



Operator: Good morning everyone and thank you for waiting. Welcome to BB Seguridade's 3rd quarter 2016 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. Should any participant need assistance during this call, please press *02 to reach the operator.

The presentation is available in the presentation to the market's section of the BB Seguridade's website at www.bancodobrasilseguridade.com.br.

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 management current expectations, projections of future events and financials trends that may affect the business of the Group and do not guarantee future performances, since these projections involve risks and uncertainties that could extrapolate the control of management.

For more information on the Statements of the Company, please check the MD&A. With us today are Mr. Werner Süffert, BB Seguridade's CFO and Mr. Rafael Sperendio, Head of Investor Relations.

Please Mr. Sperendio, you may now begin.

Sperendio: Good morning everyone and thank you for joining our 3rd quarter conference call. So, beginning our presentation on the page 3, we have here the highlights to the quarter, so the Net Income of R\$ 988 million, remaining flat year over year, still impacted by the changes in tax rates that we had, in the social contribution in income taxes rates as well as the tax expenses at the broker which is still turning the quarters not fairly comparable. But if we work to exclude these changes in tax rates the Net Income would have grown by 3.1% year over year.

The next highlight that we have is our performance in the Life, Mortgage Life and Rural, in the SH1 Net Income dropped by 4.8% Year over year, impacted by higher loss ratio in both term-life and in credit life. I am going to cover even more deep in details going forward. The main highlight this quarter in this business line was the launch of the new term-life portfolio, which largely contributed to the growth of 26% year over year in premiums written in term-life insurance when we look in this quarter on a year over year basis.

The next segment in P&C, in our SH2 Net Income fell 55% due to a weaker net investment income and a higher loss ratio, mainly in the car insurance. In the pension plans, these were our main highlight so far in the quarter, so contributions grew 30% year over year. The redemption rate dropped by 140 bps and when we look at both these factors, the outcome was a growth of 28% in net inflows, which



is equivalent to 46% of the total net inflows in the Brazilian pension plans industry. And the total AuM reached R\$183 billion, with an increase of 32% over the last 12 months.

For premium bonds, the Net Income grew by 48%, still favored by the higher spread this year and in this segment specifically I would like to highlight that we launched the new portfolio for medium to high income clients in Banco do Brasil, what we also call it Estilo segment. So we developed this new portfolio that didn't have been impacting in the quarter as we had the bank strike over September, but we do believe that's going to be very helpful over the 4th quarter to have us to see a kind of rebound in the growth rate for the topline in this company.

And finally at the broker, brokerage revenues amounted to R\$672 million this quarter, a growth of nearly 9% year over year as a result of this strong performance in the term-life and in pension plans as I mentioned previously.

Moving to page 4, we have a brief summary as our P&L in the quarter, the Net Income remained flat on a recurring basis with amount in interest operating result dropping by 3%, as a result of the higher loss ratio along with the life and credit life segments, as well as in auto and at the reinsurance company - IRB, which was affected by the higher frequency of claims this year in crop insurance explained mainly by the el niño. The effects weight was the strongest one over the last 10 years. And financial results, which grew nearly 8% Year over year, which I am going to cover on next page, page 5.

Financial Result this quarter was positively impacted by slightly higher average Selic rate and by the downward shift movement of the forward yield curve, the yellow line here as you can see in the both charts on the top of this slide, on the other hand the lower inflation indexes as you may see on the bottom left-hand side was negatively impacted, the accrual of the inflation protective securities, classified as a held-to-maturity, mainly the pension plans company and premium bonds. So, what we can see is that we have two factors helping the growth in the financial result while the dropping inflation is pulling it in the third quarter as compared to the same period last year and the final outcome was the growth of 7% in the financial results year over year, accounting for nearly 29% of the Net Income from BB Seguridade.

On the page 6, we have here the performance in the premiums in our Life, Mortgage Life and Rural, our SH1. In term-life, we have the main highlight as I mentioned in the beginning in the presentation. Premiums written in term-life grew to 26% Year over year. It was helped by the new portfolio, with the improved coverage and just to give you some more color on its performance, the new portfolio accounted for nearly 19% of the sales in the quarter so, year to date the growth rate in this line accelerated from the 10% as we have here in a year to date June to 16% year to date September.

