

Q1 2013 Earnings Call

Company Participants

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

Other Participants

- Unidentified Participant

Presentation

Operator

Good afternoon, everyone, and thank you for waiting. Welcome to BB Seguridade first 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 via webcast at BB Seguridade website at www.bancodobrasilseguridade.com.br. The presentation is also available in the financial information session. Participants may view the slides in the order they wish. Before proceeding, let me mention that information presented follows the consolidated and combined financial statements in accordance with IFRS principles except or otherwise indicated so [ph]. For a more information of the statements of the company, please check MD&A.

With us today are Marcelo Labuto, BB Seguridade's CEO; Mr. Leonardo Mattedi, CFO; and Mr. Werner Suffert, Head of Investors Relations. Mr. Labuto, you may begin.

Marcelo Augusto Dutra Labuto {BIO 18015082 <GO>}

Hi. Good afternoon. I am Marcelo Labuto, BB Seguridade's CEO. This conference call is very important for us because it's our first earnings release and also the first time we publicly met the market as our shares started being traded. As you will see, we still have some restrictions related to the quiet period in accordance to the legislation about our offering and also following the best corporate governance practices.

Anyway, going briefly to our first quarter earnings, I would call your attention to the operating results. As you have seen in our previous earnings, we did post a lower net interest income, which limited the bottom line growth. On the other hand, we showed an

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above the industry revenues growth with a favorable performance in the income statement line that shows the underwriting pension plan and premium bond results.

Besides that, we will also see a growth in the relevance of the banking channel in the revenue stream. In this moment, we cannot give you colors about our expectations or estimates about the future performance, but the fact is that the IPO increased the visibility of our business, which only reinforces our responsibility to explore all the potential existing in the insurance market as a whole and in particular, the opportunity to go deeper in Banco do Brasil's customer base. Thank you very much. Now, I'll hand over for our Head of IR, Werner Suffert.

Werner Suffert {BIO 18657101 <GO>}

Thank you all for attending our first earnings conference call. My name is Werner Suffert and I am the company's Head of Investor Relations.

Before starting, I would like to remember you that the secondary public offering of BB Seguridade's shares is still ongoing and we will be in quiet period until the notice of the offering closing is released. Therefore, we will not be able to answer questions related to the offering to our controlling shareholders or even related to the company, if the subject is not directly linked to our first quarter earnings.

Moving to our presentation, on page three, we would like to comment on the main highlights of the first quarter of 2013, BB Seguridade reached a 24% market share in the segment it operates, considering premiums written and collection from pension plans and premium bonds. This was a result of growth in our topline, especially in the pension plan segment and in the premium bond business.

Brasilprev reached the leadership in terms of total collections, more important, if we were to consider the revenues, net of redemptions according to SUSEP data, we reached 43% of the market in this quarter.

In the premium bond segment, our revenues grew by 27% in comparison with the first quarter of 2012, which allowed us to reach a 25% market share. The insurance segment posted a growth as well, in this case, of 21% in terms of insurance premiums.

Besides that, we have seen an operational performance characterized by improved combined ratios, both in SH1, life, rural and housing insurance products, and SH2, auto and P&C products. Our captive broker captured the bulk of the growth in the revenues with insurance, premium bonds and pension plans, as the bank insurance gains realized [ph]in the period.

In this sense, BB Corretora revenues grew and reached R\$388 million in the first quarter of 2013. We reached a net income of R\$472 million, up to 54% over the same period of 2012. In adjusted basis, our income reached R\$455 million delivering an ROE of 34.7%. This level of return was achieved in an unfavorable scenario for the investment income.

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On page four, we can see the key profitability ratios for the segments operated by BB Seguridade. We know that our activities in the insurance, pension plans and premium bond segments are managed through private partnerships with Mapfre, in the case of the insurance segment, Mapfre BB SH1 and Mapfre BB SH2, with Principal, in the pension plan segment, Brasilprev, and Icatu and Alianca da Bahia, in Brasilcap for premium bonds.

At SH1, life, housing and rural insurance we have reached R\$1.1 billion in premiums issued, reaching 28.4% of ROE and a net profit of 133 million attributable to BB Seguridade, representing 29.3% of our total adjusted earnings. At SH2, auto and P&C insurance business, we have reached R\$1.6 billion in premiums issued with ROE of 4.4% and net profit of R\$12 million.

