

Y 2015 Earnings Call

Company Participants

- Rafael Sperendio, Head of Investor Relations

Other Participants

- Thiago Batista, Analyst

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to BB Seguridade's Fourth Quarter 2015 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) The presentation is also available in the Financial Information section of BB Seguridade's website at www.bancodobrasilseguridade.com.br.

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 control of management. For more information on the statements of the company, please check on the MD&A.

With us today are Mr. Marcelo Labuto, BB Seguridade's CEO; Mr. Werner Suffert, BB Seguridade's CFO and Mr. Rafael Sperendio, Head of Investor Relations.

Mr. Sperendio, you may now begin.

Rafael Sperendio {BIO 18963159 <GO>}

Good morning. Thank you all for joining our conference call. So beginning on page three, we have some highlights during 2015. The first one here is our adjusted net income that reached BRL3.9 billion equivalent to a growth of 22%, that's compared to the adjusted net income for 2014. We had a very balanced contribution between the non-interest operating results and the net investment income, so those contributed almost equally to the growth in net income through the year.

The combined net revenues from our underwriting and accumulation businesses grew by 11%, driven mainly by pension claims which has grown by 19% in total contribution. In the -- our operation of life and rural, the SH1 had a better operating performance with an improvement 3.5 percentage points in the combined ratio.

In SH2, our P&C company, the net income grew 52% and that's fueled from the strong performance of the financial results.

For pension plans we reached 148 billion in assets under management, this was one of the main highlights for the year with a growth of 32% over the last 12-month, such performance allowed Brasilprev to reach the leadership in P and VGBL reserves with an outstanding performance in net income (inaudible) that accounted for nearly 50% of the industry.

And the distribution in BB Corretora, brokerage revenues grew 11%, driven mainly by the brokerage revenues arising from the SH1 in the Brasilprev. And finally in the last point that I would like to highlight here is the distribution of BRL3.4 billion in dividend equivalent to an 80% payout ratio.

Moving to page four, we have the one of items that affected our earnings in the year. So in second quarter we have the reversal of the Supplementary Coverage Provision in Brasilprev in line with all the actions that we have been adapting to -- adapt the company to this market risk regulation. And in the third quarter, we have there the effect of the -- an increased tax rate for social contribution from 15% to 20%, so we had a positive impact in our insurance company, SH1 and SH2, mostly due to the calculation of this social contribution before tax asset from 15% to the current 20% rate creating these positive impact in net income of nearly BRL42 million. So the accounted net income reached BRL4.2 billion, and the adjusted net income BRL3.9 billion.

On the page five we have a brief overview of our performance. We breakdown the total revenues in -- we breakdown the earnings, so revenues with premiums -- within the contributions for patient claims and also collect some premium bonds amounted to 16 billion in the quarter, 1% higher year-over-year. And on annual basis, in 2015, total revenues reached BRL60 billion, an increase of 11%, driven mostly by the performance in SH2 [ph] impact, as I've just mentioned. So as you see on the upper right-hand side, pension plan business segment increased by nearly 3.9 percentage points, it sharing in total revenue compared to the same period last year.

So as a result, our adjusted net income reached BRL1 billion in the quarter, 12% up year-over-year. While in the full-year the adjusted net income amounted to 3.9 billion related growth of 22% and equivalent to a return on average equity of nearly 55%. On the earnings breakdown, we can see that here SH1 increased by 0.6 percentage points, sharing in net income are mostly driven by strong operating results and improved the financial results while BB Corretora lost a bit of share mostly due to a less strong financial result we can say, and lower growth in total revenues as compared to the previous year.

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On page seven, we start here and we're going to cover in more details the performance of each affiliate. So the life segment, life and rural here, retained premium was topped by 9% year-over-year, mostly due to a weaker performance for the credit life, and mortgage life. And on annual basis, retained premiums grew by 1%. The main highlight here for these company with the life product sold in the bancassurance channel which grew by 7%, and also the roll out from on a combined basis of the three lines on the overall [ph] segments, they grew 18% and that was mostly here that these lines offset partially the (inaudible) depend more on credit origination like the credit life and mortgage life, and also we saw a weaker performance into more (inaudible) for the life insurance product distributed to the independent brokerage channel.