In credit life, premiums dropped by 50% Year over year, 48% Year to Date, still impacted by the challenge in environment for credit this year in the country.



And in Rural, we got a premium dropped by 33% Year over year, but this was already expected, noting that this year there was the higher concentration of crop insurance in the first semester due to the early release of working capital loans for farmers, while in 2015 the long granting period was concentrated in the third quarter as well as in insurance premiums. So when we look to the year to date figures for rural premiums grew by 18%, what we consider a much more reasonable growth rate for this year.

On page 7 we can see the operating performance of this business segment, so in this quarter the combined ratio worsened by 5 percentage points as a result of the increased loss ratio remaining in the term-life and credit life, and this was a result of a higher frequency of claims and this number of claims should be at some claims with a high corporate influence policies, as well as what we call here some claims related to some accidental death. In this case, as we have a special indemnity that impacted the claims expenses over the quarter, that is why it increased by nearly 600 bps year over year.

But on the other hand, when we look to the commission ratio, it remained stable, with a G&A holding an improvement but wasn't enough to offset totally the increase in losses, that is why the combined ratio worsened in the third quarter year over year which is explained on page 8 when we look at the underwriting result, it dropped by 6% year over year. Partially, offset by the increase of 3% in the net investment income, but the Net Income of these business segment is still dropping 5% Year over year, that in addition to the impact in the loss ratio, we had the increase in the social contribution, this explains the 5% drop in the Net Income for the business segment but still a very strong return on equity of 48%.

On page 9, we have the dynamics of sales for P&C, so auto insurance premiums dropped by 26% year over year, it was a result of this competitive environment that we have and we had reduction of 20% in sales of brand new cars affecting the addressable fleets, so this was the main impact that we have in the competitive environment for auto insurance in Brazil, in addition to the facts that in a bancassurance sales channel last year we sold many multi annual insurance policies. So, this is natural that over 2016 we do not need to renew as they were, at least 2 year insurance policies, so this is affecting the performances of the bancassurance channel in addition to the drop in the sales of brand new cars.

On next page, in the operating performance, as compared to the third quarter of 2016, the combined ratio worsened by 200 bps this quarter. This was also a result of higher loss ratio mainly in the auto insurance segment due to a higher frequency of robbery and theft, and it was partially affected by the marginal reduction in the commission ratio and by the improvement in the G&A ratio year over year.

On next page we can observe that due to the increase in the loss ratio and consequently in the combined ratio, the underwriting result was negative in R\$41 million in the quarter, in addition to the



drop in 33% in the net investment income, resulted in a drop of 55% in the net income for the company year over year.

On page 12, moving to pension plans now, this segment has been showing such an amazing performance this year, so when we analyze the 3rd quarter of 2016 as compared to the same period last year, contributions grew by 30% year over year to R\$10 billion. Redemption rate was down 140 bps achieving 7.8% of the assets under management on an annualized basis in this quarter. And the outcome was in net inflows of R\$6 billion, which is 28% up year over year and when we look at the assets under management, the total AuM reached R\$183 billion, 32% higher in 12 months. So the final outcome of these dynamics of inflows was the increase of 25% in management fee with the average fee charged for a wide downward period already expected, that is one to two bps drop per quarter due to the sales mix more concentrated in high income individuals along with the decrease of share of traditional plans in the mix of the assets under managements. So, when we look at these performances in management fees in addition to the very strict cost control police and the very positive cost to income ratio for this business, the net income grew by 25% and delivered a return on equity of 43% for the 3rd quarter.

In premium bonds on next page, collections dropped 1% year over year and here started before we launched a new portfolio products in August, but the effects did not show up this quarter due to the bank strike which began in September. But we do believe that we are going to have a very good performance in the 4th quarter to improve these -16% rate year to date. When we look at the June year to date was nearly -20%, improved to -15%, but we expect that we can do even better in the 4th quarter. The net investment income maintained the excellent performance we have been seeing throughout this year, with an increase of 142% and a spread as twice higher than the one that we had in the same period of 2015. So this strong performance in financial results led to the 48% growth in net income Year over year, even in an environment with a higher income tax rates.

