

## Q4 2014 Earnings Call

### Company Participants

- Marcelo Augusto Dutra Labuto, Chief Executive Officer
- Rafael Augusto Sperendio, Head of Investor Relations

### Other Participants

- Unidentified Participant

### Presentation

#### Operator

Good morning everyone and thank you for waiting. Welcome to BB Seguridade's Fourth Quarter 2014 Earnings Conference Call. This event is being recorded and all participants will be in a listen mode only 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 financial information section. Participants may view the slides in 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 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. Labuto, you may now begin.

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

Good morning everyone. We have seen once again in the last year the strength of the bancassurance in the Brazilian insurance industry and also the huge value of Banco do Brasil's customer base and the distribution network. 2014 proved to be a more

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challenging year than we previously expected, but we managed to deliver the industry performance in all the segments we consider core in our strategy. So, that data for the first 11 months of 2014 showed no growth for their marketing in pension plan contribution and life insurance. Meanwhile, Brasilprev and SHI grew at a double-digit pace. Our pension plans contributions increased 34%, and in terms of net inflows, we remain responsible for over 50% of the industry performance, which allowed us to achieve the markets leadership in terms of assets under management.

Even growing slightly below our own estimates in some segments, our affiliates posted strong operational performance, benefiting from our strategy to focus on higher margin products, which boosted profitability and drove earnings above our own estimate.

In general, we saw the expansion in both the operational and the financial side of the business in our affiliate. Net income reached BRL3.5 billion and adjusted earnings came to BRL3.2 billion. Adjusted return on equity reached 50%, 8 basis points above our guidance.

We are targeting a continuous improvement. In fact, our allocation and the mix of growth delivered in the last two years is aligned with this commitment. This strategy has enabled sustainable growth with low capital consumption allowing to maintain a 80% payout, even retained part of the one-off gain booked in Brasilprev, aimed to capitalize that company and prepare it for new capital requirements that (inaudible) to cover market risk.

For 2015, besides capital allocation, if you can see in portfolio management, our agenda is focused in the improvement of operational efficiency to continue the evaluation of new products and distribution channels, and also the improvement of our governance, risk and compliance management, both at BB Seguridade and in our affiliates. We still had a very positive view on market growth in spite of a more challenging economic scenario. Although it is not possible to see growth rate of 30% in all segments as in recent past, we do believe that there is a good room for us to grow at consistent rate of investing in the market. In a way although growth will be increasingly challenging, we are now better structured and well aware of the importance to seek for greater achievements in our commercial efforts and efficiency in our operation, always keeping in mind the best spread in risk management, thus assuring the risk ability to our net income and that operating earnings will keep being the main source of the company's profit.

I'm grateful to investors, clients, and partners for their confidence and for another year of strong earnings in our track record. In particular, I'd like to thank the branch network and distribution areas of Banco do Brazil, which have a key room in the story we are building.

Thank you all. Now, I will ask Rafael Sperendio to guide us through the presentation.

**Rafael Augusto Sperendio** {BIO 18963159 <GO>}

Good morning. Thank you all for joining our conference call. So, starting on page 3, we have some financial highlights of 2014. The main one is our adjusted net income for the

year that reached BRL3.2 billion, 43% higher when compared to 2013, equivalent to a return on average equity of 49.8%.

First of all, I would like to point out here that the quality of these results, the strong operating performance in our core business lines, with an increasing participation of the bancassurance channel that has much better margins and very strict cost control that we had throughout 2014.

So, the operating result was one of the key arrivals for this good performance in terms of profitability. The combined net revenues from our affiliates, including insurance premiums, pension plans contributions and premium bonds collections, these combined revenues grew by 25% in 2014, well above the market.

Mortgage life in rural segment, our combined ratio improved by 2.5 percentage points compared to 2013, with an increase in the underwriting results, the most important part. This increase was of 26% [ph] compared to 2013 even in a more challenging scenario in terms of claims, due to the climate high loads that affected our crop insurance operation.

