



**Operator:** Good morning everyone and thank you for waiting. Welcome to BB Seguridade's 2<sup>nd</sup> 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. If any participant need assistance during this call, please press **star 02** to reach the operator.

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 any order they wish.

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 the Management 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 Süffert, CFO and Mr. Rafael Sperendio, Head of Investor Relations.

Please Mr. Sperendio, you may now begin.

**Sperendio:** Good morning all, and thank you for joining our conference call. Beginning on page 3, there are some highlights of the second quarter. The first one is our adjusted net income that reached R\$995 million, equivalent to a growth of nearly 18% year-over-year, almost equally distributed between of the non-interest operating results and the financial results. Total revenues from our underwriting and accumulation businesses including premiums written, pension plans contributions and also premium bonds collections grew by



8% year-over-year, driven mainly by pension plans, with an increase of 15% over the second quarter of 2014. In the insurance segment, we had a strong operating performance in both SH1 and SH2, which improved their combined ratio by 1.2 p.p. and 3.8 p.p. respectively. Pension plans reached 131 billion in AUM, a growth of 35% over the last twelve months, maintaining Brasilprev in the top of the ranking in P/VGBL reserves. In terms of net inflows, the company keeps showing a good performance, with 52.3% out of the total market net inflows. On premium bonds, Brasilcap, the net income grew by 15%, driven mainly by the increase in the average volume of financial assets. Brokerage revenues amounted to R\$673 million, growing by 10% year-over-year driven mostly by the brokerage revenues from SH1 and Brasilprev. And finally, the last point that I would like to highlight is the distribution of R\$1.7 billion as dividends, equivalent to an 80% payout, only in account the net income of roughly R\$2.2 billion as of the first half of 2015.

On page 4, we have the one-off items that affected our earnings. In the second quarter, we had the reversal of the Supplementary Coverage Provision in Brasilprev, which impacted positively our results in R\$221 million. We considerate it as a one-off item that occurred in this quarter mostly due to be adapting our balance sheet in Brasilprev to the new requirements for capital market risks. Brasilprev decided to go back to the procedure adopted until June 2014 that employs the usage of unrealized gains to offset any possible insufficiency identified in the Liability Adequacy Test. As a result of this change in the procedure, we had a reversal of the Supplementary Coverage Provision that we did in December of 2014, which lead to a positive impact of 221 million in the net income of BB Seguridade.

On page 5, we have a brief overview of our performance both in the quarter and in the semester. The revenues raised with premiums written, contributions, and collections amounted to R\$17 billion in the quarter, 8% higher year-over-year. Year to date, these revenues reached R\$30.4 billion, an increase of 18% year-over-year. In both comparisons, these growths were mostly driven by the performance in Brasilprev. As you can see in the right hand side, pension plans business segment increased its share in total revenues by 7.1 p.p. in the semester as compared to the same period last year. Our adjusted net income reached R\$995 million in the quarter, 18% up year-over-year, and year to date, the adjusted net income amounted to R\$1.9 billion, a growth of 30%, equivalent to an annualized return on average equity of nearly 63%.

The earnings breakdown as we can see on the bottom right-hand side, we can see that differently from the income breakdown, SH1 and SH2 increased their share in the net income