And here on the page 14 we have our brokerage business, so commissions grow by 9% Year over year this quarter due mainly by this strong performance that I've mentioned in term-life and in pension plans, with a contraction in that margin basically due to the rise in the PIS and COFINS tax rates, which led to the increase of 5% in the net income Year over year this quarter.

And finally, on page 15 we have our Guidance for net income growth in 2016, with ranges from 4% to 8%. year to date, we reached an increase of 3.4% slightly below the Guidance and here the main reasons for the deviation are the higher than unexpected claims in credit life, rural and in auto insurance, as I covered in the presentation. it is worth remembering that for rural the higher claims impacted both the SH1 and the reinsurance company, IRB. And the second reason for the deviation considering the revise at the Guidance for the year was the weaker than expected sales in this quarter, which was the outcome of the bank strike, which began earlier this year as compared to 2015. So this year was concentrated in September, while last year it was more concentrated in October.



Anyway, we believe that the Guidance is still feasible, so we expect that the net income growth will converge to the Guidance throughout the 4th quarter. That is not an easy task, but we believe that is feasible. So, when we look at the 4th quarter, it is worth mentioning that it is going to be the first time this year that we will have the same comparable basis for the social contribution in the insurance companies, so this is going to be very helpful to increase the growth rate in the net income over this quarter. Although it is still not fair comparable basis for PIS and COFINS tax rate at the broker, but it helps a lot.

So, thank you and now Werner and I are available to answer any questions that you may have.

Operator: Ladies and gentlemen, we will now 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 Marcelo Cintra, with Goldman Sachs.

Marcelo Cintra, Goldman Sachs: Hi, good morning everyone, thank you for the call. Actually, I have two questions. The first one is regarding the loss ratio in life segment specifically. This quarter we saw a significantly increase quarter over quarter and also year over year while we also saw this new product, which as you mentioned represented 19% of your total sales. So my question here is if this new product is maybe a higher loss ratio product and if we should expect loss ratio to remain at a high levels going forward or this was specific for the loss related, specifically for this quarter and we should have the claims dropping to more normalized levels. And then I will follow up for second question. Thank you.

Sperendio: Hi Marcelo, it is Rafael, thank you for the question. Regarding the increase in the loss ratio in the life segment, it is not related to the new portfolio. What we had in the 3rd quarter this year was an increase in the frequency of claims and out of these claims reported in the quarter, we had a high participation of claims related to accidental death. When we have such a title strength in these cases, normally the indemnity can reach up to twice as the regular indemnity claim could have in case he dies for any other reasons, so this was the impact that we have in the 3rd quarter this year and we do believe that it was a runoff in both lines, in term life and in credit life, we believe that in the 4th quarter we are going to see a downward trend in this ratio, since that this is not the normalized level that we expect for this portfolio.



Marcelo Cintra, Goldman Sachs: Ok, thank you for the clarification. And my second question is actually a follow up on your comments on the auto insurance. You mention that it dropped the premiums because last year you were selling like the annual insurance product, but when we look at the auto fleet, it is also dropping consistently over the past 4 or 5 quarters. So I just like to better understand this, what we should expect for, in terms of this trend going forward, if the auto insurance should remain under pressure, if this is regarding maybe to a more competitive landscape or if it is related to a more challenging industry and if it is something that we should foresee as a rebound next year? Thanks.

Sperendio: Regarding the performance in the auto insurance it is worth mentioning that when in the presentation it talks about the case of the sales of the multi annual insurance, it was an additional effect in the bancassurance channel, but the main one was the effect that I mentioned earlier about the drop of nearly 19% to 20% in the sales of brand new cars, so this is affecting the addressable market for auto insurance in Brazil and when we look in term of the loss ratio, this has not being so healthy in term of the performance of this business line. And as it is not a core business for BB Seguridade, we still working for the products, but we are more selective in terms of the risk. We are working, trying to be more severe in terms of accepting such types, some types of cars, motorcycles and also besides being very strict on the types of vehicles that we have been accepting.

