

## Q3 2013 Earnings Call

### Company Participants

- Leonardo Giuberti Mattedi, Chief Financial Officer
- Marcelo Augusto Dutra Labuto, Chief Executive Officer

### Other Participants

- Regina Longo Sanchez, Analyst

### Presentation

#### Operator

Good morning, everyone and thank you for waiting. Welcome to BB Seguridade Third Quarter 2013 Earnings Conference Call. This event is being recorded and all participants will be in 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](http://www.bancodobrasilseguridade.com.br), the presentation is also available in the financial information session. Participants may view these slides in the order they wish. Before proceeding, let me mention that forward-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 risk and uncertainties that could extrapolate the control of management.

The information presented follows the consolidated combined financial statements in accordance with IFRS principles, except when otherwise indicated first. For more information of the statements of the Company, please check the MD&A. With us today we have Mr. Marcelo Labuto, BB Seguridade's CEO; Mr. Leonardo Mattedi, CFO; and Mr. Werner Suffert, Controller and Head of Investor Relations. Mr. Labuto, you may now begin.

#### **Marcelo Augusto Dutra Labuto** {BIO 18015082 <GO>}

Good morning and thank you all for being with us. As I did in the last conference call, I would like to spend a few minutes on our execution and our track record so far. Few months ago we went through the deliver of several commitments we made during the IPO. The announcement of dividend with an 80% payout, the advance in a strategic

movements IRB Brasil Resseguros [ph] and the announcement of our guidance for this year.

And now, again, we have an important agenda of delivering commitment probably made with the market. The first and the most important one is about the minority shareholders representation in our Board of Directors. Last Friday our Board of Directors approved the call for a general shareholders' meeting which will make possible the election of minority shareholders member in our Board of Directors.

Therefore, it will be a cornerstone for a more important step in the building process of our corporate governance decision. The creation of the statutory related (inaudible) the minority shareholders will also be able to elect their representatives into our discount (inaudible). The second movement is aligned with the recent change in the (inaudible). We hire market maker for our shares aiming at improving liquidity and assure a good rating in seemed since we expect to be eligible to compose the extes index in the beginning of 2014. We also announced the intention to launch an ADR Level I Program.

We understand that the establishment of an ADR program is important to enhance the liquidity of our shares and provide access to investors that have some kind of burden to invest in assets that are not traded in the U.S. market.

Moving to our earnings, I would like to highlight the 27% growth in the adjusted net income, which reached R\$548 million in the quarter. During this period we achieved several important milestone and among them, I would emphasize as the most important (inaudible) performance in terms of net inflows.

During the third quarter, we experienced a tough market for our new pension contribution due to the volatility in the yield curve and its impact on the return of fixed income investment. However, (inaudible) reached R\$1.1 billion in net inflows whereas the market posted a net outflow to roughly R\$700 million.

Another significant achievement is related to the earned sustainability in the segment of Life, Rural and Mortgage Life. It is important to understand that in the case of insurance products, the different policies issued in the (inaudible) and brokerage fee in the future period. (inaudible) weaker quarter. And as we maintain our focus on the Life, Rural, Mortgage Life segment, we expect to keep clean benefit from this model beside also benefiting from higher recurring revenues related to maintain of outstanding policy. The first quarter is very important for our Company in terms of seasonality. And our team knows that we still have challenges to overcome in order to deliver our goals for this year. But we are very confident about the opportunities that we have in Banco do Brasil's distribution strengths and this confidence is reflected in our guidance. That is why we have decided to keep the original ranks in our indicators.

Thank you again. Now, our CFO, Leonardo Mattedi; and Head of Investor Relation, Werner Suffert will guide us through the presentation and the Q&A session.

## Leonardo Giuberti Mattedi {BIO 18015083 <GO>}

Thank you, Labuto and thank you all for joining our conference call. So, moving to page three, we have some highlights of this quarter. Our net income reached R\$548 million in the third quarter, 27% higher compared to the same period of 2012. The annualized return on average equity reached 38% third quarter. Our combined market share, which includes revenues from insurance, premium bonds, and pension plans reached 22%, 2.6 percentage points higher when compared to the third quarter 2012.