In P&C, the main highlight was the improvement in the G&A ratio, capped by 120 bps this year. In pension plans, we reached BRL12 billion in AUM, a growth of 34% in 2014. This has led Brasilprev to the second place in terms of market share in AUM when we consider fees and VGBL products. In terms of net inflows, Brasilprev stood out and once again keeping 54% of the total market net inflows.

Looking at premium bonds, our net income grew by 145% in 2014, driven by a more stable net interest margin. Brokerage income grew 31% in 2014, driven by SHI and Brasilprev, the companies that will topline the most in 2014. And finally, the last point that I would like to highlight is the distribution of BRL2.8 billion as dividends, equivalent to an 80% payout out of the BRL3.5 billion net income.

Next page, we have our performance compared to the industry. As you may see considering year-to-date data available from SUSEP until November, our performance was much better than the industry in most of the segments in comparative analysis considering the performance of the market without BB Seguridade. In life segment, for example, our growth in premiums written reached 10.8% while the industry dropped by 1.6%. When you look at rural insurance, we grew 37% while the industry grew 26%. In pension plans, total contribution rose by 34%, while the industry did not grow until November, when we look at contribution alone.

In total revenues, including insurance premiums, pension plans and premium bonds, we grew by 24%, more than three times the market average, that was at 7.2% growth until November. So, most of the lines, we showed a very good performance even in a more challenging scenario in 2014.

Moving to a page 5, we have the one-off items that affected our earnings. During 2014, we classified only two events as non-recurring. So, the first one amounted to BRL39

million regarding to the reversal of provisions related to PIS and COFINS, both tax expenses in IRB.

And the second one is the result of several movements that happened at Brasilprev. So, I will explain very briefly, but there is a very brief description of these events in our MD&A. So, at the end of 2014, we had reversal of provisions for efficiency of contributions and a provision for financial situation. So, both these provisions were required by the regulator, CNSP and so that to revert until December 2014; we did that.

And in the same moment, we transcend the provision that we call complementary provision of contribution and other line, in that we transcend the provisions as provisions for related expenses. When we consider both these events, the reversal of these provisions and the movement of strengthening these two provisions that I had mentioned, the impact was BRL196 million in BB Seguridade's net income. So, the accounting net income reached BRL3.5 million and the adjusted net income BRL3.2 billion, but we paid out dividends considering the accounting net income of BRL3.5 billion.

On page 6, we have a brief overview of our performance of revenues, including premiums written, pension plans contributions and premium bonds collections here totaled BRL16 billion in the quarter, an increase of 22% year-over-year. In 2014, total revenues reached BRL54 billion with a growth of 25%. As we can see on the right-hand side, this growth was mainly driven by pension plans contributions, that grew 430 bps its share in total revenues in 2014 and the recurring net income in the quarter reached BRL906 million, 28% higher year-over-year. When we look at the yearly figures, in 2014, the adjusted net income reached BRL3.2 billion, a growth of 43% compared to the adjusted figure for 2013, equivalent to return on average equity of almost 50% above our guidance for the year.

And on the earnings breakdown on the lower right-hand side, we see that 40% of our net income came from our brokerage arm, 30% from life, mortgage life and rural segment and the SHI company, and 17% from pension plans Brasilprev.

On next page, we have the contribution of the net investment income to our net profit. So, the combined net investment income of our affiliates grew by 72% on annual basis, and the performance of all affiliates, performance overall was much better than in 2014 compared to 2013. And this was the result of higher average selling rates, also the higher average volume financial investments mainly in Brasilcap and Brasilprev.

And the other effect that we had throughout 2014 was lower market-to-market impacting our pre-fixed and inflation-protected bonds. So, if we see in relative terms here, the short-term rates with maturities of 12 to 24 months went up 40% in 2013. If we look at the same maturities in 2014, with shorter impact of the forward yield curve, went up 10% to 11%. So, a much smaller impact when we compare it to 2013. With this and much more favorable environment, the investment income came back to a more recurring level in terms of contribution to BB Seguridade's net income and it is around 25% as we used to see until 2013.

