let me mention that forwarding-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. Werner Suffert, and BB Seguridade's CFO; Mr. Rafael Sperendio, the Head of Investor Relations. Please Mr. Sperendio, you may now begin.

Rafael Augusto Sperendio {BIO 18963159 <GO>}

Good morning. Thank you all for joining our conference call. So beginning the presentation on page three, we have some highlights of the first quarter. The first one is our net income that reached 949 million equivalents to a growth of 46% year-over-year

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boosted mainly by the combined and non-interest operating result concentrates all the non-interest operating results of our affiliates and controlled companies of BB Seguridade. So we're trying to buy 178 million compared to first quarter 2014, and also we saw a growth in the net investment income combining of these companies; this line grew by 122 million, as compared to the first quarter last year.

Total revenues from the underwriting and the accumulation businesses, we have premiums written, pension plans contributions and also premium bonds collections growing by 35% year-over-year, driven mainly by the performance in pension plans.

In our operations with Life, Mortgage Life and Rural insurance our combined ratio driven by 9.2 percentage points year-over-year is mainly driven by lower premiums in Life and Credit Life and also a lower G&A ratio.

At P&C segment the fee income reached 99 million in the first quarter, a growth of 15% year-over-year, driven mainly by the improvement in the net investment income. In pension plans, we reached 120 billion in assets under management, 37% up in the last 12 months, what has led suppressed [ph] to the top of the ranking in P/VGBL reserves, according to that the (inaudible).

In terms of net inflow the company keeps showing such a good performance with 64% out of topper market net inflows for the quarter. The net income as followed premium bonds business growing by 67% year-over-year driven mainly by wider spread and increasing in the average balance of interest earning assets.

And finally the brokerage [ph] revenues rose by 25% year-over-year driven by brokerage income arising from SH1 plus 22.6% year-over-year and also regarding contributions like Brasilcap. So the brokerage income coming from these operations grew by 65%, as compared to first quarter of last year.

Moving forward on slide number four, we had no extraordinary events in the first quarter of this year.

On page six, we have a brief overview of the BB Seguridade's performance. So revenues including premiums written, pension plans contributions and premium bonds collections amounted to almost R\$14 billion in the quarter, 35% higher year-over-year. As you can see on the right hand side this growth was divested mainly by the Pension Plan segment, we have increased that by 12.1 percentage points each share in total revenues in the quarter, excluding brokerage.

Our net income, as I mentioned previously reached R\$949 million, 46% up year-over-year, if we going to analyze on return on average equity, up nearly 64% and regarding the earnings breakdown 37% of our earnings came from the brokerage business and nearly 63% from the underwriting in the accumulation businesses and the main highlights here the increase in the share of the participation in the earnings relating to our operations in the Life, Mortgage Life and Rural insurance at stage one. So it accounts for nearly 31% the net income for the quarter.

On page six, we have the contribution of the net investment income to BB Seguridade's net income. They combine its net investment income of our affiliates and consult companies, net of taxes was 70% higher year-over-year and we've increased, while mostly due to the higher yields. I mean financial investments and also in higher volume of interest earning assets and when we're talking about yields of investments it's worth noting higher average rates.

As you can see on the upper left hand side and also a higher inflation in both the (inaudible) our financial investment portfolio. And what I would like to emphasize here is that importantly that we do not see any active management of our investment portfolio that here always to focus on the assets and liabilities from management. So in fact we had a more favorable market environment for the way that we positioned in non-investment portfolio, that's why we've reached participation on the net income of 31%. Although 31% of our net income came from the net investment income. So financial results, but we do not think that it's going to be recurring revenue, it was more related to the more favorable market environment during the first quarter for these lines for fiscal year.

On page seven, we are going to start took over the performance of each company in more detail. So we have the first one, the operation with slight insurance Mortgage Life and Rural considering premiums written, net of premiums ceded to reinsurance, we grew by 3% year-over-year.

Looking at premiums written design dropped by 0.9% year-over-year and the main reason is that in 2015 differently from what happened last year, but Brazil decided to not anticipate working capital lines for farmers. So it effected a little bit how a performance in crop insurance, but we believe that this is going to change going forward as this strategy was a little bit different for 2015. We think that when we talk about Rural insurance specifically we are going to have higher concentration of premiums in the mid of the year, differently from 2014 that was highly concentrated in first half.

Besides this also had a weaker performance in the life insurance showed in the independent broker channel. So we also affected that top line growth. But if we were to exclude that the performance of both these lines premiums written would have grown at 12% level. So a much higher level comparative to the one that we've presented, but besides this impacting on top line they think even us to earnings is very two lines do not contribute that much to earnings. That's why we have a higher contribution to top line, but a lower contribution to net income and we were able to present in the first quarter of 2015 a net income of R\$392 million for these operation we have around 70% year-over-year and a return on average equity of 57.3%.