SH2 ROE was impacted not only by the decrease in the net investment income, but also by the end of fees for policy issuance. If you remember that in February of 2013, following the prohibition to charge such fees, SUSEP allowed the insurance companies to defer the cost associated to hiring new policies. If this rule were in place in the entire quarter and we were to consider the normal performance of its net investment income, ROE would be very different from the levels we have seen in this quarter.

At Brasilprev, pension business, we posted R\$6.1 billion in contributions and a net profit attributable to BB Seguridade of R\$96 million, ROE of 54%. At Brasilcap, premium bond segment, our total revenues were R\$1.1 billion and adjusted net income of R\$17 million for BB Seguridade, ROE of 63.4%.

Moving to our distribution segment, BB Corretora insurance brokerage, reached R\$388 million of revenues and adjusted net profit of almost R\$194 million, 42% of our adjusted net income. On a consolidated basis our adjusted net income for the quarter was R\$455 million, and ROE of 34.7%.

Moving to page five, as you can see, our underwriting results grew in all our line of business. Although the net income was partially offset by the decrease in the net investment income, we suffered from lower average interest rate when compared to the first quarter of previous year, and also the negative impact of mark-to-market in our financial assets.

In a nutshell, SH1, life, rural and house insurance net results grew 19%, reaching R\$177.5 million in the first quarter despite the decrease of 32% in the net financial results. At SH2, auto and P&C insurance, as a consequence of the decrease of 78.6% in the net investment income our net profit decreased to R\$24.6 million in the quarter.

At Brasilprev, pension products, although we experienced minor growth in the adjusted net income, there was an increase in contributions in premiums during the period and we saw the pension plan result grew by 9%. At Brasilcap, premium bonds, the decrease in our adjusted net income was due to the effect of lower interest rate, SELIC and to a minor extent to mark-to-market effect.

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Moving to page six, the adjusted net income in the first quarter of 2013 grew 5.3% despite the adverse effect of the financial results. The main difference in our adjusted net income to our reported net income is the change in the accounting of unique payment plans in premium bonds, which increased our adjusted net income by R\$35 million, the new remuneration rules of BB Corretora for the month of January of 2013, as some of the contracts were only in place at the start of the February of 2013, which amounted to approximately R\$18 million after taxes.

On page seven, we will pinpoint some highlights on our performance in relation to the market. In the auto insurance, we grew faster than the market, reaching a market share in the quarter of 15.7%. In the life segment, although we grew slightly less than the market, we managed to keep our leadership position and a quite stable difference to the second player.

In the housing credit insurance, we increased our market share from 4.9% to 5.4% gauging [ph] on the credit concession of Banco do Brasil. In the rural insurance, we grew 140% in premiums as a result of the crop insurance renewal.

Moving to page eight, also in our pension plan and premium bond businesses, BB Seguridade posted growth rate above the market and the quarter-on-quarter comparison as shown in the graph from this page. As a consequence of this growth rate, on a consolidated basis, which considers all the revenues from insurance plans, pension plans and premium bonds, BB Seguridade was able to show a quarter-on-quarter growth rate wider than the industry by 9.6% reaching more than R\$10 billion in premium contributions and premium bonds issued in the first quarter of 2013, reaching 23.9% market share.

Now, we will talk about our performance in our insurance segment on page nine. At SH1, life, rural and housing insurance, we experienced a decrease in our loss ratio especially due to the decrease in the rural claims from the first quarter of 2012. In that quarter, our loss ratio was higher due to the weather hazards seen in some regions in Brazil and its effect in the insured crops.

We did not see any major changes in our commercialization in general expenses. Therefore, we experienced an improvement in our combination ratio, followed by a lower contribution of investment income in our amplified combined ratio.

At SH2, auto and P&C insurance, we also experienced smaller loss ratio and also we saw a decrease in commercialization expenses especially in the auto and in affinity segments. The combined ratio for SH2 reached 98.6% as a result of a lower net investment income, the expanded combined ratio was 97.4% in this quarter. Considering the performance of both companies, the combined ratio of the insurance segment as a whole dropped from 93.3% to 90.4%.

On page 10, I would emphasize the performance of our company in the life, housing and rural segment. Even with a weaker net investment income, BB Mapfre SH1 managed to deliver a 6.9 percentage point growth in its ROE, which reached 28.4% in the quarter.

