

Q2 2019 Earnings Call

Company Participants

- Rafael Sperendio, 'Head of IR'

Presentation

Operator

Good morning, everyone, and thank you for waiting. Welcome to BB Seguridade's Second Quarter 2019 Earnings Conference Call. This event is being recorded and all participants will be in a listen only mode during the company's presentation. (Operator Instructions).

The presentation is available in the financial information presentation section of BB Seguridade's IR website at www.bbseguridaderi.com.br/en. 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 management's current expectations, 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. For more information on the statements of the company, please check on the MD&A.

With us today are Mr. Bernardo Rothe, BB Seguridade's CEO; Mr. Werner Suffert, BB Seguridade's CFO; and Mr. Rafael Sperendio, Head of Finance and IR. Please, Mr. Sperendio, you may now begin.

Rafael Sperendio {BIO 18963159 <GO>}

Good morning, everyone. Thank you for joining our second quarter earnings call. I'm going to take you through the presentation.

So, let's start on page #2. We have here the main drivers of our revenues this quarter. The net income rose 18.5% year-on-year to BRL 1.78 billion supported by the noninterest operating result, which was up 82% as you can see on the chart on the lower left hand side. On the upper part you can see that the return on equity reached 61%, up 21 basis points posted for the same period last year, given the strategy there that we have been deploying which improving our operational efficiency, capital allocation and to increase even more the focus on life and pension, business and the distribution in the bankassurance channel.

Regarding insurance, premium written at Brasilseg comparing here apples-to-apples considering the current formation in both comparables premiums grew 20% year-on-year

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and thanks to credit life, which was up 90%, driven by an improved credit origination and lower cancellations. Rural also did well. It grew 13% year-on-year. In Pension, our inflows grew 36%, while the net inflows rose 187%.

Redemptions is still quite well behaved, our all-time low. And with increase in inflows and lower redemptions and in addition to the performance of our, all these factors led our P/VGBL reserves to grow 13% to BRL 262 billion. Premium bonds also posted a very good performance grew top-line at 18.8%. And finally a consequence of very good levels, commercial performance as I've just described it, brokerage income grew 35% year-on-year.

Regarding our financial results on page number three. In the second quarter, our combined financial results grew 3% year-on-year and accounted for roughly 16% of the net income, which was pretty close to the all-time low contribution to the. During the second quarter, the yield curve flattened as you can see in the graph on the upper right-hand side, which resulted in some mark-to-market gains on premiums and some protective securities, which were the main drivers for financial results to grow. As you can see here, the second quarter last year the yield curve widened and the closing rate remained flat, inflation rates dynamics were less favorable to the yield graph since the redemption of the IPCA was proportionally higher than the decrease in the IGP-M, which is the main index that compares the liability related to the decline of.

We had a compression in the net interest margin at Brasilprev this quarter. So, the increase in financial results on a year-on-year basis was fully driven by mark-to-market gains related to the downward move of the forward yield curve. Moving to page four, consulting about our insurance operations. I'm going to focus on the pro-forma figures, if I may, which is somewhat comparable to the current structure reorganization occurred at the end of the last year.

So, in second quarter, premiums written grew 19% year-on-year, supported by credit life grew 90% as compared to the second quarter last year driven by better, loan originations of individuals and also lower cancellations. Rural grew 13%. As we mentioned in our last earnings call, it began to gain some traction after the in the second quarter this year. Then life grew 1.8%.

This is decreased somewhat highlighted year to date still growing 5%. It's worth highlighting here that although we expect this pace to increase now in second half, the company has been working very hard to be more completely our range of products in this segment. Moving to page number five. Talking briefly about the operating performance.

Our combined ratio remained flat year-on-year. Again, look at comparables. So, 70.3% in the second quarter this year compared to 70.2% in the second quarter of 2018. That is -- even though it has been flat on a year-on-year basis, it's.

It's way better than the credit posted in the same period last year, I mean with a lower loss ratio, with a lower G&A ratio, it was fully offset by the increase in commissions, remembering that now after the restructuring, 100% of the commissions are now flowing

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to our own broker. And the decrease is mostly related to the strong performance of credit life mainly. And remembering that credit life and credit life whole partners, they are entitled to pay a performance bonus in case we outperform the expectations into that commercial performance for the premiums. On page six, we can see the financial results of Brasilseg was down 76%.