mostly driven by strong set of operating results and then also improved net investment income while BB Corretora lost a bit of its share mostly due to less strong financial results as compared to the other companies, being this the main driver of the change in the earnings breakdown. On page 6, we have the contribution of the net investment income to our adjusted net income. The combined financial results of our affiliates in the quarter, net of taxes, were 36% higher year-over-year. On a year-to-date basis net investment income grew by 51%. The better performance of all our affiliates was mostly due to higher yields on investments and also higher volumes of interest earning assets. In terms of yields of investments it is worth noting that a higher average Selic rate, as well as a strong performance of the inflation protected securities were the most important drivers for this growth. It is always important to emphasize that we do not seek active management of our investment portfolio. The idea here is always to focus in the assets and liabilities management. Moving to page 7, from now on we are going to cover the performance of each company in deeper details. From page 7, we start talking about Life, Mortgage Life, and Rural Business segment considering the premiums written net of premiums ceded to reinsurance we had a retraction of 3% year-over-year, and year-to-date, retained premiums remained almost flat as compared to the same period of last year. In the 2Q15, premiums written dropped by 13% year-over-year, and year to date, the volume of premiums written was nearly 8% lower. The main reason is that in 2015, because of what happened last year; Banco do Brasil decided not to anticipate the working capital lines for farmers, it affected our performance in crop insurance. Besides, this effect we had also a weaker performance in the life insurance sold in the independent broker channel. However, it is worth mentioning the good performance we had in life insurance sold in the bancassurance channel and the good sales performance we had in credit life for farmers offset partially this weaker performance in the rural and life insurance in the independent broker channel. By the way, besides the retraction in premiums written, nearly 98% year-to-date, retained premiums, as I have mentioned previously, remained quite stable, what means that the variable that really builds up the company revenue stream remained flat and with even a better quality in terms of mix with an increased share of life related products such as credit life, traditional life and term life insurance and also mortgage life. These products have lower claims and provide better margins. That's why we can see even a drop in terms of premiums written as compared to last year we were able to perform much better results in terms of the underwriting sight. In terms of net income growth, in the first half of 2015 our net income grew by 37%, mostly helped by such good performance in the underwriting results as



well as the strong performance in the net investment income, which grew 53% over the same period last year. On page 8, we can see the outcome of the dynamic that I just mentioned in terms of improving in underwriting results, and then we look the year-over-year comparative, we can see an improvement in the performance ratio that reflected in the combined ratio which achieved 69.8% in the quarter, with an improvement of 1.2 p.p. Year-to-date the combined ratio reached 69.7%, 5.1 p.p. better YoY, mainly explained by the lower claims in life and credit life segments, as well as the improvement in the G&A ratio mostly due to lower contributions for the Fund for the Stability of the Rural Insurance here in Brazil. Moving here to our P&C business in page 9, retained premiums grew by 7% year-over-year and 5% year-to-date driven mostly by auto and casualties in general, which increased their share in the mix of premiums. In the quarter, the net income grew by 116% year-over-year, on a year-to-date basis the growth was of 50% boosted mainly by the growth in net investment income, which improved 51% year-to-date, and also by the strong set of underwriting results, which grew by 27% year-to-date driven by the improvement in the combined ratio, as we are going to see on page 10. Here, this quarter, we saw a segment as compared to the second quarter of last year, what led to an improvement of 3.8 p.p. in the combined ratio year-over-year. Looking in a year-to-date basis, the combined ratio improved by 0.2 p.p., and when we look to the commission and G&A ratios, we had some issues in the first half of 2015 that affected the comparison basis, so we have detailed these events in our MD&A, but only for comparative purposes, comparative performance over the last year, we set apart these effects of these accounting entries and reclassification we had last year, so commission ratio would have improved by nearly 30 bps in the first half and the G&A ratio would have declined 70 bps as compared to 2014. In pension plans, on the next slide, we can see that in the quarter, contributions increased by 15% year-over-year, and the redemption ratio remained at a single digit level. When we look at the year-to-date figures, total contributions grew by 33% with a 50 bps lower redemption ratio, and the upper right hand side total AUM reached R\$131 billion with a growth of 35% over the last twelve months. And the management fee grew by 29% in the semester, a little bit below pace of growth of assets under management mostly due to a growth of 6 bps in the average management fee charges as a result of the higher concentration in VGBL plans and the focus that we have been giving to high net worthy clients. Our net income grew by 26% in the first half of 2015 boosted mainly by the growth in revenues with management fees, and also by the higher spread in the company's assets and liabilities. In a year-to-date basis, return on average equity was 8.7 percentage points lower