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So, now going more deep into our operations, on page 8, we have the performance for life, mortgage life and rural business unit. In the (inaudible), volume of retained premiums grew by 46% quarter-on-quarter and 33% year-over-year and on annual basis, in 2014, retained premiums grew 21% driven mainly by the EBIT growth in credit life and in rural as you can see on the upper right-hand side. These lines grew the most throughout 2014.

Talking about net income of this business unit, it reached BRL1.3 billion in 2014, a growth of 43% compared to 2013, with underwriting results growing by 46% in the year while the net investment income grew by 45%. So, the company had an excellent operating performance. As we can see on the next page, we show the performance ratios for this company. The combined ratio improved by 2.5 percentage points in 2014.

In this quarter, some effects affected a little bit the comparison basis, these effects can be found in our MD&A in a more detailed description, but just to make our analysis more clean here, if we were to remove these effects from the 2014 figures, the loss ratio would be at 30.5%, the commission ratio to 26.8% and G&A ratio would be at 13.6%. All these ratios on annual basis for 2014.

And when we look all of them showing a much better performance compared to their figures reported for 2013. When we adjust the effects in the combined ratio, it would be at 71%, 4 percentage points below the ratio for 2013.

What I would like to highlight here a very important point is that the improvement in this combined net ratio even in a more challenged scenario that we are had in 2014, mainly in the crop insurance segment with climate hazards there occurred during the beginning of the year after all in the sub part of the country and also excess in terms of rain that affected the wheat crops in the end of third quarter, beginning of fourth quarter 2014.

So, when we look among all our business units, SH1 was the one that improved most in the operating side, which is a consequence of the more strict cost control and a fairly efficient capital allocation besides the increasing contribution of the bancassurance channel in this company, mainly in the life segment. When we look at the profitability of the underwriting margins in the bancassurance channel, it is more than 2.5 times higher than the products sold at the agent channel. So, all these effects together -- putting all together, we were able to show this improvement in the combined ratio in 2014.

On page 10, we can see our sales performance by channel in life, mortgage life and rural. When we look at the performance in bancassurance channel, we grew by 21% in 2014, below the bottom of the guidance range, that was of 24%. We had some factors that impacted the performance of these channels such as elections, World Cup and also the sales dynamics that in 2014 sales were more concentrated in the end of the year. So, we did not have the entire revenue flow of the monthly payment products. So, all these effects affected the topline growth in the bancassurance channel.

When we look at the independent broker channel, on the upper right-hand side, excluding DPVAT, that's mandatory insurance in Brazil, the volume of premiums written decreased by 0.1% year-over-year. Actually we had a very tough year in the independent

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broker channel and this is reflected when we look at the consolidated growth; premiums written in the life segment, that was up 7% in 2014. Of course, that is well above the market, but it's worth noting that the bancassurance channel performed even better with a growth of 10% compared to the industry growth -- the industry performance that was of minus 4% year-to-date until November.

Moving to P&C on page 11, in the fourth quarter retained premiums grew by 14% year-over-year. In 2014, it improved 11% driven by both vehicles and casualties. Regarding sales mix, we didn't have major changes. So, vehicle is still the main driver, accounting for 64% of total retained premiums. The net income grew by 38% in 2014 and the main driver was the net investment income, some financial growth was the main responsible, that grew by 79% compared to 2013 while when we look at the underwriting result, it dropped by 20% in 2014. But this is much more related to increased claims as we can see in page 12. The loss ratio rose by 300 bps in 2014 in a more challenging environment for the auto and other in casualties segment. So, it was not just related to our company, it was (inaudible) in this case. But we managed to partially offset this increase in claims with lower commission ratio, as you can see, minus 1.1 percentage points in 2014, lower G&A ratio of minus 1.2 percentage points. So, both these factors we managed to compensate part of this increase in losses, that's why our combined ratio worsened by 0.6 percentage points compared to the 3 percentage point increase in loss ratio.

So moving to page 13, we have net performance related to pension plans. We had a very good year in this segment with a strong growth in contributions. So, contributions grew by 35% in 2014, and also a very good performance in terms of redemptions ratio as you can see on the upper left-hand side. This graph shows the performance in the redemptions with a trend that's decreasing. So, the redemption ratio was again below 10%; both these effects of increasing contributions and lowering redemptions ratio, we were able to grow net inflows about 49% in 2014.