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The bottom line growth was driven by an expansion of almost 21% in earnings premiums followed by reduction of 8 percentage points in the claim ratio of 7 percentage point in combined ratio.

On page 10, we emphasize the increase of SH1, life, housing and rural segment ROE driven by higher earned premiums with lower claims and combined ratios. Therefore, the company ROE reached 28.4% as compared to 21.5% in the same period of 2012.

On the next page, we show the 11% growth that we had in premiums written with a highlight for rural products. However, the most important point in the slide is the breakdown of the distribution channels.

The bottom side of the slide. Here, we see that the banking channels assurance gained relevance and accounted for 80% of premiums written in the quarter.

The message I would like to pass on slide 12 is that as in the life segment, in the P&C business, we also had an operational performance with improved, combined and claimed ratios.

Earned premiums posted a 12% growth, dropped 3 percentage points in the combined ratio, slightly decreased by 20 bps [ph]. This operational performance was also offset by the investment income, which comprises our earnings thus leading to the observant decrease in ROE in the first quarter of 2013.

Moving to page 13, again, we saw a higher increase in the sales through the bank assurance channel in comparison to other channels. In first quarter of 2013, this channel increased its stake from 30.5% to more than 34% of our revenues. Premiums written of the P&C segment grew by 22%, driven by auto insurance.

In our pension business, as you can see on page 14, our gross revenue posted a 39% growth over the first quarter of 2012. But what I would like to emphasize here is that the net inflow contributions in this quarter, first quarter of 2012, we had a 41% of the net inflow of contributions when compared to the industry.

And in this quarter we actually managed to increase this figure to 43.5%. This movement has been driven by growth in Brasilprev technical reserves which registered 34% as compared to the first quarter of previous year.

Our ROE was 53.7% increasing -- mainly due to the increase of -- in the shareholders equity but to a less extent, also because of lower net investment income.

At Brasilcap, on page 15, we would like to highlight our growth at collection, which rose 26.6% quarter-on-quarter and thus led to an increase in the market share of net collections. As of the first quarter of 2013 our market share in terms of net collections was 29.1%. Anyhow, we experienced a decrease in the ROE mainly due to the decrease in our financial results as explained previously.

We'll finish our presentation with the brokerage business, on slide number 16. BB Corretora posted a 21% growth in brokerage revenues, most of these revenues came from the brokerage in SH1, followed by the brokerage revenues coming from the pension business.

Our adjusted net profit grew from R\$157.5 million to R\$193.6 million, which represents about 23% growth quarter-on-quarter. Our net margin remained pretty stable ranging in the 50% of our brokerage revenues. Those were the most important topics we would like to point to you.

I would like to thank you for this opportunity to introduce our company and to explain what is behind our first quarter earnings.

Now, we will open this call to the Q&A section.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) (Foreign Language)

Q - Unidentified Participant

Hello, this is (inaudible) am I through?

A - Werner Suffert {BIO 18657101 <GO>}

Yes.

Q - Unidentified Participant

Sorry. Thank you very much. Just going through your first quarter results, congratulations on the topline momentum. I just wanted to get some clarity on how to think about your adjusted net income versus your operational net income as you highlighted in your numbers, which one will drive ultimately the dividend payout ratio and distribution of income going forward? Hello? Did you hear that question?

A - Werner Suffert {BIO 18657101 <GO>}

Hello? Just checking if we understand the question (inaudible) and giving you the answer. The payout will be paid on the accounting -- book revenues.

Q - Unidentified Participant

Sorry, just to clarify -- so if I look at your adjusted net income of R\$454, is that what the payout ratio will be based on or will it be based on the R\$472 million?

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A - Werner Suffert {BIO 18657101 <GO>}

The payout ratio will be based on R\$472 million.

Q - Unidentified Participant

R\$472 million, okay. So, that's the -- I mean, it's key to look at the operational numbers rather than the adjusted numbers which were impacted by the variance in financial income?

A - Werner Suffert {BIO 18657101 <GO>}

Yes. That's true. The adjusted is, just to give you an idea, without the -- excluding some numbers that are not going to happen in the next quarters, but through the payouts payments, we will use the R\$472 million income.

