

Q3 2014 Earnings Call

Company Participants

- Rafael Augusto Sperendio, Head of Investor Relations

Other Participants

- Thiago Batista, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to BB Seguridade's Third Quarter 2014 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 and 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 forward-looking statements that may be made during this conference call regarding expectations, growth estimates, projections and future expectants 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 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. Please Mr. Sperendio, you may now begin.

Rafael Augusto Sperendio {BIO 18963159 <GO>}

Good morning. Thank you all for joining our conference call. So, moving to page three, we have some more highlights of this quarter. The first one is our net income of 822

million, equivalent to a growth of 50% year-over-year and return on average equity of 61%.

In this quarter, our combined net revenues including premiums written, pension plans contributions and premium bonds collections, these revenues amounted to BRL13 billion, it's nearly 43% up year-over-year. Another point to be highlighted here is the strong improvement in the operating performance and the companies that we have partnership with Mapfre compared to the third quarter of 2013 both SH1 and SH2 improved their combined ratio nearly 66 percentage points and 2 percentage points respectively.

In premiums -- in pension plans, sorry, Brasilprev have exceeds 100 billion AUM with a growth of 34% in 12 months. In net inflow, Brasilprev gets overcome the industry with nearly 54% which was on net inflows in this quarter. And premium bonds, Brasilcap and the net income grew 178% year-over-year, that was mainly driven by better operating performance in the improved financial margin. And lastly, here in this page we have brokerage income that grow 32% year-over-year to BRL563 million, being boosted mainly by Brasilprev, our pension plans company and SH1, the company that deals with life and rural insurance.

Moving to page four, we show our performance as compared to the market. As you may see here, considering the year-to-date available by SUSEP until September here our performance was much better than the industry in both segments in comparative approach here considering the performance of the market. (inaudible) our growth in premiums written reached 6.4% in life while the industry contracted 0.6%. Looking to the performance in the rural insurance, we grew 44.6% while the industry grew by 35% only.

In pension plans, total contributions rose 38% year-to-date while the industry contracted 2.4%. And in terms of net inflows, we saw net inflows growing by 56% while the industry net inflows improved 35%. And when we look at total revenues including premiums written, pension plans contributions and premium bonds collections our growth reached nearly 26% while the industry grew nearly 7% only.

On page five, we have here (inaudible) here just provided in adjusted basis for comparison, in 2014, we had no extraordinary events until September, so just to provide in an adjusted basis.

On page six, we have here a very brief overview of our performance looking to the combined revenues of our affiliates which includes premiums written, pension plans contributions and premium bonds collection. In this quarter, these figures amounted to BRL12.5 billion, an increase of 43% year-over-year, driven mainly by the contributions in pension plans. Quarter-on-quarter review here, it's important to emphasize that this drop of 21% is absolutely normal considering the seasonality in sales that are more concentrated in the end of each semester every June and December. So this is completely normal.

Looking to the year-to-date figure, total revenues achieved BRL38 million, a growth of 26% year-over-year. On the lower left-hand side, we have our net income that grows 50%

year-over-year to 822 million in the quarter. Year-to-date, the net income amounted to BRL2.3 billion, which is even higher than the net income that we reported for the full year of 2013. Looking to the earnings breakdown, we can see an increasing participation of SHI and Brasilcap, besides the net income of IRB which contributed with one month only in the third quarter revenue.

So, moving to page seven, we have the contribution of the net investment income to BB Seguridade's net income. We can see here how the financial results have been behaving throughout 2014. The average SELIC increased over the last 12 months, which led to an improvement in the profitability of our floating investments.

But, on the other hand, as you can see on the chart on the right, in this quarter there was an upward shift in the forward yield curve, which impacted negatively the profitability of our portfolio (inaudible) inflation-protected bonds mainly due to the mark-to-market effect that resulted in a 10% drop in financial results, when we look at the quarter-on-quarter figures. But, despite this upward shift in the forward yield curve, the combined financial result of our company grew by 61% year-over-year, 96% year-to-date.