The main highlights here throughout the operating performance at SH1, as we can see on next page, page eight, the combined ratio improved by 9.2 percentage points, explaining mainly by a lower gained in life and gratified segment and as well the improvement in the G&A ratio mainly due to the lower contributions for the fund for the stability of the Rural insurance in Brazil (inaudible).

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Moving to page nine, we have our P&C operation. Top line growth particularly considering just within a premium, we grew by 4% year-over-year, driven mainly by the outflow insurance. We have increased by 2.8 percentage points each share in mix of premiums retain it. Net income reaching R\$99 million for this operation. We have grown 15% year-over-year and that we 13.2% and the main reason here for this growth was the good performance in the financial result has been underwriting results dropped in the year-over-year basis mainly due to a higher loss ratio.

As we can see on page 10, the higher loss ratio reaching 59.5% for the quarter was due to increase effect and also to strengthening provisions for price incurred but are not enough reported IBNER. So when we look the effect combine it, the combined ratio was 3.3 percentage points higher on a year-over-year basis, but we had some issues that affected these comparison basis that when we analyze mainly the commissioned and at the G&A ratio.

We paid out these events in our MD&A, but only to compare the performance if we were to exclude these effects mainly different accounting increased the classification that was required by the regulator and also a reversal provisions for (inaudible) in the first and of course by the last year, the commission ratio would have improved by 1.4 percentage points, while the G&A ratio would have improved by 0.2 percentage points. So this is very clear that weaker combined ratio was mainly due to a higher loss ratio.

On page 11, pension plans. We can see that we had a quarterly contribution increasing by 67%, so such a strong performance and everything some ratio maintain that at a single digit level. The result we can see there on the upper right-hand side, the total assets from the management, which is 120 billion, 37% up year-over-year and management fees grew by 28% a little bit below the growth of assets under management, but this was mainly due to 7bps lower average management fee, due to the focus that we have been implementing on the high networking clients.

So as a result, net income reached R\$220 million for the quarter, 26% up a year-over-year boosted by, as I was mentioned the growth in management fees and also with an interest on traditional trends. A return on average equity up nearly 53%, we can see that we present about 7.2 percentage points lower ROEs, due to mainly increase a capital retention due to the market risks, capital requirements regulation that's going to be maintained until 2017.

On page 12, we did a comparison between the performance of Brasilprev and the industries. One, as you can see Brasilprev keeps doing very well in net inflows presenting a grow up 116% a year-over-year and accounting for nearly 64% of the industry that are net inflows. Also we're lodging that, we have reached the first place for -- P/VGBL this quarter. So with a share of 27.2% of total assets under management, according to Fenaprevi.

On page 13, we have our performance in premium bonds, so collections achieving R\$1.3 billion, a growth of 1% year-over-year. In this quarter, we see that the change of the mix with a higher concentration in monthly payment product, it keeps running so now, monthly payment products account for nearly 57% of the top line.

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So as we mentioned in the last conference call, it's going to be our strategy going forward at this type of products provides a much more recurrence, much more stable revenue stream for the company. It's worth noting that besides this growth a 1% in top line, a much more important and that was the growth in reserves that we have seen that are supported the growth in the net investment income of 88% higher compared to the first quarter of last year mainly due to increase of interest earning assets and also wider spreads, due to the high specific rate over the recent periods.

Moving to page 14, we have a brokerage business. So brokerage revenues grew by 25% year-over-year driven mainly by SHI and pension plans. Net income achieved R\$354 million, 38% up year-over-year and this was also mainly driven by the increase in the brokerage income arising from these two operations and improvement in the operating margin, as we can see the dilution of cost curve, when we think about reimbursement to Banco do Brasil it happens nearly on the cash basis.

So if we look at the performance in premiums written and the bancassurance channel (inaudible). It reminded almost stable compared to the first quarter of 2014, while brokerage income arise income and these operations net income rose above 20%. So this is mainly related to the deferrals that have been cleaning Credit Life products. So as I've mentioned previously we paid Banco do Brasil as a matter of reimbursement of costs, on a cash basis but when you have at that role, you do not have any expense related to this income that you are acquiring to earn it. That's why you can see such good improvement in the net margin reaching 58.1%, 5.5 percentage points higher, as compared to first quarter of 2014.

