



**Operator:** Good morning everyone and thank you for waiting. Welcome to BB Seguridade's 4<sup>th</sup> 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 section of BB Seguridade's website at [www.bancodobrasilseguridade.com.br](http://www.bancodobrasilseguridade.com.br).

Before proceeding, let me mention that forward-looking statements that may be made during this conference call regarding expectations, growth estimates, projections, future strategies of BB Seguridade are based on management's current expectations, projections of future events and financial trends that may affect the business of the Group and do not guarantee future performance, since these projections involve risks and uncertainties that could extrapolate 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.

**Rafael Sperendio:** Good morning, thanks everyone for participating in our conference call to discuss our 2016 results. So, beginning here on page number 3, we have the main highlights of the company for the year. The first one here, our net income, with a R\$4.1 billion, a growth of 4.1% within our revised guidance of 4% to 8% growth in net income. If we want to set apart the effects that we had in changes in tax rates and social contributions and also in tax expenses and VAT at the broker, we estimate that the net income would have been roughly 8% higher in 2016. So it was an external effect that impacted our results and we also would like to highlight that this was not dependent on our operating performance. The second one, our performance in life and rural business segment, when we look at these businesses specifically, the adjusted net income grew by 2%, while the earnings before taxes and property sharing grew nearly 6% with a very good performance in premiums written in life, rural and mortgage life. The only line that was weak in this business was credit life, and I am going to cover it in more details later. For P&C in SH2, our adjusted net income fell 40% due to weaker net investment income and a higher loss ratio mainly in the auto insurance. For pension plans, this was the main highlight for the year. Contributions grew 28% with a lower redemption ratio, leading to an increase of 28% in net inflows equivalent to 50% of the total net inflows in the Brazilian pension plans industry. And the outcome here, AuM reaching R\$198 billion with an increase of 33% in the last 12 months.



For premium bonds, our net income grew by 16% driven by higher net interest margin, while the broker, the revenues grew by 8%, driven by the very good performance that we had in life, rural and pensions. And, finally, the last point that I would like to highlight here is the distribution of R\$3.3 billion as dividends, equivalent to 82.3% payout, configuring the accounting net income.

Moving to page 4, we have a brief summary of our adjusted net income, segregating the one-off events. So, we had two extraordinary events in 2016. The first one was the deferred tax asset of PIS and COFINS regarding VAT taxes in Brazil at SH1 and SH2 that have come out of the changing of the methodology for calculating the tax expenses for these companies. So, if I were to summarize we moved from a cash-based methodology to the accrual-based methodology, so this resulted in a deferred tax asset of temporary differences related to claims to be paid, claims incurred but not reported and claims incurred but not enough reported. And when we look at the global impact here, the deferred tax assets impacted by provisions recorded in 2016 as well as in previous years, we segregated the portion related to the previous years as an extraordinary effect which amounted to R\$ 23 million post taxes. The second event was the impairment loss related to the goodwill that we have, referred to SH2, it's booked in the holding company that we call BB Seguros in a total amount of R\$176 million pre-tax, R\$116 million net of taxes, so these goodwill arose from the partnership with MAPFRE in 2011, but due to the deterioration in the scenario as compared to the one expected when the partnership was established, we were forced to record this impairment now in 2016. So, as I mentioned in the first base setting apart the extraordinary events, our adjusted net income reached R\$4.1 billion, 4.1% higher compared to the one presented in 2015, while the accounting net income was of R\$4 billion, and it is worth noting that the distribution of dividends was not affected by the impairment and our payout ratio as I mentioned previously, 82%, was even higher than the 80% that we observed since the company became listed.

Moving to page number 5, we have a basic review of our financial results and its contribution to the earnings. So, the combined net investment income grew by 3%, equivalent to 31% of the adjusted net income, and the main variables that affected our financial results in 2016 were the higher average Selic rate as compared to 2015, as you can see on the upper left-hand side, and the downward movement of the forward yield curve, which brought the marked-to-market effect in our fixed rate portfolio. On the Selic side we had the bottom left-hand side, the decline in the inflation rate, which brought a negative impact on the accrual of the inflation protected securities classified as held to maturity. On page 6, I am going to cover the performance per business line from now on, so starting the life and rural, BB MAPFRE SH1, premiums written fell by 3%, driven by credit life which dropped 48% this year. But, on the other hand, we had a very strong performance in all the other products, term-life grew 16%; rural grew 14% and mortgage life grew 29%. Regarding the operating performance for this business, the loss ratio deteriorated slightly as compared to 2015 due to a higher frequency of claims in credit life and the El Niño effects that impacted the rural portfolio. We also saw an increase of 20 bps in the commission ratio this year and regarding G&A we showed an improvement of 1 percentage point, which partially offset the increase in both the loss and the



