

Q1 2014 Earnings Call

Company Participants

- Marcelo Augusto Dutra Labuto, Chief Executive Officer
- Rafael Augusto Sperendio, Head of Investor Relations

Other Participants

- Regina Sanchez, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to BBC Seguridade's First Quarter 2014 Earnings Conference Call. This event is being recorded and all participants will be in a listen-only mode during this 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. 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 this conference call regarding expectations, growth estimates, projections and future strategies of BB Seguridade are based on the Management 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 and financial statements in accordance with IFRS principles, except when otherwise indicated source. 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. Mr. Labuto, you may now begin.

Marcelo Augusto Dutra Labuto {BIO 18015082 <GO>}

Good morning, everyone. This earnings call is very important for our company. We are celebrating the first anniversary of the distributed agile, through there ruthless effort of

our team.

Our strategic partners and unconditional support of Banco do Brazil and it's amazing sales force. We've had the opportunity to present to you main achievement in our quarterly calls.

During such a short period of time, we managed to develop an extensive track record aligned with the commitments that we made since the IPO. We'd like to share these moments with you because of the trust we received from the market, reflect not only in the good results of the IPO, but in the continuity of the distributed of successful footprint in the Brazilian capital market.

The weight of our shares enabled [ph] has recently increased and the market demand for our ADR is overcoming the best estimates that we have. And following the same path of our Brazil calls, I would like to highlight some recent important developments in the company. The most important one is related to crystallize for SMEs. In my opinion, the interest of the analysts and the shareholders about this product is really reasonable and is justified by the potential, it has to extend the period of accelerated growth that has been observed in SHI revenues, which is the main source of the distributed authorities.

During the last month, the product development and IT issues advanced quickly. In April, BB Seguridade [ph] received all the regulatory approvals, that allow the Corretora launch, this new product in Banco do Brazil network already in this quarter.

Our IR team recently announced two other important developments for our strategy. The agreement that allows the Corretora to sell premium bonds in the former Nossa Caixa great network, in the establishment of Brazil -- just as the credit life for SME's. We expect these two new initiatives to generate revenue already in this quarter. In the case of Brazilian reais as soon as we receive regulatory approval, we will launch the product.

We had main initiatives aim to extend our portfolio, find commercial strategy and corporate governance mechanisms over affiliated companies. One of the main reasons behind of all these is to extend the growth cycle and improve the mix quality with focus on products that presents revenues recruited provide higher customer satisfaction, enough cost generates sustainable earnings for our distributed act.

In the beginning of 2014, we are benefiting from the strategy we developed during last year. In general, this first quarter figures show improvements, both in the financial and operational side. The net investment income reaches roughly R\$170 million based by reserves exploration and a more favorable scenario in terms of interest rate. This performance is twice as much what we have observed being the same period of 2013.

All of these is reflect in our adjusted earnings, even in seasonal weaker quarter, we had R\$649 million in net income, posting a 43% growth over the same period of last year which keep us contract to deliver our ROE guidance.

Thank you all to being with us. Now, our Head of IR, Mr. Rafael Sperendio will provide more color on our first quarter earnings.

Rafael Augusto Sperendio {BIO 18963159 <GO>}

Thank you Labuto, and thank you all for joining our conference call. So moving to page three, we have some highlights for the quarter. Our net income grew by 43% year-over-year to R\$649 million, which is equivalent to a return on average equity of 47%, after adjusting the initial equity for the dividends paid on 2013 earnings.

This growth came on the back of net operating performance in all periods, we issued a segments (inaudible) SH1 and SH2 combined that amounted to R\$3.6 billion in the quarter, 18% up year-over-year.

Later in this presentation, we are going to cover it in more details. Contributions in Brasilprev's segment, which is 5.1 billion even in a still challenging scenario for new contributions. So, just like in the fourth quarter of 2013, Brasilprev industries nearly 95% of total net inflows in the market this quarter. In premium bond segment, we reached a net income of B\$16 million, more than twice the net income reported for the first quarter of last year, boosted mainly by the recovery of the net investment income.