year-over-year mostly due to the increase in retained earnings after the reversal of the Supplementary Coverage Provision in the second quarter, so if we work to adjust the shareholders' equity considering the distribution of dividends, the adjusted ROAE would be 48%, 3.1 percentage points lower than in the first half of 2014, mostly explained by the increased earnings retention in December of last year, to face new rules regarding the capital requirement related the market risk that is going to be implemented in 2016 and 2017. On page 12, we have a comparison between the performance of Brasilprev and the industry's performance. As you can see, Brasilprev keeps doing very well in net inflows, a growth of 34% year-to-date, and accounting for nearly 57% of the industry total net inflows. Looking at P/VGBL reserves, we kept the leadership and ended June with 28% market-share in AuM in this segment. Next page, we have our performance in premium bonds. So, collections achieved roughly R\$2 billion in the quarter, remaining flat when compared to the second quarter of 2014. Year-to-date collections grew by 1%, higher concentration in monthly payment bonds, which accounted for 44% of total collections, while over the first half of 2014, this share was of nearly 37%. The net income grew by 8% year-over-year, and 32% year-to-date, mainly driven by the growth in net investment income as a result of this year higher average balance of interest earning assets, and also higher average yields on investments. Moving to BB Corretora on next page, brokerage revenues grew by 10% year-over-year, and 17% year-to-date. In both cases, SH1 and Brasilprev were the main drivers. The net investment income achieved R\$389 million in the quarter, 14% up year-over-year. Year-to-date, the net income grew 24% and the main driver was the increase in brokerage revenues and also the improvement seen in the operating margin, as well as the growth in the net investment income. About the net margin specifically, it improved by 170 bps year-over-year and 350 bps year-to-date. This was mostly driven by the mismatch that we have in terms of revenues that had a big component that is booked on an accrual basis while the expenses are booked on a cash basis. So, as the brokerage income arising from SH1 had a large share of deferrals component without an expense associated to it, we could see such an improvement in the end of net margin in 2015 as compared to previous years. And finally, to wrap up the presentation, on page 15, we have the guidance monitor. The first item, the growth in net income reached 30% year-over-year, above our forecast. The main reason we were able to have a net investment income much better than we've estimated mostly because of the higher average Selic rate, as well as the good performance of the inflation protected securities. The following one, regarding the growth in SH1 premiums, we record a retraction



of 8% in the first half of 2015 as compared to the same period of last year, below the performance that we were estimating in the guidance and this deviation occurred mostly because the lower than expected performance in crop insurance premiums written, as well as in life insurance premiums sold in the independent broker channel. Considering the results observed throughout the first half of 2015 and also our forecasts for the second half of this year, we've decided to revise our estimates. Now, we're going to have a range from 5 to 8% growth for 2015 as a whole. In pension plans, reserves of P/VGBL grew by 38.5% over the last twelve months, above our estimates. The deviation can be mostly explained by the easy comps that we had in this first half, due to the unfavorable scenario for pension plans contributions in the early of 2014, but our expectations is that throughout the second half of 2015, as the comparison basis become harder, the P/VGBL reserves will converge our range of 27 to 36%, what we are expecting for the year.

This finishes our presentation, I would like to thank you all again, and now we are opening the Q&A session.

### **Q&A SESSION**

**Operator:** Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question, please press **star nine (\*9)** on your touch-tone phone now. To withdraw the question, press **star nine again (\*9)**. Please hold on while we collect the questions.

Our first question comes from Mr. Carlos Macedo from Goldman Sachs

**Macedo:** I have a couple of questions. First, on SH1, you revised guidance downwards for growth of written premiums, but still it seems like a fairly ambitious guidance given the starting point or more so the actual ending point. I understand there's seasonality involved in this, but is getting there a factor just of the crop insurance improving, or do you expect any other lines to really turn the corner on the second half of the year that from an economic perspective it looks like it is going to look worse than the first?

The second question is on Brasilprev 9.3% redemption ratio. Is there any cause for concern? You see that as seasonal? Is it just a bump? We know that unemployment is going up, is there any reason to believe that ratio could go up given the environment. Thanks.