commission ratio and the outcome of this dynamic's combined ratio worsened by 1.2 percentage points in 2016. On page 8, we can see that despite the worsening performance of the combined ratio, we managed to deliver 7% grow in underwriting results coming from mainly the increase in a premiums earned. Net investment income was flat compared to 2015 and the net income grew by 2% in 2016, with a return on equity of 44%. On page 9, we have the performance for P&C, so premiums written dropped by 7% in 2016, impacted by the weak performance in auto insurance, which declined by 18% and in this segment specifically we have been observing a very difficult scenario due to the reduction sales of brand new cars for the fourth year in a row, which went back to the same level of sales of new cars as we had in eight, nine years ago. And the frequency of robbery and theft that we can see on the next page also affected the loss ratio for this company, which increased by 4.5 percentage points in 2016. And the commission ratio increased slightly driven mainly by the independent broker channel, and the G&A ratio improved by 0.4 percentage points, but not enough to affect the increasing loss and the commission ratio, which lead the combined ratio for these business to reach 104% in 2016. On the next page, we can see that the deterioration in the combined ratio drove the underwriting results down to R\$ 200 million loss in 2016, while the net investment income dropped by 11%. This year we had an unfair comparable basis in 2015, so in 2015 we had the benefit of high inflation and also some benefits coming from the changes in the foreign exchange rate, which benefited the financial results for 2015, and in 2016 we did not have these effects. Then, the outcome here was the 40% decline in the net income to R\$250 million with a return on equity of 7% for the P&C business.

For Brasilprev on page 12, we can see the contributions grew by 28% to R\$47 billion, redemption rate was down 50 bps to 8.8% of the total assets under management and as a result here, net inflows reached R\$29 billion, an increase of 25% and accounting for 50% of the total industry as I mentioned in the beginning of the presentation. So, the AuM reached R\$198 billion, 33% higher as compared to 2015. Management fees grew by 26%, and the average management fee followed the downward path 1 to 2 bps per quarter, reaching 1.15% in 2016, and the main reason here is the mix pretty much concentrated in high net worth individuals along with the dilution of the participation of the defined benefits pension plans in the assets under management. The net income grew by 17%, with a return on average equity of 42% for this company.

For premium bonds on page 13, we can see that collections dropped by 13% in 2016, explained by the decrease in the average ticket, we can see that the total bonds outstanding increased by 7%, this is basically explained by the higher participation of monthly payment bonds, which have a much lower average ticket as compared to the single payment. Net investment income grew 42%, driven by the increase of 1.6 percentage points in the net interest margin, as a result of the higher average Selic rate as well as the downward movement of the forward yield curve, which led to a grow of 16% in net income despite the decline in collections.

The last item that we want to cover here, BB Corretora on page 14, commissions grew by 8% this year, driven mainly by the strong sales performance in life, rural and pension plans, with a contraction



in the net margin here, this was basically explained by the increase in the VAT, as I mentioned in the very beginning of the presentation from 4.65% to 9.25% for PIS and COFINS, and the net income reached R\$1.6 billion, 7% higher as compared to 2015.

On page 15, we have our guidance for 2016. So, as we already covered in the first page in the presentation, the adjusted net income grew by 4.1%, so within the revised range of the guidance for the year. And, finally, on page 16, we provide our guidance of adjusted net income growth for 2017, 1% to 5% growth as compared to the adjusted net income reported for 2016. So, we believe that 2017 is still a transition year; we expect a negative impact on the financial results due to the fall in interest rate along with the inflation rate converging to the mid-point of the target bend, so, for sure, this will impact our financial results throughout 2017. But, on the flip side, we expect that the growth of our non-interest operation results will more than offset the weak performance in financial results, especially in the second half, as we expect recovery in segments that did not perform really well in 2016 like credit life, as an example, or even premium bonds. And that's why we ended up with 1% to 5% growth range for 2017. So, this is all we would like to cover and we are finishing the presentation. We are now open for the Q&A section, thank you.

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

Our first question comes from Thiago Batista from Itaú BBA.

**Thiago Batista - Itaú BBA:** Hi guys, good morning and thanks for the opportunity. I have basically two questions, the first one is regarding the pension business. Could you comment about the outlook you are seeing for this product and if you believe it will be possible to continue to outperform the market growth in 2017.