And on the -- when we look at the chart of the lower right-hand side, we have the contribution of the financial results to the net income of BB Seguridade's year-to-date figure is accounted for nearly 25% of the BB Seguridade net income, which we consider more normalized levels.

Now, on the following pages, we are going to cover the performance of each company in more detail. So, beginning with life, mortgage life and rural insurance segment, BB Mapfre SHI, considering the premiums written, net of premiums ceded to reinsurance premiums rose 8% year-over-year and 16% year-to-date, posted by the performance in life and rural. And net investment income remained stable quarter-on-quarter and grew 15% year-over-year. It's worth mentioning here that an improvement in the underwriting results in this quarter. It was very material year-to-date when we look at the net income of BRL930 million that grew 56% year-over-year. This growth was mostly driven by the 55% increase in the underwriting results.

As we're going to cover on the next page, we're going to show more detail, page nine, we have the performance ratios net of the reinsurance effect for the segment. When we look to the year-over-year comparatives without the seasonality effect, we see an overall improvement in the performance ratios. The consequence of this improvement is completely reflected in the combined ratio that actually the 71% in this quarter, nearly 66.6 percentage points better than in the third quarter last year. And year-to-date, combined ratio reached 73.5%, 4 percentage points better on a year-over-year comparison.

Moving to a P&C on page 10, in this quarter retained premiums grew by 14% year-over-year, while year-to-date has increased 10%. We didn't observe any change in sales mix, here (inaudible) the main products. The financial results dropped by 15% quarter-on-quarter as a result here of the upward shift in the forward yield curve. But, when we look at the year-to-date figures, it improved materially, but the most important point in this quarter comes with the strong recovery in the underwriting results. We decided to

rebalance the mix of sales in this third quarter with an increased participation of the bancassurance channel in the premiums written in this quarter, which allowed us to achieve a return closer to two-digits again.

In the combined ratio, as we can see on page 11, it's coming back to levels below 100%. Here in page 11, we show and this improvement was mostly driven by our lower loss ratio, that is a consequence of this increased participation of the bancassurance channel in premiums written.

Pension plans on next slide, we can see that the company keeps over-performing the industry, contributions reached BRL7.2 billion this quarter, increasing 94% year-over-year. Our net inflows were nearly 3 billion higher than in the third quarter last year as a result of lower redemption level which was 9.1% in the quarter versus 12.5% in the third quarter last year.

Year-to-date, we reached almost BRL22 billion in contributions and 14 billion in net inflows, which is equivalent to a 55% growth as compared to September 2013. When we look at this performance that has been very strong in terms of contributions and low redemption ratio, we can say that there is a strong operating performance last year at AUM of Brasilprev surpass BRL100 billion in September, 34% growth year-over-year.

And looking to the management fee, the company's main source of income improved in our comparison basis, reflecting here that the increasing volume of assets under management. Even though the average fee contracted compared to 2013, it has been showing some stabilities throughout 2014. And finally, the net income, that increased by 12% quarter-on-quarter and 21% year-over-year.

On next page, we have the performance of Brasilprev compared to the industry. As you can see here, while our net inflows grew by 55% year-to-date, the industry ex-Brasilprev is only 35% leading Brasilprev to a go-forward 62% of the total market net inflows in the nine months of 2014. In this page, here it's also worth noting the recovering the industry's performance.

As you can see in the lower part of this page, the markets have been registering a reduction of 84% until March. But, now it's almost in a same level that we saw in 2013 with a reduction of only 2% year-to-date. And on the net inflows on the chart on the right, which is the most important driver, the curve has (inaudible) from reflection of 97% in the first three months of the year to an increase of 35% until September.

