



**Operator:** Good morning everyone and thank you for waiting. Welcome to BB Seguridade's 4th Quarter 2014 Earnings Conference Call.

This event is being recorded and all participants will be in a listening-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. Should any participant need assistance during this call, please press \*02 to reach the operator. This event is also being broadcast live via webcast through BB Seguridade website at [www.bancodobrasilseguridade.com.br](http://www.bancodobrasilseguridade.com.br). The presentation is also available in the Financial Information section. Participants may view the slides in any order they wish. Before proceeding, let me mention that forwarding-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 trades 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 Seguridades CEO, Mr. Werner Suffert, CFO and Mr. Rafael Sperendio, head of investor relations. Please, Mr. Labuto, you may now begin.

**Labuto:** Good morning, everyone. We have seen once again in the last year, the strength of the bank insurance 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 challenging year than we previously expected, but we managed to beat the industry performance in all the segments we consider core in our strategy. So that data for the first eleven months of 2014 showed no growth for the marketing in pension plan contribution and life insurance. Meanwhile, Brasilprev and SH1 grew as a double digit pace.



Our pension plan contributions increased 34% and in terms of net inflows, we remained responsible for over 50% of the industry performance, which allowed us to achieve the market vice-leadership in terms of asset under management.

Even growing slightly below our own estimates in some segments, our affiliates showed strong operational performance, benefiting from our strategy to focus on higher margin products, which busted 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 all affiliates. Net income reached 3.5 billion reais and adjusted earnings came to 3.2 billion reais. Adjusted over returns on equity reached 60%, 8 base points above our guidance.

We are targeting a continuous improvement in capital allocation and the mix of growth delivered in the last two years is aligned with this commitment. This strategy has enabled sustainable growth with no capital consumption, allowing the maintain of 8% payout, even retain part of the one of gains books in Brasil Prev, aiming to capitalize that company, to prepare it for new capital requirement that will arise to cover market risk. For 2015, beside capital allocation efficiency and portfolio management, our agenda is focused on 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 have a very positive view on market growth, in spite of a more challenging economic scenario, although it is not possible to see growth rates above 30% in all segments, as in our recent past. We do believe that there is a good room for us to grow at consistent rates out passing the market. Anyway, although growth will be increasingly challenging, we are now better structured and well aware of the importance to seek for greater assertiveness in our commercial force and efficiency in our operation, all this keeping in mind the best practices in risk management, thus assuring predictability to our net income and that operating earnings will keep being the main source of the company's profits. I'm grateful to investors, clients, and partners for their confidence and for another year of strong earnings in our track records. In particular, I'd like to thank the branch network and distribution areas of



Banco do Brasil, which have a key role in the history we are building. Thank you all, now I will let Rafael Sperendio guide us through the presentation.

**Sperendio:** 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, by year it reached R\$ 3.2 billion, 43% higher, when we compare it to 2013, equivalent to a return on average equity of 49.8%, and here, first of all, I'd like to point out here, the quality of these results, with a strong operating performance in our core business lines, with increased participation of the bank assurance channel, that has much better margins, very strict cost control, that we had throughout 2014, so the operating result was one of the key variables for this good performance in terms of profitability. The combined revenues on our affiliates, including insurance premiums, pension plan contribution and premium bonds collections, these combined revenues grew by 25% in 2014, well above the market. In life, mortgage life and rural segment, our combined ratio improved by 2.5 %, compared to 2013, with an increase in the underwriting result, the most important part. This increase was of 46% compared to 2013, even in a more challenging scenario in terms of claims, due to the climate hazard that affected our crop insurance operations. In P&C, the main highlight was the improvement in the G&A ratio, dropped by 120 bips this year. In pension plans, we reached R\$ 112 billion in AUM, a growth of 34% in 2014. This growth led Brasilprev to the second place in terms of market share in AUM, when we consider P and VGBL products. In terms of net inflows, Brasilprev stood out, 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 much better net interest margin. Brokerage income grew 31% in 2014, driven by SH1 and Brasilprev, the companies that will their top lines the most in 2014, and finally, the last point I'd like to highlight is the division of R\$ 2.8 billion as dividend, equivalent to an 80% payout, out of that R\$ 3.5 billion in our accounting net income.