Q - Unidentified Participant

Okay. And anything -- and can you just give any other color on cross sell ratios? Are there any metrics you can provide us? I appreciate you're growing faster than the market and hence that would suggest your penetration is getting deeper, but is there exquisite cross sell metrics that you can share with us?

A - Werner Suffert {BIO 18657101 <GO>}

We will see this -- than you for -- we will try to give you more information about that, about cross selling ratio, but first of all, we will see the -- some of this information we will consider as strategic one and all the others we will deliver to the market, okay.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Our next question comes from Susan [ph].

Q - Unidentified Participant

Hello.

A - Werner Suffert {BIO 18657101 <GO>}

Hello.

Q - Unidentified Participant

Hi. I have a question in terms of the net interest income, mainly SH2, I would say primarily, but also SH1. The net interest income is significantly weaker are you -- what are the trends you're seeing in this quarter? Is it up to a more normalized level in terms of net interest income both SH2 and SH1?

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A - Werner Suffert {BIO 18657101 <GO>}

I think that -- you mean the results going forward?

Q - Unidentified Participant

Yes. I assume that there is some element of mark-to-market losses in addition to falling flat, some of these may be non-recurring, some of these may be just recurring, what is the kind of ongoing net interest income one would expect specifically in SH2?

A - Werner Suffert {BIO 18657101 <GO>}

Yes, we had, you're right, we had some problems related to the mark-to-market (inaudible) fixed bonds and inflation linked bonds and we'll try to -- because we had this question in the conference call in Portuguese and we are (inaudible) disclose to the market as soon as possible how this movement in interest rate impacted our result and we will release for each company as soon as possible what was the impact in each company.

Q - Unidentified Participant

Great. Your -- I guess, give more detailing on what was kind of one-time versus recurring, that would be wonderful. I guess my next question is about the commission income. If you look at the revenue breakdown, Brasilprev had a much higher contribution this quarter, is this something that you guys, in terms of commissions breakdown, is this something that you think is sustainable, the mix of the commission seems to be shifting a little bit to both Brasilprev and SH1.

A - Werner Suffert {BIO 18657101 <GO>}

Sorry, do you mean the brokerage fee paid by Brasilprev to the broker?

Q - Unidentified Participant

Exactly. Slide number 16. The revenue breakdown, fixed income paid by Brasilprev is roughly to like R\$70 million net? Is this kind of a sustainable business structure change in terms of mix or is there a seasonality or is there any one-time basically?

A - Werner Suffert {BIO 18657101 <GO>}

Yeah. Relating to the mix, what happens, so for example, SH1, it had some deferrals that we need to consider mainly to the credit life products. In the case of Brasilprev, there are no deferrals. That's why when you increase the contribution of open-ended pension plans in business, we can see that the brokerage income gain share among the other businesses.

So that's what's happened in this quarter and we cannot really see, going forward, because we are in the quiet period. But -- to understand that, for example, in SH1, credit life businesses and in SH2, auto loans, they -- in the broker, there are deferrals regarding the recognition of these revenues, while Brasilprev there are no deferrals, that's why we have a gain of share in this quarter.

Q - Unidentified Participant

Great. Thank you. And my last question is about the premium bond business. The earnings look extremely strong there for the first quarter, is that sustainable on an ongoing basis? Are there any one-time items there?

A - Werner Suffert {BIO 18657101 <GO>}

Again, I will highlight that, because of being in the quiet period, we cannot speak about strategy [ph] and any information regarding the future of sustainability of earnings. Sorry, but after the notice of closing we will be able to give you this information. We really apologize.

Q - Unidentified Participant

Perfect. And when would that be? When are you -- when will be the end of the closing period?

A - Werner Suffert {BIO 18657101 <GO>}

We can tell you that by the end of May we will be able to discuss all this.

Q - Unidentified Participant

Perfect. Thank you very much.

A - Werner Suffert {BIO 18657101 <GO>}

You're welcome.

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.

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

Thank you very much for joining our first conference call. Our IR team is available for any further clarifications. Additional information can be found in our website bancodobrasilseguridade.com.br. Thank you very much.

Operator

This concludes the BB Seguridade's conference call for today. As a reminder, the material used in this conference call is available on the BB Seguridade's investor relations website. Thank you very much for your participation and have a nice day. You may now disconnect.

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