And finally to wrap up the presentation in page 15, we have our guidance for 2015. The first one, we changed a little bit the way that we are tracking the guidance, so we have a bottom line guidance from 3.6 billion to 3.9 billion. We shifted to a growth guidance just for tracking purposes from 12% to 21% net income growth for the year that we reached 46% growth as of March 2015. And the main reason was that we have a net investment income better that we were forecasting for this beginning of (Technical Difficulty) so we still believe that throughout the year probably the financial result will behave more in line with our estimates that's why we are maintaining this range R\$3.6 billion, R\$3.9 billion in net income and that is equivalent to 12% to 21% growth in bottom line.

Regarding to the growth in SHI, premiums written, Life, Mortgage Life and Rural insurance, we prevented a reduction of 0.9% while the guidance is a growth from 16% to 21% and the main reason is what I've explained that previously, totally related to the performance in the crop insurance below the one that we were expecting for this beginning of 2015. As in this year the bank decided not to anticipate the working capital lines for farmers and that's why probably the trend is to have a higher volume of premiums written in a Rural insurance more concentrated and need of the year differently from 2014, that was concentrated in the first half.

Besides that we also had a weaker performer in this Life insurance. So the independent brokerage channel that's why despite the performance we decided to keep the range and we're going to follow the rhythm of premiums written in the next month. So especially

after the we're leaving the government subsidies for crop insurance to see how this line is going to behave so inside that to maintain the range.

And the last one, we have a guidance and of reserves for P/VGBL at Brasilprev, a guidance from 27% to 36%, we reached nearly 41% growth in the last 12 months of our estimates. That we believe that these mostly due to much more favorable scenario in terms of rough contributions to pension plan, their profitability for an investment firm and also very low reduction level as compared to the first quarter of last year. So we believe that probably we throughout the year, these big sub growth will convert to the estimates that we for the year. So that's why we have decided to maintain this range.

So this finishes our presentation, this was the main highlights for the quarter. I would like to thank you all again and now we are open 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) Our first question comes from Tiago with Itau BBA.

Q - Tiago Batista

Hi, guys. Thanks for the opportunity. Congratulations for the strong results. I have with me two questions. The first one is regarding your guidance. Looking to the performance of SHI premiums growth, it's low below the full year guidance. When you compare to sales performance of this segment, we feel our budget. How far are you from the one which is really lagging at the budget? How far are you from the initial expectations? I mentioned that our business segment is the one that is really lagging at the budget. But another segment is presenting a below expectation performance.

And the second one is again it's more or less related to the guidance, but what's the bottom line. Not only your 1Q represents lets' say 21% 22% of the annual earnings, but the earning of the first Q was achieved 24% of the top of your guidance. Do you believe that your earnings will be at least in the top of your guidance or this is possible to say that the bottom line of the full year will be very close or at least in the top of the range you provided?

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

Thank you, Tiago for questions. Regarding guidance from SHI, the one that is lagging related to the budget, a full-year budget, as the agro business insurance, the crop insurance mostly due to this long stumble in Banco do Brasil that they anticipate at the last year and now they have a different model to follow. So we think that this will be during the second quarter, second half of this year we were stabilized in the normal level of budget level.

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So if you do this performance we will improve during the year, but for the other products, the performance that's we have, the performance that we anticipate in our budget and of course when you look the first quarter we it's not as strongest one related to premiums from SHI, when you look the Credit Life and Life insurance base charge to ramp up during the second quarter. So you will have a better performance this quarter and comparing with the first quarter of course. And the first quarter is very strong also, so when you look the budget for other products we are in line with the budget.

Moving to the earnings question. We have a very strong performance in the first quarter close to 24% of the top of the guidance that you told. But we believe that during this year, if we have the same performance, we will be reaching the top side of the guidance, but we will need some months more to have a clear view of these movements and maybe to change the guidance to another net income.

So earnings from this quarter it was very good, but based on the financial results and our very strong performance from the operational side of SHI debt we've want to sustain this during the year, but we need to have some new information from second quarter to have a clear view of this performance and after that changing our estimates in our guidance for 2015.

Q - Tiago Batista

Okay. Thanks a lot, Werner.

Operator

Our next question comes from Rafael with Bradesco.

Q - Rafael Frade {BIO 16621076 <GO>}

Hi, good morning all. I have two questions. The first one is related to the crop insurance from my understanding you are still working some features to allow you to sell this insurance on the origination for corporate. I would like to know how time line is working for this, if I'm not wrong. It's expected to the beginning of the second half. I would like know if your -- it's any update on this.

And the second question would be on your pension uses on Brasilprev. When we look for the administrative fees, the full Q-on-Q despite the increase in volumes so it indicates that even in the -- days there are some reduction in the fees. So if you could provide any color on this will be great?