And the second question is about the potential launching of new products or the remodeling of products in 2017. Last year we saw a good impact in the sales of life products following the remodeling that you did in this product. Is it possible to see any new product or any remodeling of products during this year?

**Rafael Sperendio:** Hi Thiago, Rafael speaking, so, considering the pension performance, we had an amazing year for 2016. But we expect that the competitors will now focus more in pensions than they have focused in 2016, seeing all the advantages of all the discussions surrounding the pension industry in Brazil, like the pension reform, and the population realizing that they need an additional



source for saving and in order to, as a complementary source to the detainment provided by the social security. So, we had two benefits coming from this reform: people realizing that they need an additional payment and also the one to retire early than what is proposed in the pension reform, that the expectations is that it is going to be approved by mainly in the end of this semester or even in the beginning of the next semester that if people that are starting to contribute the pension plans to the social security, if they want retire at 50 to 55 instead of 65, they need to have an additional source for their retirement. Looking at all the current pension industry, we will take advantage of this very positive scenario and all the news surrounding the pension reform, and this is going to be very positive.

When we look at the market share that we have, it is a fair market share when we look in terms of contribution or even in the assets under management, but in terms of net inflows, we reached 50% of the whole industry, so this is not really in line with the market share that we see as a fair market share when we look at assets under management, for example. So we expect that the industry will recover, for pension specifically we can increase in line or slightly above the industry in terms of contributions, but in terms of net inflows, we should expect to continue around 40% or the 1/3 of the whole industry, like we have in contributions and assets under management.

**Werner Suffert:** Thiago, Werner, to answer to your second question regarding new products that we have added last year, and I will say that the main products that we added in 2016 like products, as we mentioned, in premium bonds products, we will capture this new premium flowing from these new products just now in 2017, because most of these products were launched in the 3<sup>rd</sup> and 4<sup>th</sup> quarter last year. So, the impact that we will have will start more consistently from now on, so we don't have any other new products being added this year to deal with this operational increase that we expect for 2017. What we believe is that we have room to increase this premiums flowing from these products that we launched last year and now the sales force understand these products, the new features that we have embedded in these products and this will be enough to increase the top line and a better performance in the underwriting risks and commercial costs, acquisition costs that we have in these products, this will guide us to better technical margins and increase in our operational results. This is how we are facing this transition year that will be 2017.

**Thiago Batista - Itaú BBA:** Ok, thanks for the explanation, Werner and Rafael.

**Operator:** Our next question comes from Mario Pierre, with Bank of America.



**Mario Pierre - Bank of America:** Hi, this is actually Mario Pierry from Bank of America, Merrill Lynch. Two questions, as well. The first one is related, I am going to go back to Brasilprev, if you can discuss a little bit about the competitive environment and the outlook for pricing, especially as the Selic comes down, if you would expect prices to come down as well.

Second question is related to the SH2, what is the strategy here, combined ratio well above 100%, 105% throughout the year. What is the strategy to improve the results from SH2?

That's it. Thank you.

**Rafael Sperendio:** Hi Mario, thank you for the question. I am going to cover the first question and then Werner will discuss about all the strategy related to SH2. So, considering the outlook for pension in Brazil, we have 1.15% as the average management fee right now, but when we look at the average Selic rate, if I am not mistaken, it was something around 13.8% in 2016. So, the estimate for 2017, with a Selic rate reaching maybe single digits by the end of the year and at 10.8% as an average, we expect that the whole industry will be under pressure to reduce management fees. This is a total main flow and a very expected movement.

What we will try to do is not just lower management fees, but change the way that we are managing the assets, so we have to raise in this segment, if we keep just managing fixed income, we do not have any alternative other than to reduce management fees, but if we move and we add more value to the investors in terms of increasing the return in terms of diversification or even what we have now the possibilities of investing abroad and also going to the stock market, we can justify a higher management fee, so this is another direction that we are planning to move on, and then, on flip side, we'd like also to change the culture. Of course that we have many observances provided by the regulator like investment abroad, as I mentioned, investing in equities, also in private securities, but we also depend on the risk appetite of the clients for pension plans, so this is going to be a totally different scenario that we can even say that this is going to be a new experience for the industry in Brazil. We had it in 2013 when Selic went down to 7% but for a very short period of time, if I were to make a comparison, the average management fee in the market is something around 1.2%; if we were to go back 13 or even 15 years ago it was twice as higher as the one that we see in the market right now.