Our affiliated Company Brasilprev and BB Mapfre SH1 delivered a strong bottom line growth on the back of a strong operating performance as well as slightly better net investment income. Brasilprev reported an remarkable performance in terms of net inflows reaching 68% of the entire industry in the first nine months of 2013. In the third quarter, we had a net inflow of R\$1.1 billion, where the market recorded a net outflow of R\$670 million. Collections in the premium bonds segment grew by 42% and our market share reached 26% in the third quarter.

On the brokerage side, we should emphasize that 29% increase in brokerage fees reaching for 125 million in the quarter.

On page four, we show the key profitability ratios of our business segments. All data on the slide reflects the performance in the quarter. Except for rankings that we use year-to-date revenue. SH1 provided an equity income of R\$166 million and increased its share to 30% in our total earnings in the quarter. As we have been explaining to the market SH1 is less susceptible to seasonality because of the accrual of revenues through the dynamics of the provisions of unearned premiums, which brings stability to the growth of the earned premiums. Within the scenario, our return on average equity increased sharply to 33% in the quarter. In SH2 higher retained claims and a still weak financial results led to a drop in the return on average equity to 6.2% in this quarter. However, as we are going to discuss later, the brokerage fees from insurance policies are deferred. And so, SH2 provide an important source of revenue for (inaudible) especially on seasonally weaker quarters.

On the pension side, which accounts for 21% of our earnings, increase in assets under management have sustained the growth in management fees leading to the company to a return on average equity of 58%.

The (inaudible) also reached over 50% ROE and in this Company it's worth noting that the result in the net investment income, which partially offset the seasonal decrease in sales as we are going to .

And finally at the our distribution arm, the brokerage revenues reached R\$425 million and the net income amounted to R\$218 million representing about 40% of the earnings. The IRB and as we have just started in September to recognize it in our earnings.

But just to let you know IRB added R\$12 million to our earnings with equivalent to nearly 2% of our net income for the third quarter. Along with the R\$12 million from IRB that I previously mentioned our consolidated net income for the quarter was R\$548 million.

On page five, we show some highlights on a consolidated basis. As you can see in both graphs, at the top of the slide, we didn't have any adjustments in our P&L in this quarter.

As you can see on the top left hand side, our net income grew 27% year-over-year. At the bottom line of this slide, we can that the combined market share of insurance, pension plans, and premium bonds revenues increased sharply 268 [ph] points.

Moving to the analysis of each business segment on page six, we have the most important indicators for the Insurance segment, SH1 and SH2.

The data show us in this page, corporate law income statement . In this analysis we can see some improvement in the first three ratios loss, commissioning and G&A driven mainly by the SH2. However, the combined ratio shows a slight deterioration. If that happens because the line results with reinsurance magnitude was negatively affected by higher premiums given to reinsurance as well as lower recovery.

Notwithstanding, we know that the results with reinsurance has a close relation with the other lines of the income statements. For instance, part of the losses due to the claims are compensated by positive recovery from reinsured policies and so on. To provide a more fair and clear analysis on page seven, we include a managerial adjustment where we reallocate the result with reinsurance among the other line in the income statement. By doing this, we can analyze these ratios, net of reinsurance affect.

Also on the adjusted basis, we can see that the company ratio actually posted a slight improve driven by lower commission ratio, partially offset by the higher G&A ratio in SH1 and SH2 -- sorry, and loss ratios in both SH1and SH2. The concept of retaining claims that being incurred losses net of recoveries from the reinsurance policy as we go for a better understanding of our insurance company's debt performance. Therefore, from now on, we will bring to the adjusted ratios to be analyzed together with the ratios based on the corporate law income statement.

We provide the expanded combined ratio, despite a slight improvement in the net investment income in the quarter. This scenario is still challenging when compared to 2012, which explains the increase of 120 basis points year-over-year.

On page eight, we can see that SH1 has been consolidating its leadership in important segments for the industry. The churn growth in premiums retain have shown market share gain in life, mortgage life and rural segments. The business expansion along with the focus on products that fit better in the bancassurance channel providing better margins allowed BB Mapfre SH1 to post a sharp growth in its operating result, delivering at 31% increase in the net income.