On the other hand, we had a strong performance both operational and financial sight. So here we have the net income growing nearly 26%, and on quarterly basis and year-over-year comparison, it grew by 9%, and the return on average equity reached 47%.

On the operating side here, regarding the operational performance of these operation, the loss ratio dropped from 28.9% to 28.7% in the 4Q 2015, this was a result of the lower gross ratio in the Life segment, increasing the credit life product and -- when we look at the performance here, it's worth noting the value on (inaudible) of sales with an increased performance -- increased participation, sorry, of bancassurance channel in the total premiums distributed in the life segment. So as the life insurance distributed in the bancassurance channel has a much lower loss ratio, we can see that the compounded loss ratio for 2015 and also on the year-over-year comparison for the factors decreased as compared to 2014.

The commission ratio increased a little bit and it was also a result of the increased participation of the life insurance distributed in the bancassurance channel that tried to commensurate the higher commission ratio, but this was a good thing for this overall performance of the company, as these commission is paid through our own broker BB Corretora.

On the lower left hand side we can see an increase of G&A ratio and this was mostly related to increased expenses, the sort of movement that we has been implemented as both company SH1 and SH2, they're moving to a new headquarter, we are going to centralize all the operation in a single visiting from 2016 on, so this was one of the main explanations that we can give about the increase in the G&A ratio. And as a result, the combined ratio increased a little bit from 70% yearly in the 4Q14 to 72.7% in the 4Q15, but assuming almost stable on the annual comparison, so nearly 70% the combined ratio for 2015.

Moving to page nine, we have here our PMC business. So within the premiums of up to 4% year-over-year in 2015 within the premiums grew 0.4% and this year we have been seeing a more challenging scenario in the savings, mainly for outlook, which accounts for nearly two-thirds of total repayment premiums in the company. And gross top line feeds on financial results which grew by 77% year-over-year, and help with the improvement in the net income that grew 52% as compared to 2014 the return on average equity of nearly 13%. The same dynamic applied to the quarter-on-quarter, sorry, to the quarter, but

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on the year-over-year comparison. So this was mostly boosted by the equivalent performance of the financial results.

On the operating side, on page 10, the combined ratio was ended by 0.8 percentage point in 2015, mostly due to a higher G&A ratio with an increase in the other operating income and expenses, and this was a result of the movement currently we had to be additional provisions for long losses in the 4Q15, and this is mostly related as the increased participation of the large risk segments, they're at the inter-large amount of payments to be ceded to the insurance, so these provision, they are mostly related to credit, but we have with reinsured operations. So this was the main driver for the increase in the combined ratio in PMC segment.

On page 11 we have the performance in pension plans, you can see that in the quarter, contributions increased by 5% year-over-year. In 2015, total contribution grew 19%, 10 BPs lower reduction ratio, net income efficiency was in fact kept in very well presenting a growth of 11% and accounting for nearly 50% of the total industry net income. And as a result, here on the upper right-hand side, total assets under the management reached BRL148 billion, a growth of 32% over the last 12 months. The management fee grew by 26% this year, a little bit below the growth of assets under management, and this was a result of the 7 BPs drop in the average management fee, that we charge from the managing fee resourcing, this was driven by higher concentration of (inaudible) with lower fee target, mainly for high net worth clients that has been the focus of the new client that we have been raising over the last quarter.

So when we look at the overall performance, the net income grew by 18% in 2015, equivalent to a return on average equity of 39%, and lower return as compared to the one achieved in 2014 here, it's mainly explained by this increased earnings retention, also to prepare the company for the new capital requirements that will be in force in 2016 and 2017 regarding the market risk regulation, so this was the main explanation for the drop in return on equity as net income itself grew by 18%.

On page 12, we have the performance in our premium bonds segment, so collections dropped by 8% year-over-year and 3% on an annual basis as compared to 2014. But on the other hand here, premium bonds reserve rose 5% along with the growth in the net interest margin led to this increasing net income of 11% year-over-year, and the 17% on annual basis. So these increased retention in terms of new reserves in addition to the improved net interest margin helped a lot the company to grow (inaudible) net income throughout 2015.