And when we look this, it also reflected on reserves. So, our AUM grew by 34% over the last 12 months as you can see on the upper right-hand side, and our management fee, in the lower part of this page, grew by 20% in 2014 as a result of the increase in the average balance of AUM and then if we look at the fee sales in 2014, we had a reduction in the average management fee and this is a result of the change in the mix of products, but was more concentrated in high net worth individuals and mainly the VGBL products.

On the right side, net income reached BRL201 million in the quarter, 21% higher year-over-year and I would like to highlight here that despite a 23% growth in net income, the return on actually fell as compared to 2013 and the reason was that we increased the earnings retained.

So, in the beginning of the presentation I mentioned that the one-off events that we had in BB Seguridade and one of these two events was related to Brasilprev and the shareholder decision in this case was not to distribute dividends on this amount. So, we decided to keep it in our balance sheet in order to meet the capital requirement regarding the market risk that will be freely implemented until the end of 2017. So, even though this did not affect our 80% payout as most part of it comes from the basically the (inaudible) product that will not be affected by this regulation.

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On the next page, we have a comparison between the performance of Brasilprev and the industry. So, as you can see, the industry showed a great recovery in 2014, which had a growth of 55% in terms of net inflows, even though Brasilprev still represents almost 54% of the total net inflows in the industry. On the lower part of this page, you can see the track record of our company in AUM related to P/VGBL. So, in 2014, we managed to reach the second place in AUM in this segment with an amazing performance, if you look the track record over the most recent years.

On page 15, we have our performance in our premium bonds business unit. So, collections reached BRL2 billion in the quarter, 11% higher year-over-year. On annual basis, collections grew by 7%. When we look at the sales mix on the upper right-hand side, we can see that an increase in the share of monthly payment products, in line with what we have been announcing to the market, this concern that we have to increase the product that has more recurrence and that will provide more stable revenue stream for the company going forward. But there is something that is not in this page and I would like to highlight that our reserves are growing in a much higher pace than competition. So, in 2014, for example, our reserves grew by 24%. While the industry experienced the performance of Brasilcap, reserves in the industry grew 5.3% only. This is a very important slide where it reflects these effects that I mentioned and our awareness regarding sustainability of the result of our company. It is also reflected in the net investment income. As you can see, it grew by 452% when we look in an annual basis and it was the main driver for this increase of 145% in the net income, and the main reason is that we have both increasing reserves and also an increase in assets profitability in the period.

So, it is predominantly financial, but we have a liability that is almost entirely fixed and when we have interest rate increase, we're having in the first moment a negative impact related to mark-to-market as we had in 2013. But after this, we have a positive effect that with the approval of this higher interest rate going forward. So, this is a positive impact in our net interest margin.

Moving to BB Corretora on next page, brokerage revenues grew by 15% quarter-on-quarter and 28% year-over-year. In 2014, we grew 31% topline on the (inaudible) product, driven by SHI and Brasilprev, that increased their share in total revenues as compared to 2013. The adjusted net income 372 million for the quarter, 38% higher year-over-year, and in 2014, net income rose by 41% driven by much better operating margins. But I still wonder the effect of the dilution in operating support cost and also in data processing.

Next page, we show what we delivered as compared to our guidance for 2014. As you may see, we achieved most of the indicators. So, the first one, the return on equity, we reached 49.8%, above the guidance, mainly as I've spoken before, it is a result of the improvement in operational efficiency and also higher-than-expected improvement in the net investment income in 2014. In premiums written from SHI, we grew by 19% as compared to a range of 24% to 32%. The deviation here was mainly due to lower-than-expected sales in other channels, independent broker channel, mainly in the life segment and as I noted before, the bancassurance channel grew by 10% while the independent broker channel dropped by 1% when talking about life insurance, basically, in the year.