And on page nine, we pinpoint the main performance indicators. Earned premiums rose 35% year-over-year and 27% adjusted by reinsured operations. And it was the main (inaudible) for the 10.5 percentage point increase in return on equity. Earned premiums grew faster than premiums written due to growing of deferred revenues in our insurance operation as well as in the deferred rev. The loss ratio considering the retained claims only

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rose to 240 base points explained by the increase in claims in the Life segment. However, on a quarter-on-quarter basis, the loss ratio in the segment, Life segment dropped by 175 basis points. On the other hand, the reduction in both the commission in the G&A ratio led to an improvement of 40 basis points in the combined ratio adjustment for the insurance operation.

And as you may see on page 10, premiums written continue to post a strong growth in the entire set of products offered in the bank insurance channel, which shows a sustained the earned premiums expansions going forward.

Moving to claim C, the net income of Mapfre BB SH2 decreased 33%, further down by both the underwriting results and the net investment income. Despite some improvement in the financial results when compared to the second quarter of this year, the volatility in the yield curve kept rising in the earnings of the SH2 when compared to the same quarter of 2012.

On the operational side, this quarter was affected by higher retained claims and also as life increased in the adjusted return on equity ratio. This drop summarize what they have adjusted claim as you can see on an adjusted basis, the earned premium growth is normalized to a (inaudible) level of expansion. With a small deterioration loss ratio, each claims the 80 basis point increase in the combined ratio. Therefore, adjusted NOE, the profit 350 base points.

On page 13, we provide a breakdown of the group in written premiums. In this quarter other channels outpaced the bancassurance and gave a big share in the total revenues to nearly 71%.

Moving to page number 14, we see the strong performance delivered by Brasilprev in the quarter. Boosted by the expansion in reserve and therefore, higher management fees, their result with pension plans and insurance, increased by 56%. The net investment income also improved reducing as slight increase of 2% year-over-year. As a result, the bottom line increased 49% over third quarter 2012 adjusted figures.

This quarter was weaker than we expect in terms of growth in pension plan contribution. Because of the volatility in this forward yield curve, which have led part of the customers to put on their decisions to make new investment. However, Brasilprev is outperforming the industry in terms of net interest. As you may see on the bottom of this slide, in the third quarter Brasilprev reached a net inflow of R\$1.1 billion as compared to the net outflow of R\$670 million in the industry. And let me remind you that even the industry figures are sustained by this performance of Brasilprev.

On page 15, and page 15 shows that through the lower redemption ratio along with some top line performance, Brasilprev results have been growing faster than the market with a 26% expansion in the last 12 months. As I mentioned, this performance is crucial for the management fees helping the Company to sustain such high returns, 58.4% in the third quarter, 910 basis points higher year-over-year.

Moving to next slide, we show our performance in the premium bonds segment with Brasilcap. Collections (inaudible) market, therefore our market share reached 26% as compared to 22% in the same period of last year. The return on average equity remaining strong at roughly 52% but decreased year-over-year as a result of two effects. First of all, we should analyze the financial results. The net investment income is a very important component of Brasilcap's earnings.

Back in last year, the Company was in benefit by a downturn in the industry yield curve. And the scenario in 2013 is completely the opposite. The other effect is related to the calculations [ph] of our portfolio of products. At the beginning of this year, we launched a new line of product with lower interest rate. This measure will benefit the financial gains and the bottom line of the Company over the time, over time. However, these new products are less profitable in the first movement as the lower percentage of this the first installment goes to the Company.

Going forward, the strong increase in revenue should drive the pension reserves and also reprise of these reserves fostering conditions for net investment income and bottom line to grow. Moving to BB Corretora on page 17, brokerage fees increased by almost 29% year-over-year, boosted by revenues from premium bonds and insurance products from SH1 like Rural and Mortgage Life. It's worth noting that insurance brokerage fee, are a bit deferred in the definite order, which provides a more stable behavior in these part of revenues as compared to premium bonds and pension plans brokerage fee for example.