So, this is going to be a completely different environment, we will try to offset it by changing our investment profile and asset allocation, trying to also change the investment, the savings culture of the Brazilian population, but for sure, this is not an easy job, we need to know that the industry will change a lot in the next years.



**Werner Suffert:** So, Mario, regarding the performance in SH2 and the combined ratio that we reached in 2016, I think it is worth noting that the loss ratio for the industry as a whole increased a lot this year and we have the impact of this new auto fleet reducing year over year, and we bounce back to the numbers from 2008, so the new cars in the market are in the same level that we had in 2008 and this, of course, impacted a lot SH2. But we have some initiatives in place: we are replacing our auto portfolio in the regions where we have lower competition, comparing with the South-East where the competition is higher, so this is the way we are facing this issue. Of course, we have some months until this strategy starts to have an impact in the portfolio as a whole, but this is one thing, the other thing is trying to have more premiums funds from the bancassurance side of SH2, where the margins are higher and be more selective in the independent brokers side where we have more competition and where we are facing, where the loss ratio is higher with very high acquisition costs and even reducing G&A ratio we reached this very high combined ratio in 2016. So, this is how we are facing this year for 2017, we believe that the margins will be a little bit better than in 2016, but the first quarter, I'd say the first and second quarters, we are still very cautious about the performance in SH2 because of the competition that remains very high and our strategies regarding the pricing of the auto portfolio that is still in place, but to have this full impact we will need some months to reach the full potential of this strategy, so the first quarters we will still have numbers that will be below our long-term combined ratio for SH2.

**Mario Pierre - Bank of America:** It was very clear, thank you very much.

**Operator:** Our next question comes from Gustavo with JP Morgan.

**Gustavo Lobo - JP Morgan:** Hi guys, two questions on my end, both quite quick. First one, is actually a follow up, you said that competition remains tough in the auto segment. Just want to understand if it is getting worse or if it is improving. It would be expected that with high robbery and theft and the declining interest rates, players would get more rational, so I just wanted to understand if the competitive environment is improving or not.

And, second question is regarding the impairment of SH2, I just wanted to understand if it affects in any way your capital position or the company's ability to distribute dividends. I guess not, just wanted to hear a confirmation from you, thank you.

**Werner Suffert:** Hi Gustavo, Werner speaking, I will start with the second question and after that we move to the first one, regarding SH2 and auto insurance. But the impairment that we have had this



quarter impacted in our ability to pay dividends in zero, we will remain paying the same level of dividends that we have nowadays, and as I explained in the Portuguese earnings call, we are studying and looking these numbers to see if we have some room to increase this in the long-term, but our goal is to remain at least at 80% in the adjusted net income view, but trying to move to a higher number as soon as possible, as soon as we have, we will be able to sustain the same level, the new level of payouts.

And moving to the SH2 question regarding the auto insurance, we believe that the competition will remain very tough in the first quarters, but when we look at the competition all across the country, we have different levels of competition, so the margins are higher in some regions, like in the North-East and the North in Brazil and the Middle-East also, comparing to the South and South-East, so we are very positive that we will be able to re-price our portfolio in these regions where the competitions are lower and we started this strategy last year, so we will start to have the impacts of it in 2017. But, when you look in the market, the auto insurance and the players in these regions, in the South-East and the South of Brazil, the competition remain very high here and in these regions we believe that the re-pricing is tougher, and in the independent broker portfolio will be very difficult to do this in the beginning of the year. We had room to do this in the bancassurance side and we will try to move as soon as possible this strategy to the whole portfolio, but for the independent brokers, we believe that this will be a middle-term strategy that will take place during the year of 2017, maybe in the end of the second quarter on.

**Gustavo Lobo - JP Morgan:** Perfect, 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.

**Rafael Sperendio:** I would like to thank you all again for joining our conference call for the 4<sup>th</sup> quarter of 2016, and only to empathize that when we look at the economic scenario for 2017, it is still a transition period, we are going to face a tough scenario for financial results, but when we consider this level of interest rates, maybe reaching single digit, seeing the inflation under control, this is the perfect environment for developing the insurance industry in the country, so we are seeing a scenario very positive for the future despite the negative impacts that affect the short-term results, but when



we look on a sustainable basis it is going to be a very good scenario for BB Seguridade and all the insurance industry in the country.

So, thank you all once again and have a good day.

**Operator:** With this, we conclude the BB Seguridade's 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, have a nice day. You may now disconnect.