On brokerage revenues rose 26% year-over-year to R\$488 million this quarter, SH1 and Brasilcap main drivers for this growth. And lastly, in the first quarter, all companies improved their net investment income mainly Brasilcap which presented a net investment income of R\$66 million against a loss in the first quarter last year. They're going to cover the net investment income more details throughout this presentation.

So moving to page four, we can see the Extraordinary Events that are affected our earnings. In this quarter we had no extraordinary events that aiming to have the comparison between these quarters we have included the adjustment that happened in the first and fourth quarter last year.

Moving ahead on slide number five we have the overview of our performance. Revenues including premium pension contributions and premium bonds collection amounted to 9.9 billion in the first quarter of 2014. Reduction of 2% year-over-year result of volume in pension plans contributes as we are going to cover later.

Then comparing to the previous quarter we saw drop of 23% in total revenues the BB Corretora it was note that this is an ordinary reduction related to the dynamics of the bancassurance channel which have a higher sales volume concentrated in net rate second and fourth quarters as you know quite well.

In this first quarter at many intervals by 43% year-over-over. As I mentioned in the first page, the return on average equity was 47% significantly higher compared to the 34.7% in the first quarter 2013. Really growing on the back of better operating and financial performance as we are going to covering in the next page six.

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There we have the contribution of the net investment income to the net income. As you can see in this part, you've saw softer forward look in investment in the short in part of the forward yield curve. And when you look at the long end it's shifting down. As a result, we could see an improving performance in an net investment and if you need to see in the bottom left inside.

The aggregate net investment income though the year-over-year and on the right side net investment income of our company is accounted 26% of net income. While this percentage was up 18% in the first quarter 2013. And then here I'd like to remember that after the stronger upward a sloppy movement that we have in the forward yield curve last year.

The net investment income got back to a more normalized level contribution to earnings in just as a matter of our comparison in 2012 the ratio was nearly 30%, then decreased to 19% last year and ended the first quarter 2014 as 26%.

Now from page seven we are going to cover the performance of each in more detail. So first of all, in the segment that deals with life, mortgage life and rural, in BB Mapfre SHI, premiums written increased by 30% year-over-year, boosted mainly by growth life and rural. On the upper left side you can see the life insurance loss showing the total amount of premiums written this product just like the pension plans and premium bonds, which we're going to cover later and another products which we are working to improve the current flow should be at a more stable only 15 [ph] for the company.

So in this product, we are focusing more on the monthly payments life insurance, which brings better current flows to the company in spite that the quite lower average ticket compared to the annual payment life insurance.

We had a served in this company in the great improvement in the operating results, then the underwriting results growing 24% compared to the first quarter of 2013. These underwriting performance within improving net investment income relative to SHI to achieve a net income 30% higher year-over-year in that written on next about 11% points higher.

On next page, we have the main performance ratios of the segment, already considering the adjustments of the results which we choose among the correspondent lines in income statement. Loss ratio rose 3.4 percentage points year-over-year reached at the result that affected the agricultural production started, it's worth noting that this is an ordinary risk of the rural segment, which is very profitable segment, so have these peculiarities mainly related to climatic event. So that is why in the agricultural insurance even better is most exposed to climate high load, we reinsured nearly 80% of the risk and that's why we do not have greater impacts in our results.

On the cost side, G&A ratio fell by 1.4 percentage points year-over-year, actually the combined ratio which is 78%, 78.3% about 2 percentage points higher over the first quarter last year.

Moving to premiums written in slide number nine, premiums written grew by 11% year-over-year mainly driven by the casualties, which increased its share in total premiums by 4 percentage points as you can see in the upper left chart. In SH2, the operating results were also very strong as in SH1, the underwriting results growing 248% year-over-year. Net investment income also did well to grow 116% compared to the first quarter 2013. And as you can see the outcome of these movements we can see that profitably chart, with the net income growing 251% year-over-year and the return on average exceed back to double-digits again.