In this quarter, SH1 and SH2 combining accounted for 74% of BB Corretora revenue. On a quarter-on-quarter basis, revenue went down 5% mainly due to seasonal performance of the bacassurance channel and also because of the lower than expected sales in the segment of pension plan and life insurance products. The breakdown providing this graph shows the importance of each company to our distribution are SH2a and Brasilcap, equity to the company's accounts in (inaudible)line.

However, these operations are relevant for BB Corretora revenue stream. I would like also to make a sign in this slide, the positive trend regarding the net margin, which increases 240 basis point, explaining the 35% increase in the net income which grew even faster than brokerage fee.

Other and Credit Life, we have added some information financial results. To get off the net investment income have now on a year-to-date analysis and in fact, we have two different dynamic affecting this net investment income of our affiliated company. When we compared the third quarter 2013 with the same quarter of 2012, first of all, we will start to see an increase in the average SELIC rate, which brought some relief to net investment income and saw benefit of our affiliated company's earnings in this coming quarter.

They are at point still related to the forward yield curve, which kept covenants and our goal in a lower magnitude compared to the one that we saw in the first half of this year. The movement in the third quarter was duly strong enough to resistant the return on financial investments as a percentage of CDI raising the earnings.

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On page 19, this effect becomes quite clear while we can see the drop in the return on financial investments of our affiliated company. Internally, we have a managerial mix of how much they changed in the yield curve have impacted the earnings in each period. On in the third quarter of this year, we made a combined impact of roughly R\$50 million net of taxes already adjusting for our economic stake in each company.

To wrap up this presentation, we provided on page 20, our guidance for 2013 along with our performance in the first nine months. As you can see we are out of the range in three indicators, return on average equity, premiums growth in SHI and growth in pension plans contribution.

Actually in the case of the return on average equity, we are out of the range of the guidance because we didn't pay dividends in this quarter, which have inflated our equity. As you know, our guidance for ROE considers a 80% payout ratio. If we were to adjust our shareholders equity for dividend ROE will reach 37.2% within the guidance.

Beside the dividend if we deduct the effect of IRB in our P&L, we will still achieve a 37% ROE. In the case of this for subsequent pension plans we expect stronger revenues in third quarter 2013, especially for Brasilprev, which was impacted by the Group performance of fixed income fund, which lead the slower appetite for this kind of investment.

However, we are maintaining our guidance for both SHI in pension plan in pension. We are confident, very confident in our budget and we do expect a stronger performance in terms of sale in the fourth quarter. Given a more competitive [ph] economic environment, the budget dynamics inside Banco do Brasil, its strong distribution capacity and distribution of this model that we have in this period of the year.

Thank you again. And now we are opened for the Q&A section.

## Questions And Answers

### Operator

(Operator Instructions) Our first question is from Regina Sanchez from Itau BBA.

### Q - Regina Longo Sanchez {BIO 16404038 <GO>}

Hi, everybody, and good morning. I have two question. The first one is related to the 2013 guidance that you reiterate especially on the growth of pension plans. And this means that you already seen a stronger growth in the fourth quarter of this year that enable you to keep the same guidance in terms of growth.

And as I know that you're only going to provide guidance for 2014 when you release the fourth quarter numbers. But if you could give us a color, I mean, if you do expect in most of the lines to see sort of a deceleration in terms of growth compared to 2013, given that 2013 was very strong or is it going to be this deceleration considering that will level off

penetration of this products in the client base of Banco do Brasil is still very low, I mean, if you do expect I mean, a high double digit or even above 20% growth for most of the projects in the coming years in 2014 and 2015 even continue to gain market share relative to the market?

And my second question is regarding the corporate governance, we realize that the independent board member that was part of the board, he left, but basically because your plan to call for a shareholders' meeting you allow my minority shareholders to appoint an independent board members appointed to them to participate? And if you could share with us anything that actually have this shareholder meeting, we really appreciate that? Thank you.

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

Thank you, Regina for these questions. The first question is regarding pension plans. It's true that when you see our even quarters, they are stronger than the other ones. So you will fourth quarter stronger than the third quarter, as we saw the second quarter was better than the first one. So this seasonality is something that we count on our budget. We think that this will happen and it will be a enough to deliver our guidance for pension plans and (Ends Abruptly)

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