On the next page, we have our performance in premium bonds. Year-to-date, collections grew 5% year-over-year to BRL4.7 billion. It is also worth noting that despite this growth below the range provided in the guidance, we are growing in line with the market, in a most important, our reserves are growing much faster than the industry's. Year-over-year, reserves grew, I think, 9.6% while the industry reserves excluding the performance of Brasilcap grew only 6%.

Regarding the mix of collections, we observed an increasing participation of monthly payment bonds, which reached almost 40% in the year-to-date collections. And this is clearly a result of our strategy to focus on the products with high recurrence. On the other hand, these products have an average ticket around 10 times smaller than unique payment bond and this has an impact on the base of growth in revenues. So, that's why the performance hasn't been so strong this year, because of the change in mix, but it's much better in terms of the company (inaudible) have its future earnings.

On financial results, it dropped 27% quarter-on-quarter, but due to the result of the upward shift in the forward yield curve observed mainly in September. But, if we look at the same period of the 2013, we see that financial performance is very strong as a result of increasing reserves in higher SELIC rate. And finally, as we can see in the lower right-hand side, the improvement in financial margin, the good performance of the results with premium bonds contributed to this significant increase in the net income, which was more than three times higher year-over-year.

Moving to the BB Corretora on next page, page 15. Brokerage revenues grew by 32% year-over-year, boosted by the brokerage generated by pension plans. Year-to-date, the main drivers would grow were the life, mortgage life in rural segment beside the pension plans contribution, those increased their shares in total revenues as we can see in the chart on the upper right-hand side.

The net income arriving from our brokerage operations reached BRL319 million, 46% year-over-year. Year-to-date, the net income of BB Corretora grew 43% to BRL918 million. And it's also worth mentioning in this page, the positive trends of the net margin, which grew by 4.3 percentage points throughout the first nine months of 2014. Here we kept seeing the same movement seen in the second quarter, and of dilution of cost, what explains the growth of the net income outpacing the topline growth.

On page 16, to wrap up the presentation, we have the assessment of our performance compared to the guidance for 2014. The first one, the return on average equity, we overcame the range with 51.3% and then here the better than expected performance in this line is explained by the financial results and operating performance in life and non-life businesses that really subtracted our estimates for this year.

On premiums written in life, mortgage life and rural, the main Mapfre SH1, this figure grew 17% below the estimated range of 24 to 32 as a result of a weaker sales performance in life and credit life. So, talking about specific of the life business, we saw a relatively good performance of the bancassurance channel, but the independent broker channel missed what we were estimated for this year. If we look at year-to-date figures, the bancassurance grew by 12% while the other channels grew 1% only, but even in this case, we are maintaining our estimate as we are going to improve some -- recovering this performance in both sales lines throughout this fourth quarter.

And in SH2, our P&C companies premiums written grew 14.8%, still below the range that we forecasted for the year and the deviation here comes from an increasing competition which impacted mainly in the auto insurance sales in the bancassurance and considering

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this scenario, fierce competition and the results throughout the first nine months of this year, we excited to revise our estimates and now we have changed our estimates and we'll range now from 12% to 15%.

Moving to pension plans, with a strong recovery throughout the year, we reached a growth of 38% year-to-date; the middle of the range of 33 to 47. We are also keeping this guidance. And on premium bonds collections, we underperformed the guidance for the year and the main reason here was higher than expected sales of monthly premium bonds, which is very healthy as I mentioned for the company's performance, but present a smaller average ticket. And even besides this effect, the market is also underperforming our estimates, and as a result of these two movements, we decided to revise the range for premium bonds that now is going to range from 3% to 6%. So, we expect to revise the guidance for P&C and premium bonds collection.

And, as the (inaudible) both these lines to the bottom line is very, very linear [ph], we do not see any need to change the guidance for our result, that's why we are keeping the guidance although we even changing the premiums written in P&C and the collections in premium bonds. So, the sensitivity does not impact that much the bottom line that we expect for the year.