We are also working very hard in terms of selecting the types of risks when we look in terms of the client profile that we want to accept in the insurance company. So this is the effort that we have been doing, we are less concerned with the topline growth, we are more concerned now with the combined ratio of this business, so this is the focus now. We do not believe, unless we see the recovery in the economic activity, the decrease in level of robbery and theft and increase in sales of brand new cars, it is hard to believe that we are going to see any major rebound in sales in this business line. But we expect at least a stabilization in the loss ratio for this business going forward.

Marcelo Cintra, Goldman Sachs: That is perfect. Thank you very much.

Sperendio: Thank you.

Operator: Our next question comes from Thiago Batista with Itau BBA.



Thiago Batista, Itau BBA: Thanks for the opportunity Werner and Rafael. I have two questions. The first one is a follow up on an answer you gave in the Portuguese call about the impact of lower Selic rate BB Seguridade earnings. Could you share with us again your back of envelope calculation of the impact of on BB Seguridade earnings of a lower Selic rate?

The second one is about the pension business. BB Seguridade has been able to maintain a market share of almost 40% of the inflows or other contributions in the last 2 or 3 years. And this 40% is really well above Banco do Brasil market share in most of the segments. Do you believe that BrasilPrev or BB Seguridade will be able to maintain these levels of market share in the coming years?

Sperendio: Thiago, this is Rafael, thank you for the questions. So, regarding the first one, when we look at the impact of the drop in the Selic rate it is worth to again say that it is kind of a disclaimer then, it is hard to find the real impact going forward because there are a lot of moving parts here, we have the change in volumes, the change in the yield curve, the change in inflation... And some of them have a kind of correlation between each other, but what we have and we even disclose in table 10 and this is my back of the envelope calculation, if we stand all these floating... If we look at the table 10 this is already weighed by our participation in each, our economic stake in each affiliated company and the controlled companies here. But in this table if you add all the floating portion of the portfolio that hasn't impacted in the P&L, so excluding the available for sale portion, we are going to split in total balance of nearly R\$5.8 billion, that is our exposure to floating rates. So if we take these balances and apply 100 bps cut in the interest rate, the net impact should be around R\$32 million. This is the calculation that we have made here just to give you some more color on these impacts.

Regarding the pension performance, Werner will give you the answer.

Süffert: Thiago, regarding this pension business growth going forward for 2017 on, we still see room to increase the penetration of Banco do Brasil's client base. It is important to mention that to now good part of the effort is linked to the high network with clients on Banco do Brasil, so we still have room to increase the Estilo Client client's base, so the second gear of Banco do Brasil client's space where the penetration still very low and where we have clients with profile to have these kind of products. So, we still have room to increase, to sustain the same level of contributions, new contributions adding new clients to these new pension plan products and of course we will remain trying to have new investments from our current client base, so this will help us to continue to have a strong increase in reserves and contributions in pension plans for the next years.

Thiago Batista, Itau BBA: Ok. The R\$32 million is annual and on a BB Seguridade net of tax, correct?



Sperendio: Yes, that is correct.

Thiago Batista, Itau BBA: Ok, thank you Rafael, thank you Werner.

Operator: Our next question comes from Domingos Falavina with JP Morgan.

Domingos Falavina, JP Morgan: Hi, thank you all also for taking the question. We know you are not officially providing a Guidance for growth in SH1, but what is your mind around the decelerating long growth of the bank company and how that should not impact credit life, or you see a rebounding regarding this line, and also term-life.

Sperendio: Hi Domingos, this is Rafael. So, of course it is hard that we do not have a formal guidance for total 2017, but when we look at the performance in credit life, first of all you can see that the 50% drop this year has been impacted by also the comparable basis, so when we look at 2015, the scenario was completely different and we were increasing the addressable market for the credit life insurance in SH1. When we look at 2016, we do not have much room to launch new products, we are still working with the same basis and due to, as you have mentioned, due to the challenging environment for long growth over this year, it has been very difficult to keep the same pace that we were reaching until 2015. But from now on, in 2017, we will have at least the same comparable basis, so it will be easier to deliver better performance as compared to the previous year than we had in 2016.