Slide number 10, we have the performance ratios for SH2, adjusted by the effects of the results we have reinsurance, loss ratio increased slight one percentage point year-over-year. It's explained by the ration of health insurance that move by 0.5 percentage points a small growth and there was also changing this with GPVIT insurance. It is a mandatory insurance here in Brazil that has a higher loss ratio being in relevance in the portfolio products.

On the other hand, commission ratio profit by 1.5 percentage points in the first quarter of -- compared to the first quarter of 2013 even by the increase of participation of the non-banking channel and also (inaudible) and the better mix that has also lower commission ratio.

GNA ratio also included 2.1% points down year-over-year as a result of the tight cost control and reversion R\$20.9 million in the provision for -- for reinsurance credits and it would be watching to exclude these effects DNA ratio would be about 18.3% and the improvement of one percentage point year-over-year, and as result as you can see in the lower part of the slide, like combined ratio for SH2, which is a negative 6%, 2 percentage points better year-over-year.

So moving to page 11, in Brasilprev contribution they are up with 16% when compared to the first quarter of 2013. As a result of the focus given to periodic plans that have lower average ticket and the effect of the quality [ph] of the forward yield occur and mark-to-market effects they're having impacted negatively into this kind, of these firms. In the year, I would like to change the side the dynamics of the Brasilprev earnings since this is essentially in asset management business the sensitiveness in any income to put a revenues these quite a small.

The main driver of earnings here is the balance of assets under management in this base, despite the reduction and contributions net income grew by 37% year-over-year even mostly by the growth of revenues fleet management fees as a result of increase of assets under management and increasingly in the net investment income.

On page 12, you can see there, GAAP growth between 2013 and 2014 is falling. If we look at year-to-date data, contributions are almost stable year-over-year, when we look at year-to-date to April, we have preliminary figure of 7.724 million, it is by different compared to the 16% drop when we look at the quarter-on-quarter comparison.

Page 13, to reinforce what I've just said, we included some of our comparison between net inflow and market performance. We can see in the quarter, the market showed a fraction of 97% in net inflows excluding Brasilprev performance that we understand that are more fair comparison. And our net inflows also dropped better in a much lower expense just 41% and does our result going to look to the chart and provides position Brasilprev accounted for 95% of the total market net inflows this quarter.

Such a good performance in comparison, this year's admission preferred in the chart at the bottom left, we have the sales mix of pension plans with much higher concentration in periodic contributions that generate higher returns that we can leverage about 150 times lower than this provided contributions. In the short term, we see a mixed impact, amount of contribution but in sub-building [ph] a much more stable revenue stream to the company in the future.

Despite with the challenging environment to Brailprev's market to show a good operating trend with the decreasing retention ratio as you can see 10.6% in maintaining a consistent growth reserves with much more important to the earnings sustainability for the company.

On the next slide, you can see our performance in premium bonds. Collections grew 19% year-over-year to R\$1.3 billion with much more balanced sales mix compared to the one that we had in the first quarter when we saw the unique payments that are coming for 75% of the collections.

And we look at the net investment theme from the financial side, the NII cap improving achieving 66 million against the negative result regarded one year before, which reflects the more positive environment the higher average Selic rate and a lower volatility to the forward yield curve size that measures that we took in order to mitigate the volatility risks with companies such as for example, keeping the hedging strategy and increasing the participation of the held to maturity category in our portfolio of finance investments in this case.

This improvement in net investment income are the main driver that for the grow of 148% in net income year-over-year.

Moving to our distribution on page 15, we have with total bit smaller quarter-on-quarter but in line with ordinary seasonality of sales into bank assurance channel that normally concentrates higher sales volume in the second and the fourth quarter every year.

When we look at the quarter-on-quarter comparison brokerage fees, rose by 26%, boosted mainly by the growth in premium bonds and premiums from light grew on mortgage life segments. And net income in case is for the first quarter grows 32% year-over-year from the back of better net investment income in brokerage revenues here in the case of net investment income mainly result of a higher every -- great debt majority here is been invested in floating ticket [ph].