If we look at the bancassurance performance, it was well above the market, but our growth in total premiums on a consolidated basis was below the guidance. In SH2, we were in the middle of the range of 12% to 15%, equating [ph] pension plans with a strong recovery we observed throughout the year. We were within the range with a growth of 35% in contributions and this movement shows how strong is the Banco do Brasil distribution network.

So, if you remember, in beginning of the year when we showed the March figures, we were performing at minus 16%, that's compared to a range of 33% to 47%. And at that time we said that we are going to observe the market behavior and then we would decide if we will revise or not revise. So, as the industry recovered, the performance we decided to keep this guidance and we delivered what we were estimating for 2014.

And finally, we have the last item -- the one for premium bonds, with performance slightly above the guidance, with a growth of 6.7% in a range of 3% to 6%. And finally, to wrap up the presentation on page 18, we provide our guidance for 2015. So, the first one, the adjusted net income of 3.6 billion to 3.9 billion, which represents a growth of 12% to 21% in earnings per share as compared to 2014.

Premiums written in SH1, we expect a growth between 15% to 21%. In pension plans, we changed the indicator for 2015. So now we have a guidance to P/VGBL, a window from 27% to 36%, what actually is the main driver in terms of earnings for this business unit. So, it comprises not only the growth inflows, but also redemptions and also the profitability of these results [ph] that we will manage to achieve throughout the year.

And also, I would like to highlight that for this year, we have chosen not to disclose guidance for P&C, neither for premium bonds. In both the segments, we do expect a growth in our long-term more aligned to the market, so that's why we did not disclose our estimates for this segment.

And that's all, this finishes our presentation. I'd like to thank you all once again and now we are open for the Q&A session. Thank you.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Tiago [ph] with Itau BBA.

### Q - Unidentified Participant

Hi guys, congratulations for the results and thanks for the opportunity. I have two questions; the first one is regarding the credit life in the 4Q. We saw that the premium of credit life showed a big jump in the 4Q, more than double year-over-year. So, I believe it was caused by a solid performance of the SME. Could you comment about what the



(inaudible) did to burst the performance of the credit life in 4Q and what is your expectation for this segment during this year?

And the second question is about expenses. The expenses in the broker business, it's possible to see the operating expense in the broker business extending below the commissions during the year?

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

Thank you for your questions. So, starting with your first question regarding the performance in the credit life segment, when we look at the quarterly figures, for the fourth quarter we reached almost BRL980 million in terms of premiums written. If we were to break it down, one-third came from the credit life for SMEs and two-thirds from credit life for individuals. Of course, when we look in nominal terms, credit life for SMEs was the main driver as we have easy comp here compared to September. In terms of premiums written, in the third quarter it was close to BRL61 million while in the fourth quarter it was over BRL350 million. So, when we look at in terms of the main driver for 2015, we do believe that our credit life for SME is a line that will be the main driver for this company throughout 2015. And just to give you some color on it, nowadays when you look at the penetration in this segment, only we reached 8.6% of the total operations that are addressable portfolio up to now.

Regarding your second question on the expenses at BB Corretora, we believe that there is room to expenses growth at a slower pace compared to revenues in 2015. Of course, it's hard to say how much, but there is room to show a lower increase in expenses compared to revenues in 2015.

**Q - Unidentified Participant**

Okay, thank you, Rafael. Just one follow-up in the SME, basically that did any change in the CRM or in the IT to cause this boost in the volume of sales?

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

Not really; what happened throughout the fourth quarter was that we changed the focus. So, we changed the way on the targets of the distribution network at Banco do Brasil and we increased the share of the credit life for SMEs and that's why it performed much better in the fourth quarter as compared to the third quarter or this quarter -- 2013.

**Q - Unidentified Participant**

Okay. Thank you, Rafael.

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

Thank you.

**Operator**

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(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. Rafael Sperendio, go ahead.

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

Well, thank you all for joining our fourth quarter earnings conference call. More information can be found in our MD&A and our website, and also I would like to emphasize that our IR team is also available for any further clarification. Thank you all once again and 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 Investment Relations website. Thank you very much for your participation. Have a nice day. You may now disconnect.

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