That's all. Thank you. And now we can move to the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions). Our first question comes from Mr. Thiago Batista with Itau BBA.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi guys, thanks for the opportunity and congratulations for the results. I have basically two questions. The first one is related to the comparison of the growth of the written premiums and the earned premiums of SH1. During the first -- during the first nine months of the year, we saw an expansion of the written premiums of 17% while the earned premium went up 32. So, could you comment about the difference in the growth of the earned premiums and the written premiums? And is it safe to say that this differences is a consequence of the past written premiums that have not yet passed through the income statement?

And the second question, I think is much easier, is regarding the SME segment or the credit life of the SME segment. What is the size of the Banco do Brazil SME portfolio that BB Seguridade is targeting and how much you have already focused right now?

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

Hi, Thiago. This is Rafael. Thank you for the question. So, regarding your first question about the dynamic of premiums written and premiums earned, once you have kind of

deceleration in terms of premiums written, it's completely natural that we'll see increasing reversals of provisions for unearned premiums, that's why earned premiums grow faster than premiums return.

Besides this effect, we had specifically in SHI an effect related to the insurance that the bank does for its own credit portfolio. So, we have the product that we target decline, we sell the credit life insurance to the client, and the bank also does its own insurance in a point of view, a part of their loan portfolio. Because of this, when we look at this business specifically, the bank doing the insurance of its own portfolio in this year, in second quarter, in the third quarter, we had a kind of reversal of the technical access. So, when the bank that make this, buys the insurance, when you have a kind of increasing and in terms of loss ratios you have to share the profit with the client. This is completely normal in big contracts such as this one that we have with Banco do Brazil.

And we were having some claims that were occurred but were not reported, but we automatized this process and now we saw some effect in the second quarter ending this third quarter and probably we're going to see that in the fourth quarter in the month of October, but in a much lower amount of claims being reported. And because of this what you have, these claims being reported in this month. For example, you have a reversal of this technical access, so you do not share that much income with decline; that in this case is Banco do Brazil. So, that's why you can see this reversal that we call reversal of technical access in the provision -- technical provisions expenses line.

The second question regarding the credit life product, the credit life for SME, we have an addressable portfolio of nearly BRL57 billion. But, now we are working in a portfolio of nearly BRL30 billion [ph], a much lower amount that covers mainly working capital lines.

Q - Thiago Batista {BIO 15398695 <GO>}

Okay. Thank you Augusto for that.

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

Thank you.

Operator

(Operator Instructions). Our next question comes from Mr. Rafael [ph] with Bradesco.

Q - Unidentified Participant

Hi, good morning all. Just a follow-up on the Portuguese conference call. So, you mentioned that in October you reached around 10% of your addressable portfolio for credit insurance. That's -- so, it would be around BRL3 billion given the develop that you just mentioned, Rafael. Is that right?

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

I just -- to make it clear, Rafael, when we mentioned in the Portuguese conference call, the 8% figure represents the penetration that we have when we added life in the credit life insurance.

Q - Unidentified Participant

Okay. So, it was not clear. I had the perception that you in the Portuguese conference call that in October you had a huge issuance of credit insurance. Is that not right? It's on the corporate segment.

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

Yes, just to make it more clear when we mentioned the 8% figure, it was related to penetration. But, in terms of (inaudible) of sales, 44th quarter, we are going to focus in life and credit life, but one of the main important drivers for 2014, at the end of 2014 and for 2015 that's going to be the credit life for SME, you're right. And as of now, our base, we are working only in the outstanding loan balance, but from 2015 on, we are going to offer this product in the origination of the credit. So, that's going to boost the performance of the product going forward.

Q - Unidentified Participant

Okay. That's perfect. Thank you, Rafael.

A - Rafael Augusto 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. Sperendio, go ahead.

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

Well, thank you all for joining our third quarter earnings conference call. More information can be found in the MD&A. And just to emphasize, our IR team is also available for any further clarifications. Have a good day.

Operator

With this, we conclude the BB Seguridade's conference call for today. As a reminder, the material used in 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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