Next page we have our performance compared to the industry, as you may see, considering Year to date data available from SUSEP, and till November, our performance was much better than the industry in most segments, in a comparative analysis, considering here the performance of the market without BB Seguridade's, in



life segment, for example, our growth in premiums written reached 10.8% while the industry dropped by 1.6%. When we look at rural insurance, we grew 37% while the industry grew 26%. In pension plans, total contribution grows by 34% while the industry did not grow until November, when we look at the contribution, alone.

In total revenues, including insurance premiums, pension plans, and premium bonds, we grew by 34%, more than 3-times the market average, stated a 7.2% growth till November, so, most of the lines we show a very good performance, even in a more challenging scenario in 2014.

Moving to page 5, we have one of the items that affected our earnings in 2014. We classified only two events as non-recurring. So the first one, amounted to R\$ 39 million, dividing to the reversion of PIS and COFINS, both tax expenses in IRB, and the second one is a result of several movements that happened at Brasilprev so, I will explain it very briefly but there is a very deep description of these events in our MD&A, so in the end of 2014, we made a reversal of provisions for the insufficiency of contributions and a provision for financial fluctuation, so both these provisions we were required by the regulator, CNSB and SUSEP to reverse until December, 2014. We did that, and, the same moment we transcended the provisions, that we call complementary provisions of contributions, and other line that we transcend the provisions, as provisions for related expenses, and when we consider both these events, the reversal of these provisions and the movement of transcending these two provisions that I have mentioned, the impact was of R\$ 196 million in BB Seguridade's net income, so, the accounting net income reached R\$ 3.5 billion and the adjusted net income R\$ 3.2 billion, but we paid out a dividends considering the accounting net income of R\$ 3.5 billion.

On page 6, we have a brief overview of our performance, so revenues, including premiums written, pension plan contributions and premium bonds collection here totaled R\$16 billion in the quarter, an increase of 22% year over year. In 2014, total revenues reached R\$ 54 billion and a growth of 25%. As we can see, on the right hand side, this growth was mainly driven by pension plan contribution that grew 430 bps, its share in total revenues in 2014, and the recurring net income in the quarter reached R\$ 906 million, 28% higher year over year. When we look at the yearly figures in 2014, the adjusted net income reached R\$ 3.2 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, SH1 company and 17% from pension plans, Brasilprev.

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 an annual basis, and the performance of all affiliates, the performance overall was much better in 2014, compared to 2013, and this was the result of a higher average SELIC rate. Also the higher average volume of financial investments, mainly in Brasilcap and Brasilprev. And the other effect that we had throughout 2014 was the lower market-to-market impact in our pre-fixed set on inflation protected bond. So, if we see in relative terms here, the shorter rates of maturity is of 12, to 24 months, went up 40% in 2013. If we look at the same maturities in 2014, the shortened part in the forward yield curve, went up 10 to 11%, a much smaller impact when we compare it to 2013. With this much more favorable environment, the investment income came back to a more recurring level, in terms of contributions to BB Seguridade's net income, that is around 25%, as we used to see until 2013.

So, now, going deep in our operations, on page 8 we have the performance for life, mortgage life and rural business units, in the quarter, the volume of retained premiums grew by 46% quarter on quarter and 33% year over year. On an annual basis, in 2014, retained premiums grew 21% driven mainly by the 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 the net income of these businesses, it reached R\$ 1.3 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 ratios grew by 2.5 % 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 an annual basis for 2014. And when we look all of them showing a much better performance compared to the figures reported for 2013. When we adjust these effects in the combined ratio, it will be a 71%, 4 % below the ratios for 2013.



What I would like to highlight here, a very important point is that, the improvement in these combined ratios, even in a more challenging scenario we had in 2014, mainly in the crop insurance segment, with the climate hazards that occurred in the beginning of the year, a drought in the southern part of the country and also excesses in terms of rain, that affected the wheat crops in the end of the Q3, beginning of Q4 2014.

So, when we look among all our business units, SH1 was the one that improved the most in the operating site, which is a consequence of the most strict cost control, and a very efficient capital allocation beside increasing contribution of the bank assurance channel in this company, mainly in the life segment, when we look at the profitability, underwriting margin, in the bank assurance channel, that is more than 2.5 times higher than the product sold in the agent channels, so, all these effects together, putting it all together, we were able to see this improvement in the combined ratios in 2014.