**Sperendio:** Hi, Carlos, this is Rafael. Thank you for the question. Regarding to the guidance that we have for SH1, of course we see it is not an easy guidance, it's very challenging for the year, but we do expect we can fulfill it. When we look at the numbers of July that we are performing according to our expectations and the most important driver for this second half will be rural insurance over all, not just crop insurance, but as now, as I have mentioned during the presentation, in this year, Banco do Brasil decided not to anticipate the working capital lines for farmers. As the rural insurance, all the three lines that we have, the crop insurance, the rural liens, and the credit life for farmers, all three depends on the credit growth, we do expect from now on the bank is providing the working capital lines for these farmers, we are going to see a very good performance in the rural insurance in the second half of this year. It is also worth noting that in the second half, we are going to have an easy comp basis, differently for 2014, as the working capital lines were anticipated for the first half and in the second half it had a weaker performance in terms of rural loans growth, and also rural insurance in the second half, this year, is going to be completely different. It'll have a higher concentration of loans in the second half, and also a higher concentration of premiums written in the second half of this year. Easy comp will help a lot in the second half of 2015. Regarding the question about redemption ratio, we are not seeing up to now, any major influence of the increasing in the unemployment ratio. We have reached 9.3%, but when we look at our historical series, there is no concern about this increase, if you look in a year-over-year view, the ratio tends to be around high nines and tens. When we look at a more long-term serie, there is no major concern regarding the unemployment rate. It is important to emphasize that we have one of the best redemption ratio in the industry.

**Macedo:** Ok, thanks, Rafael.

**Operator:** Our next question comes from Gustavo with BTG Pactual.

**Gustavo:** I have a couple of questions as well. Starting with pension plans, I see on your presentation that your market-share in terms of reserves is now larger than the two main competitors. It is true that you have, that Banco do Brasil as a whole had a lower, a relatively lower exposure to pension plans, but now that gap has been closed. So, is it safe assume you will be becoming more dependent on the growth of pension plans market rather than dependent on your own efforts of growing in terms of pension plans, meaning that we should



see this relation going forward. I'm not talking about the second half, but it's for 2016 and 2017. Then I'll have my second question after the answer.

**Werner:** Hi Gustavo, Werner speaking. We still have room to increase our market-share in assets under management and pension plans. This will be due to the increase in the *Estilo* Portfolio that we have in Banco do Brasil. These clients they still, some of them as we've explained sometimes, they are still in a retail banking portfolio, and they are moving to only *Estilo* Client's Portfolio, this will increase the potential of this portfolio in Brasilprev, and we will be able to remain increasing faster than the market in the next couple of years, based on this strategy that we will have.

**Gustavo:** That's clear, thanks. My second question is regarding the operating margins of the broker. Do you believe that as you accelerated growth in SH1, and slow down a bit in Brasilprev you should post a normalization, the operating margin of the broker going to previous levels of 2014, or do you see an inevitable margin of above 8% is the sustainable level for the broker for the next couple of years?

**Sperendio:** Hi, Gustavo, Rafael speaking. Thank you for the question. Regarding the net margin, the broker increase that we have been seeing over 2015 was mostly due to the lower volume of sales itself. It's also worth noting that when we have the revenues, at the broker level, and mostly the ones that comes from our underwriting business units, SH1 and SH2, they are deferred according to the return of the product, while the expenses that we reimburse to Banco do Brasil, they are based on a cash basis. So, as in the first half, they had this slowdown in the rural insurance mainly; we've had fewer sales in terms of quantity of products sold, when we look at brokerage income itself and the breakdown, we can see that the components of deferrals of unearned commissions being accrued to earnings increased a lot, mainly in the first quarter, and it was very material in the second quarter, while the other components that are mostly related to the sales mainly performed in the rural itself increased the share. We had an income without an expense associate to these revenues that we have been booking that increased the margins.

From the second half on and we even see that it already happened in the second quarter when we look on the quarter on quarter bases, the net margin dropped from 58.1 to 57.8%.





This is already the dynamic working: number of sales increasing, so the margin is going a little bit down. From the second half on, we do expect a good performance for the rural insurance, so probably the number of sales will keep increasing and probably, it's hard to really emphasize that we do expect a certain normalized net margin for the broker, but we expect that it probably will come down to the level seen in the end of 2014.