Page 16, finally to apart from the presentation, we have our 2014 guidance, as you can see we achieved with both ratios. In the first one the ROE, we came into need to be part

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of the range with 47% throughout (inaudible) for return and some valid forward results. Lets us within the guidance of return despite do you think the guidance for Brasilprev in the stage two. For segment our life business we -- at the upper part of the range we had a growth in premiums, about 30%.

For a stage two we have to least of the guidance with our P&C business that will 11% in premiums underperforming our estimate that was managing through 26%. And this was mainly due to lower than the expected performance in the other segments, however, these guidance as revenue impact on the company's earnings in the pension plans, we have also meets our top line guidance mainly because of this still adverse scenario in the market that we sold out the volatility in the forward yield curve and to mark-to-market that impacted negatively written on pension plan funds and in addition, we have focused also our sales effort some periodic contribution trends, as we covered earlier in this presentation, it allows greater cash flow in the future, it provides a better ability for earnings, but in the first moment contributes (inaudible) to the growth for contribution.

Here we understand that this scenario in industries is due challenge but we are still analyzing to get a better color on the range that we are going to reprise.

On the opposite side, we have premium bonds collections that we overcame the range. We had a growth of 19.2%, but in this case we had to keep the guidance mainly because in the first part of 2013, Brasilcap was still finishing portfolio with region so, the coming quarters should provide a more accurate basis for comparison, that's why we decided to keep the same range.

So now we can move to the Q&A session. Thank you, again.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instruction) Our first question comes from Mr. Carlos Macedo with Goldman. Please go ahead.

Our first question comes from Mr. Carlos Macedo with Goldman. Please, Mr. Macedo, go ahead. Our next question comes from (inaudible) Please go ahead.

Q - Unidentified Participant

Thank you. Thank you for the opportunity. I have two questions, firstly in relation to the guidance, any plans to revisit the pension plan guidance given that I don't think you have included in Africa, Asia, sorry, the premium bonds guidance that you have included in northeast in the numbers in the guidance. And how much that would be for the full year.

The second question. I'd like get an update on the following, first, there is any stock buyback plan that you are thinking about and stock option plan and an update on the ADR

listing. Thank you.

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

Thank you (inaudible) for your questions. First one related to northeast and premium bonds using this branches. We've started selling, this month just started selling this we don't see as a possibility to change in this guidance because we are still looking, and analyzing, if it's -- if you will have getting back this year, but as, have failed to, during this presentation we still have some very strong quarters to come. Related to collection growth last year, we have the second quarter a strong quarter.

So, we still think that this guidance 10% to 15% growth in premium bonds will be the one that we will reach. If you have a -- doing the year nothing changes we'll talk and we'll give you more information about this.

And so when related to this stock options, we don't have any plan to do that and I think it's important to -- and the fact that no intension and there is no studies insight that this would have to do that.

Q - Unidentified Participant

Guys talk buyback assurance.

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

Any plan regarding stock buybacks.

Q - Unidentified Participant

And stock options.

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

And the stock options also.

Q - Unidentified Participant

And any plans of ADR listing? To a higher level.

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

No, not yet. We are still beginning ADR OTC level one understanding the market having information from the market above the ADRs and the future maybe were we move to listen ADR but now, we will keep that OTC level.

Q - Unidentified Participant

Okay. Thank you.

Operator

Our next question comes from Ms. Regina Sanchez with Itau BBA. Ms. Regina, you can go ahead.

Q - Regina Sanchez {BIO 16404038 <GO>}

Yeah, hi everybody. Congratulations on the result. I have a question regarding penetration of the credit life insurance products in the client base, I mean in terms of the percentage of outstanding loans and on the volume of origination, if I recall, you mentioned that this penetration has been around 35% in both outstanding balance and new originations of loans, and then yesterday we attended an event of insurance business and they mentioned their penetration it's in above 60%. I was wondering whether you believe there is more potential to increase this penetration in the case of BB Seguridade in this credit life products. Thank you.