On page 10, we can see our sales performance by channel in life, mortgage life and rural, when looking at the performance of the bank assurance channel, we grew by 31% in 2014. Go to the bottom of the guidance range, that was 14%. We had some factors that impacted the performance of this channel, 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 top line growth in the bank assurance channel. When we look at the independent broker channel, on the upper right hand side, excluding DPVAT, that is mandatory insurance in Brazil, the volume of premiums written decreased by 0.1% year over year, so actually we had a very tough year in the independent broker channel, and this is reflect of when we look at consolidated growth in premiums written in the life segment, that was of 7% in 2014, of course, it is well above the market, but it is worth noting that the bank assurance channel performed even better, with a growth of 10% compared to the industry growth, the industry performance that was -4% year to date until November.

Moving to P&C on page 11, in the Q4, retained premiums grew by 14% year over year, in 2014, increased 11% driven by both auto and casualties, regarding sales mix, we didn't have major changes, so, auto 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, so financial results were the main responsible that grew by 79% compared to 2013. And when we look at underwriting results, 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 bips in 2014, as you know, a more challenging environment for the auto and casualty segments, so, it was not just related to our company, it was systemic, in this case, but we managed to partially offset this increase in claims with a lower commission ratio, as you can see, -1.1% in 2014, a lower G&A ratio, -1.2% so both these effects we managed to compensate part of this increase in losses, that's why our combined ratio was of 0.6% compared to the 3% increase in loss ratio.

So, moving to page 13, we have the performance related to pension plan, we had a very good year in this segment, with a strong growth in contributions, contributions grew by 35% in 2014 and also a very good performance in terms of redemption ratios, as you can see in the upper left hand side in this graph, shows the performance in the redemptions with a trend of decreasing, so the redemption ratio was again below 10%. Both this effect of increasing contributions and a lower redemption ratio we were able to grow net inflows about 49% in 2014. When we look, this is also reflected on reserves, so our AUM grew by 34% over the last 12 months, as you can see in the upper right hand side, and management fee, the lower part of this page, grew by 20% in 2014, as a result of the increase in the average balance of AUM, and when we look at the fee itself, in 2014 we had a reduction in the average management fee, but this is the result of the change in the mix of products that was more concentrated in high network individuals and mainly in the VGBL products.

On the right side, net income reached R\$ 201 million on the quarter, 21% higher year over year and I would like to highlight here that despite a 23% growth in the net income, the return on equity fell as compared to 2013, and the reason was that we increased earnings retention, so in the beginning of the presentation I mentioned that the one of the events that we had on BB Seguridade and one of these two events was related to BrasilPrev. And the shareholders decision in this case was not to distribute this mensal 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 implemented until the end of 2017. So, even though this did not affect our 80% payout, most part of it comes from BB Corretora that is not affected by this regulation.

On next page, we have a comparison between the performance of BrasilPrev and the industry, so as you can see, the industry showed great recovery in 2014, reached 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 the company in AUM related to P and VGBL, so in 2014, we managed to reach the second place in AUM in this segment with an amazing performance if you look at the track record over the most recent years.

On page 15, we have our performance in our premium bonds business unit, so collections reached R\$ 2 billion in the quarter, 11% higher year over year. On an annual basis, collections grew by 7%, when we look at the sales mix, on the upper right hand side, we can see an increase in the share of monthly payment products. In line with what we had been announcing to the market, this concern that we have to increase the products that has more recurrence, that will provide more stable revenue stream for the company going forward. There is something that is not in this page but I would like to highlight, that our reserves are growing in a much higher pace than contributions, so, in 2014, for example, our reserves grew by 24% while the industry, should we excluded the performance of Brasilcap, reserves in the industry grew 5.3% only. This is a very important rise that reflects this strategy that I mentioned in our awareness regarding sustainability of the result of our company. It is also reflected in the net invest income industry, as you can see it grew by 452% when we look at the annual basis and was the main driver for this increase of 145% in net income, and the main reason is that we have both increase in reserves and also an increase in asset profitability in the period, so this business is predominantly financial, but we have a liability that is almost entirely fixed, and when we have interest rates increase, we have in the first moment a negative impact related to market to market as we had in 2013, but after this we have a positive effect that is the accrual of this higher interest rate going forward. So this is a positive impact in our net interest margin.