**Gustavo:** Ok, thanks.

**Operator:** Our next question comes from Francisco with Banco Safra.

**Francisco:** Hello, everyone. Thanks for the question, I have two actually. The first one is a more structural one, sorry to try to go to 2016, but just trying to understand. When we look to 2016, the economy doesn't look like better than 2015 and when I look to your portfolio, SH1 even ex agricultural insurance is growing below 5%. SH2 is being affected by the market as well, maybe Brasilcap. So what are the triggers for BB Seguridade start to growing again double digits on the premium side; I mean new products, new distribution channels, what you guys can tell us about that? Because it's look like right now, the portfolio is a little bit tied in the macro or Banco do Brasil loans portfolio or even government subsidies in terms of agriculture insurance. So what can we think about going forward in terms of drivers for growth. And then my second question later, thank you.

**Werner:** Kops, thank you for the question. I'll say the main driver for it will remain the bancassurance channel. Improving our sales in bancassurance side, this will guide the premiums in our company, but also it will strengthen our margins, because we will have the margins that flows via the insurance side, and the distribution side of BB Seguridade, BB Corretora will be positively impacted by these sales. So the main driver for us in the way we are facing 2016 is increasing our performance in the bancassurance side, of course we have other initiatives to increase sales by other channels, but looking at the margins in the short term, we still rely on bancassurance to keep growing in the top line and the bottom line of BB Seguridade.

**Francisco:** Just to follow up: in terms of bancassurance itself, what can be done that isn't been doing right now. If I understood correctly, you guys can change a little bit the mix, more



bancassurance, and outside brokers that will improve your margin; but your sales itself, what can be done in the bancassurance to improve it?

**Werner:** Ok. We are renewing life insurance portfolio. That's what we talked about in the Portuguese earnings call. We are also increasing the focus on *Estilo's* clients with the new way Banco do Brasil is..., they are implementing the new portfolio inside their clients base. It will help us to increase the penetration of our products inside this very important portfolio from Banco do Brasil, the *Estilo* clients. So these are the triggers of our growth for 2016, and of course, we will have also initiatives in the other channels, but looking at the short term, 2015 only, the main driver will be this segment, and mainly this upper side of the retail banking clients from Banco do Brasil that they call *Estilo*.

**Francisco:** That's more clear Werner, thanks. Now my second question: complement our increasing tax on financial institutions and insurance companies are included, and there was a news today that probably the social contribution may increase even more from 16 to 22.5%, and I believe that this affect the most of BB Seguridade's subsidiaries. How are you guys approaching there, the issues, can you guys transfer part of this burn to prices, how can we think of the impact on your numbers? Thank you.

**Sperendio:** Hi, Francisco, Rafael speaking. Regarding this increasing in CSLL, we have been assessing the many impacts. We have some effort tax assets company in our insurance business unit. When we look at Brasilprev and Brasilcap, we don't have these effects. But as soon as we have more details of these new taxation, we will assess the impact and as soon as we have the information that we can disclose to market, but up to now, we don't have any figure to disclose.

**Francisco:** Right, so there are credit assets that should be evaluated somehow offset the higher tax rate right?

**Sperendio:** Partially, but it is also worth noting that differently from banks, you don't have any balance related to provision for loan losses. Talking about our case, the underwriting operating companies, this is much smaller, they cannot affect partially in this very early stage, but then afterwards, we will have these impacting earnings.



**Francisco:** Perfect, Rafael. Thank you so much, guys, and congratulations for the results.

**Operator:** Ladies and gentlemen, as a reminder, if you would like to pose a question, please press **star nine (\*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. Sperendio, go ahead.

**Sperendio:** I would like to thank you all again before joining this second quarter conference call. Myself and my team, investor relations, in the name of the company, remain always available in e-mail, our website or phone calls. Thank you!

**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 Investor Relations' website. Thank you very much for your participation and have a nice day. You may now disconnect.