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

Thank you, Regina. Yes, we still believe that we can increase the penetration in this segment in credit life. As you know, we are starting credit life in (inaudible). But even for credit life for individuals we still think that we can achieve higher levels of penetration, we started this product some years ago increases lot yield in the product related to be off balance loans in tie Banco do Brazil and now we are increasing the penetration, the probability that we are selling at the same time of the amounts. So these will guide us to higher level of penetration this problem in the coming years.

We don't have a forecast on the estimate that we will reach 60% or 70%, but we still think that we have a good logic, good room to increase our penetration in this product.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay, perfect. Thanks a lot.

Operator

(Operator Instructions) Our next question comes from (inaudible). Please go ahead.

Q - Unidentified Participant

Hi. It's Allen (inaudible). Can you just explain to me, if you don't mind, just I'm trying to understand your guidance in relation to the expectation from investment income and how much of it comes from free or the operating level, excluding investment income, because, if I look at the operating performance that has to be a deceleration in activity, obviously on the investment income, you've done very well.

I don't know, if you can give any more color. I know you give them a very top line guidance on premiums, et cetera, but can you just kind of give more color on how that relates to your net profit guidance that you sell at the IPO stage?

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

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Thank you, Meth [ph] for your question. I think that the first thing that's important to emphasize is that, our guidance. As you mentioned that our NII performance is better than as expected at power operational performance is still what we have room to grow. We believe in this we are doing that in a quarterly basis and but it's important to emphasize that the operational results of all the composite margins, the operational margins in this companies and the combined region in the insurance companies is improving, when you see the quarterly comparison

So, we are better and now better performance in all the companies and in business, you can go from SH1, SH2, Brazilian Icatu and Brasilprev, they have better performance.

We have some challenges related to contributions in pension plan business, related to the further impact that we have last year in Brazil.

But we start to move this cycle to the best and now we have -- we are increasing the contributions in this, as we mentioned during the mention, we'll have the APO numbers that shows that this is improving very well.

So we have this top line guidance showing that the performance is going well on the top line side in the preside of results not only the NII, but the operational results of this company is improving. And you can see this SH1, SH1 we have some seasonality related to the drop in the Southeast in Brazil and this impact a little bit our agricultural insurance. But besides that the performance was very good in this quarter and SH2, a very good performance in G&A ratio decreasing net loss and this is something that we will see during the year for Brazil capital the performance increasing in sales.

Last year with lot of growth of fantastic growth for more than 60% growth in collection and now we will increase even down to 16% the growth that we have last year. So we will keep the same collection and this will increase our financial results in Brasilcap.

So, we have a lot of good news in all this components and of course this scenario international plan business because we don't have that information from so that the Brazilian regulators from the insurance market. We been have a enough information to change this estimates now and we will see the numbers from the market from the first quarter and in the second quarter. And after that decided to change the guidance for our pension plan business or not.

Q - Unidentified Participant

And are you guys, I'm just kind of -- can you just kind of give some expectations in terms of what you think investment income is a more sustainable trend for you going forward. I never see we were in a higher rates environment than we were a year ago. I mean what kind of average rate environment which you can't estimates in the investment income.

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

Okay, at this we during the 2012, our financial results was response for 30% of the earnings from the Brasilprev margin, it was a good year for financial results, this quarter

we reached 26%, so we think that we will reach something between this 25% and 20% as an average financial results quarterly basis. So, one quarter of our earnings will come from financial results.

Operator

(Operator Instructions) This concludes today's questions-and-answer session. I would like, to invite Mr. Marcelo Labuto to precede his closing statement. Please Marcelo Labuto goes ahead.

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

Thank you all for joining our conference call. And for the confidence placed in the company. Also they quite challenges scenario for some business segment in general our perception is that the performance of the first quarter was very positive and here reinforced the confidence for the rest of the year. Our IR team remains available for any further clarifications. Have a good day.

Operator

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

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