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

Hi, Rafael. Thank you for the question. So regarding for Credit Life for certainly the ABA [ph] is to begin offering for other origination. On the beginning of the second half of this year and on Brasilprev the question about the -- regarding the flow that happened on a Q-o-Q behavior, now a group comparison because we had less working days as compared to this fourth quarter last year.

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So if we were to compare that the best way to, I was not to compare way that first quarter in 2014. But regarding the question, overall, we saw a certain peaks lower management fees this year, in the first quarter 2015 and the main reason because we have been concentrating now -- airports in high net worth clients. Mainly in the P/VGBL products normally you also management fees up around 1%. So besides that we see that we have a very competitive management teams and this is a totally in line with our main peers in this segment. Most of them are working (Technical Difficulty) and so we have been very comfortable and this is totally related to mix in a higher concentration finance were declined and dilution of the participation of the tradition of plants that are behind our benefit one that we offer -- you to offer to clients on June 2002. We are not offering these products anymore, but these products take charge higher management fee as this participation is being valued this is totally normal that we can see these are decreasing in the average management fee.

Q - Rafael Frade {BIO 16621076 <GO>}

Okay, that's perfect. Thank you, Werner.

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

Thank you.

Operator

Our next question comes from (inaudible).

Q - Unidentified Participant

You surprise me on expenses. Always below my expectation. I just like to understand why you believe expenses came lower this quarter and especially because pension performance was strong and as far as I know pension consumes more time of the bank of the presume managers. So should cost more for the debt to equity. So if you can talk a little bit about expenses then I do my second question later.

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

Hi, Rafael speaking. Sorry, but we missed the beginning of question, but I believe that it was related to expenses as a broker business. So, selling business to lower expenses of related to the lower volume of sales that we saw in the first part of this year as compared to the fourth quarter of 2014.

So when we have these practices as movement, we know that the new sales as we use to call a year at Banco do Brasil overall, these new sales they, they are more timed of the management and consumer more of the possibilities of the Bank as compared to what we call insurance one that for example monthly life insurance of when we sell amount to life insurance for at first time the expense is higher, but as you will approve these monthly paying into earnings the expenses related to this revenue flow is much lower. So as we saw in the first quarter our lower volumes of new sales is totally natural there we can see improved margin. Despite these effect, we also have a modern one that is related to the way that we improve the results in a great order. So if you look at the base of premiums

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written growth in SH1, in the bancassurance channel its remaining almost stable on a year-over-year basis, while brokerage income have grown about 20% and the main reason for that is that the debt rolls that happen in the Credit Life product on average the Credit Life insurance accrued into earning nearly 36-months for the individuals product and 18 months for the SME product.

When you have this therefore you do not have an expense related to this income that is being accrued into earnings. So we reimbursed Banco do Brasil on a cash basis and when we have that cost, you do not have counterparty related to expenses, on the income statement. That's why we saw improved net margin. So we have both these impacts lower volume of sales mainly related to lower volumes of crop insurance and also an accounting effect regarding the way that we recognize the expenses and the way that we recognize income but where we saw this improving margins.

But this is not going to be a trend as we do believe that our probably the volume of sales will improve in second, third and fourth quarter of this year and probably the operating margin at the broker business will come back to the average level that we had in their most recent period.

Q - Rafael Frade {BIO 16621076 <GO>}

Well, understood. So is much more related with the mix between new sales and recurring sales and then necessarily (Technical Difficulty) or SH1. So I got it.

My second question, if I can as regarding the program, the program you guys in that Banco do Brasil manager for commercial affords that has been a very good driver for our sales performance, I mean in March, you guys changed the focus and the sales, especially on credit insurance they resonate. You guys can give us an idea of what products we will be maintained in this program for the next monsoon and where you're plan regarding that?

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

Hi, Werner speaking. The main products for -- problems from to use Banco do Brasil sales, it will be products from SH1 and (inaudible). In the SH1 life insurance we continue to be very important product to be delivered using Banco do Brasil channel and we will also emphasize the credit life. So, if it start within March, but we will have this process using strongly conservative channel to distribute it during all this quarter.

So second quarter it will happen and in fourth quarter, it will be a very strong also, but in Brasilprev side, we will start to move from the -- where we are to expand and to the sporadic 1, because of the volume it gains to our companies to reserves. So, we starting the first quarter strongly in the mix of monthly payment product and now we are focusing more to the same business line, so life in Brasilprev, but products life at sporadic plant in Brasilprev and annual insurance in the SH1.

Q - Unidentified Participant

Now makes sense. Thank you, Werner.

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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 Augusto Sperendio {BIO 18963159 <GO>}

Thank you all for your participation in the earnings conference call. We remain always available at our Investor Relation team and our email ri@bbseg.com.br. 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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