But to see a real rebound in this line, we need to wait until the economic activity improves and we've seen the increasing upside for growth in credit mainly in our apparent company, but we need to wait until they finalize their budget for next year, but from our point of view, when we look in our performance, we will be helped by at least a similar comparable basis, that's why we believe that a 2017 should be a better year for credit life than it was in 2016.

Domingos Falavina, JP Morgan: It is so hard to assume like, trumping on the positive territory at least, not like shrinkage.



Sperendio: It is possible, but marginally increased; it is hard to believe that it is going to be very material, but much better performance than this year. But 2018, then we expect that to be a much better year, then we believe that we will see a rebound to the normalized levels that we were used to deliver in the past years.

Domingos Falavina, JP Morgan: Perfect. What about the regular terms of life, term life, do you have any forecast on that one, growth or flat?

Sperendio: We cannot see as we don't have a formal guidance for next year, I cannot give you a number but anyway, when we consider the performance of the new portfolio in this 3rd quarter and the acceptance when we look at the client's point of view, we assume that we will have a very good year for this line in 2017. And you can expect that life and pension will remain as the main focus for BB Seguridade in 2017. This is our forecast for next year.

Domingos Falavina, JP Morgan: Understood. Thank you very much Rafael and Werner.

Operator: Our next question comes from Henrique Navarro with Santander Bank.

Henrique Navarro, Santander Bank: Hi everyone. I would like to know if there is any room for expanding commission fees that are paid to BB corretora. I would like to know if there is any recent change in the level of commissions recently and if you could also remember us how this works, I mean, I understand that this is regulated by the contract you have with Banco do Brasil, but in the case you want to increase commissions, which should be a problem for BB Seguridade, if the contract regulates increases in commissions as well, or they only prevent a decrease in commissions. Thank you.

Süffert: Thank you Navarro. Well, these commissions, they are in agreement that the insurance companies, they have with the broker, so commissions are paid to BB Corretora, not to Banco do Brasil. So, when we have a new portfolio being added, or a new product being added, this of course we will have discussions around the level of commissions that we will have in that product and most of the time, because we are dealing with a premium channel, we are able to have a premium commission there and the new products that we are launching in the oldest companies, they have



premiums commissions at the same level, I will say, that we will see in bancassurance channels across the industry. So, if you look other players our peers that have operations in bancassurance channels, they also refuse these higher commissions because the level in the quality of this client's base. So, the margin that these insurance companies have with clients that comes from these clients, these are higher and we are able to charge better commissions.

So, this new product that we have, we discuss with our partners in insurance companies, but most of the times we are able to increase the commissions to a better level and doing this, of course, increases the profitability of this portfolio in our BB Seguridade point of view, because we have 100% of BB Corretora. At the same time, we have an effort to reduce the costs of the reimbursement for Banco do Brasil, so reimburse costs related to the sales of these new products, but with the new technology being added we are able to reduce the time consumed inside each of these branches to sell our products and we have some benefits from this higher level of efficiency inside Banco do Brasil's branches.

So, lower costs inside the operation with higher commissions provide a scenario where the broker will remain very profitable in the future, even with higher taxes being paid by this business.

Henrique Navarro, Santander Bank: Ok. Very clear, thank you.

Operator: Ladies and Gentlemen, as a reminder, if you would like to pose a question, please press star *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 for participating in our 3rd quarter conference call to reinforce the sober performance that the company has been able to deliver despite the challenging environment and to reaffirm our commitment with the 2016 Guidance with building the P&L for 2017 given the focus that we have been implementing on the most profitable business line. So thank you all and have a good day.

Operator: With this, we conclude the BB Seguridade conference call for today. As a reminder, the material used in this conference call is available on the BB Seguridade investor relations website. Thank you very much for your participation and have a nice day. You may now disconnect.