Moving to BB Corretora on the next page, brokerage revenues grew by 15% quarter on quarter and 28% year over year. In 2014, we grew 31%, top line on BB Corretora driven by SH1 and BrasilPrev, that increased their shares in total revenue as compared to 2013. The adjusted net income, R\$ 372 million for the quarter, 38% higher year over year, and in 2014 net income rose by 41%, driven by much better operating margins, that are still under the effect of the evaluation in the 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 spoken before, as a result of operation efficiency and also higher than expected improvement in the net investment income in 2014.



In premiums written from SH1 we grew by 19% as compared to a range of 24% to 32%, and the deviation here was mainly due to lower than expected sales on other channels, independent broker channels, mainly in the life segment, and as I noted before, the bank assurance channel grew by 10% while the independent broker channel dropped by 1% when talking about life insurance specifically in the year. If we looked at the bank assurance performance, it was well above the market, but our growth in total premiums in a consolidated basis was below the guidance. In SH2, we were in the middle of the range, 12% to 15%, in pension plans, with the strong recovery that we observed throughout the year, we were within the range, with a growth of 35% in contributions and this movement shows how strong is Banco do Brasil's distribution network, so, if you remember, in the beginning of the year, when we showed March figures, we were performing at -16 as compared to a range of 33% to 47%. At that time, we said that we were going to observe the market behavior and then we would decide if we would revise or not the range. So, as the industry recovered the performance, we decided to keep this guidance and we delivered what we were estimating for 2014.

And to finalize, we have the last finance, the one for premium bonds, we performed 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 within 15% to 21%. In pension plans, we've changed the indicators for 2015, so now we have a guidance to P and VGBL AUM growth from 27% to 36%, what actually is the main driver in terms of earnings for this business unit, so it comprises not only gross income but also redemptions and also the profitability of these reserves that we will manage to achieve throughout the year. And also, I'd like to highlight that for this year, we chosen not to disclose guidance for P&C neither for premium bonds. Both these segments, we do expect a growth in the long term more aligned to the market, so that's why we did not disclose our estimates for these segments. That is 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.



**Operator:** Ladies and gentlemen, we are now going to begin the Question & Answer session. If you have a question, please press \*9 on your touch phone now. To withdraw the question, please press \*9 again. Please hold on while we collect the questions.

Our first question comes from Tiago, with Itaú BBA.

**Tiago:** Hi, guys, congratulation 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. I believe it was caused by a solid performance of the SME. Could you comment about what BB Seguridade did to boost the performance of credit life in the 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, is it possible to see the operating expenses in the brokerage business expanding below the commissions during the year?

**Sperendio:** Tiago, this is Rafael. 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, in the fourth quarter, we reached almost R\$ 980 million in terms of premiums written. If we were to break it down, one-third came from the credit life for SME and two-thirds for credit life for individuals. Of course there are, when we look in nominal terms, credit life for SME was the main driver, as we have an easy count here compared to September, for premiums written, in the third quarter, it was positive R\$ 61 million while in the fourth quarter, it was over R\$ 350 million. So, when we look in terms of main driver for 2015, we do believe that credit life for SME is the line that will be the main driver for this company throughout 2015. Just to give you some forward on it, nowadays we are looking at penetration in this segment only we reached 8.6% of the total operations in the addressable portfolio up to now.

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



**Tiago:** Ok, thank you. Just a follow up in this SME. BB Seguridade did any change in the CRM or in the IT to cause this boost in the volume of sales?

**Sperendio:** Not really. What happened throughout the fourth quarter was that we changed focus. So we changed the weight on the targets in the distribution network at Banco do Brasil and we increased the share of the credit line for SME and that is why it performed much better in the fourth quarter as compared to the third quarter of 2014.

**Tiago:** Ok, thank you, Rafa. Bye.

**Sperendio:** Thank you.

**Operator:** Ladies and gentlemen, as a reminder, if you would like to post a question, please press \*9.

Ladies and gentlemen, as a reminder, if you would like to post a question, please press \*9.

This concludes today's Question and Answer session. I would like to invite Mr. Rafael Sperendio to proceed with his closing statements. Please, Mr. Rafael Sperendio, go ahead.

**Sperendio:** Thank you all for joining our fourth quarter earnings conference call. More information can be found in our MD&A in our website. 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.



Conference Call Transcript

4Q14 | Earnings

BB Seguridade (BBSE3)

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**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.