This was mainly driven by reversal of the book entry recorded in Q1 with positive. So plus neutral to the bottom line and it was neutral in the first quarter. It's just a matter of the classification. Net income rose 7% year-on-year, ROAE reached 74%, given the early increases in we have already accepted given the dividend gains and the realized gains on available-for-sale securities.

Moving to page now on the Page #7, gross inflows grew 36% compared to the same period a year ago. Redemptions all time low at 7.1%. It's worth highlighting here that in the second quarter we added roughly 150,000 new clients to our client base. Net inflows grew 87% to BRL 2.9 billion.

And assets under management grew 12% to BRL 273 billion, with management fees keeping the same pace of decline that was on the quarter. Net income fell 6% on a year-over-year basis baed wholly due to the redemption, the low fees of P/VGBL that we have been providing to our customers since September last year and also the lower financial results as I mentioned earlier. Regarding the new premium bonds now on page number eight, line rose 19% year-over-year, financial results grew 12% given the wider net interest margin. Due to mark-to-market gains as the yield was flattened this quarter, implied that the same period a year ago as I mentioned in the beginning of the presentation.

And this is also moving from the net loss in the second quarter last year to a net income of BRL 33 million in the second quarter 2019. Moving to the broker now on page number nine. Revenues were up 34% year-over-year 17% considering a leaner distribution of the performance overall 2018 consecutive quarters. This is what is behind the adjusted concept here.

Main drivers were credit life, pension and in premium bonds. Net income grew 39% year-over-year, not only due to the growth in top-line as you can see in the chart in the upper left-hand side, but also due to a good one in the EBIT margin even sales mix more concentrated on high ticket products. And finally, last page, we have our guidance nonetheless. So, as you can see year-to-date June, we outperformed in all our guided range.

And to make it simple here I would summarize in two of the different factors that led to the deviation in two indicators. So, the first one was the performance in credit life, which came in better than our estimates, given the stronger loan origination. There was a Lower cancellation, which led us to outperform the guidance of premiums and have helped us to overdeliver the expectations in net income by helping the bottom line of Brasilseg and even more at the broker fees, performance in this products is of performance bonus is. The second factor was the financial results, mainly due to the flattening yield curve.

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I don't think that was completely unexpected when we worked on the budget for 2019. This is also evident to overcome financial guidance and help us to seed our and reserves. So, we have a loss. It has now returned in our MAPFRE premiums.

So based on the to fine-tune our estimates considering that we delivered in the first half the new configuration that the divestment of our stake in IRB, our new macro assumptions and also taking into consideration some risks that we have stated for the year we have now anticipated. So, our new aspects, as you can see, in terms of net income growth we have revised it upwards from 5% to 10% to 8% to 13%. Premium bonds rose from 7% to 12% to 10% to 15%. And premium reserves we increased our estimate from 7% to 10% to 9% to 12%.

So, to wrap up here. In summary, we had a very solid result. And the most importantly it's something that we have discussed at our last conference call. We are working hard on the construction of our future earnings stream.

So, to give you some color the balance of commissions has already pretty close to BRL 2 billion growing 18% in the last 12 months. The balance of provision for earned premiums already exceeded BRL 4 billion, it's growing more than 20% over the last call. So, this is already booked in our balance sheet and of course assuming normal conditions, it's going to become part of the P&L over the next three to four years. So, this is what I mean by building the future for our industry.

So that's all. We can now jump into the Q&A session. (Question And Answer)

Operator

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

This concludes today's question-and-answer session. I would like to invite Mr.Sperendio to proceed with his closing statement. Please, Mr.Sperendio, go ahead.

Rafael Sperendio {BIO 18963159 <GO>}

I'd like to thank you all once again.

And myself and Investor Relations team is always available to if you have any kind of further doubt about the results of the company. So, thank you and have a good day. With this, we conclude BB Seguridade's conference call for today. As a reminder, the material used in this conference call is available on 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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