And on the distribution side, on page 13, BB Corretora brokerage revenues grew by 2% in the quarter -- in a year-over-year comparison and a 11% on an annual basis. In both cases here, SHI and Brasilprev were the main drivers, as you can see on the right hand side both of them increased their share in revenues breakdown. The net margin rose 3 percentage point this year, and here every time it's worth noting that we have a higher efforts bringing the accrued through earnings without an expense associated to them, this is helping the net margin to increase in addition to the higher selling rate that we have experienced in 2015 and a less expensive product mix. And as a result, the increases in revenues and

increasing in net margin, so the net income grew 7% year-over-year and 17% on an annual basis.

On page 14, we have the accountability of the guidance. So the first item here, the adjusted net income, we had a range from 3.6 and 3.9, we ended the year at the top of the range with BRL3.9 billion in net income. For premiums within BB Mapfre SHI life and rural, we had a range from 5% to 8% when we set the guidance, we reached 2.3%, and this was mostly due to a more challenging scenario for product linked to credit, mortgage life and credit life mainly, as well as a lower than expected performance in the life insurance sold in the independent brokerage channel. And finally the third one that -- it's a goal in reserves in P and VGBL at Brasilprev range from 27% to 36%, we reached almost 35% at the high end of the guidance.

And for 2016, on next page, we have the guidance for earnings growth. So from 8% to 12%, this is really translating what management expect that should maximize earnings to shareholders. So even in this more challenging scenario that we are experiencing right now, we did believe that we can grow net income to range from 8% to 12% in 2016.

So this finishes our presentation here. We'd like to thank you all again and we can move to the Q&A session.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Thiago Batista with Itau BBA.

Q - Thiago Batista {BIO 15398695 <GO>}

Thanks for the opportunity. I have two questions. The first one is about the guidance, the earnings guidance. I think it was a real surprise, at least (inaudible) how narrow was your earnings guidance this year considering all the remarkable volatility. So the difference for the talks to the balance of range now it's 4% versus 8% in the '15 guidance. Could you comment to us your main assumptions for this guidance and how comfortable you are -- how comfortable you are with this very narrow bottom line guidance?

In the second point about the pension business, we saw some contraction in the management fees during last quarters. Could you comment about your expectations in terms of management fees going forward? And if you could also comment about the type of clients that you will focus in '16 in the pension business?

A - Rafael Sperendio {BIO 18963159 <GO>}

Hi, Thiago, Rafael speaking. Thank you for the questions. Regarding the first one about kind of range -- the ranges now, more narrow as compared to the one that we provided in 2015. The main reason was, we have two points that we would like to highlight here. First of all, we improved all the project quoted together with all the company, so we have

a much more accurate view on the -- in terms of forecasting the results going forward, so this is also one that the main factors that happened -- should narrow the range.

The second one, as we are planning to decrease, so last year the top of the range was nearly equivalent to a growth of 22% in net income and the bottom was nearly 13% growth, 12% to 13% growth the bottom of the range. So as we are decreasing now 8% to 12% the dispersion around the mean is pretty much the same, a little bit less but not as much as it seems on the first view. So these both factors contributed to this range that is more narrow as compared to the previous one.

And on the pension business, regarding the drop that we have been seeing in management fees, we do not see any major change in the strength probably we will continue go down but at a lower price, and this is mostly related to the focus that we have been implementing that is our -- and even now in the scenario that we are now a days to keep focusing on the higher royalty individuals, in both of them, Banco do Brazil clients, they had normal, in the market these clients will pay lower management fees due to the higher volumes in factors that the investments that they have. So we do not see any change in this drop in the average management fees in the short term at least.

Q - Thiago Batista {BIO 15398695 <GO>}

Okay. Just one follow-up on the first question, Rafael. How much your -- what is the selection rate that you're using in your forecast is similar to the constrains or how is your selection rate?

A - Rafael Sperendio {BIO 18963159 <GO>}

It's pre-close to the consensus that we have now a days according to the left, which was purchased by the Brazil central bank with focused report.

Q - Thiago Batista {BIO 15398695 <GO>}

Okay, thank you. Thank you, Rafael. Thank you.

A - Rafael Sperendio {BIO 18963159 <GO>}

Thank you.

Operator

(Operator Instructions) 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 Sperendio {BIO 18963159 <GO>}

So I'd like to thank you all again for participating in our conference call. We remain available for any further questions that you may have. So thank you, have a good day.

Operator

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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