



**Operator.**

Good morning everyone and thank you for waiting. Welcome to BB Seguridade's first quarter 2015's 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 & 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 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, rough 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 controlled management. The information presented follows the consolidated and combined financial statements, in accordance to 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. Werner Suffert, and BB Seguridade CFO, Mr. Rafael Sperendio, Head of Investors Relations. Please, Mr. Sperendio, you may now begin.

**Sperendio.**

Good morning, thank you all for joining our conference call. So, beginning the presentation on page 3, we have some highlights of this quarter, the first one is our net income that reached R\$949 million, equivalent to a growth of 46% yoy, boosted mainly by the combined non-interest operating results, concentrates all the non-interest operating results of our affiliates and controlled companies of BB Seguridade, so this line grew by 178 million compared to the first quarter of 2014, and also with a growth in the net investments income combined of these companies, this line grew by 122 million as compared to first quarter of the last year.



Total revenues from the underwriting and accumulation businesses, we have premiums written, pension plans contributions and also premium bonds collections growing by 35% year-over-year driven mainly by the performance in the pension plans.

In our operation with life, mortgage life and rural insurance our combined ratio improved by 9.2 percentage points year-over-year mainly driven by lower claims in life, credit life and also a lower G&A ratio.

At the P&C segment the net income reached R\$99 million in the first quarter, a growth of 15% year-over-year, driven mainly by the improvement in the net investment income.

In pension plans, we've reached R\$120 billion in assets under management, 37% up in the last 12 months, what have led Brasilprev to the top of the ranking in the P/VGBL reserves, according to the last date released by FENAPREVI

In terms of net inflow, the company keeps throwing such a good performance with 64% out of the total market net inflows for the quarter.

The net income of our premium bonds business are growing by 67% year-over-year, driven mainly by wider spreads and the increasing in the average balance of interests earning assets.

And finally, at BB Corretora, brokerage revenues rose by 25% year-over-year driven by brokerage income arising from SH1 (plus 22.6% year-over-year), and also regarding contributions at Brasilprev, the brokerage income coming from these operations grew by 65% as compared first quarter of last year.

Moving forward to slide number 4, we've had no extraordinary events in the first quarter of this year. On page 6, we have a brief overview of the BB Seguridade's performance: revenues including premiums written, pension plans contributions and premium bonds collections amounted to almost R\$14 billion in the quarter, 35% higher year-over-year.

You can see in the right-hand side this growth was boosted mainly by the pension plans segment, that have increased by 12.1 percentage points it's share in total revenues in the quarter excluding brokerage.



Our net income, as I have mentioned previously, reached R\$ 949 million, 46% up year-over-year, equivalent to an annualized return on the average equity of nearly 64%. And regarding the earnings breakdown, 37% earnings come from the brokerage business and nearly 63% from the underwriting and the accumulation businesses, and the main highlight here is an increase in the participation in the earnings related to our operations in life, mortgage life and rural insurance at SH1, it counts of nearly 31% of the net income for the quarter.

On page 6, we have the contribution of the net investment income to BB Seguridade's net income, the combined net investment income of our affiliates and controlled companies net of taxes 70% higher year-over-year, and this increase was mostly due to the higher yields on the financial investments and also a higher volume of interest earning assets, and when we are talking about yields of investments it is worth noting a higher average SELIC rate, as you can see in the upper left-hand side, and also a higher inflation and both these effects impact our financial investment portfolio.

And what I would like to emphasize here is that we do not seek any active management of our investment portfolio. The idea here is always to focus on assets and liabilities management so, in fact, we had a more favorable macro environment for the way that we are positioned in our investments portfolio, that's why we've reached a participation on the net income of 31%, so 31% of our net income came from the net investment income, so financial results, but we do not think that it is going to be a recurring level, it was more related to the more favorable macro environment during the first quarter for this line specifically.

On page 7, we are going to start to cover the performance of each company in more detail, so we have the first is SH1, the operations of life insurance, mortgage life and rural, considering payments written net of premiums ceded to reinsurance, we grew by 3% year-over-year. Looking at premiums written, this line dropped by 0.9% year-over-year, in the main reason is that in 2015, differently from what happened last year, Banco do Brasil decided not to anticipate working capital lines for farmers, so it affected a little bit our performance in crop insurance, but we believe that this is going to change going forward as the strategy goes a little bit different for 2015, we think, now I am going to talk about rural insurance specifically, we are going to have a higher concentration of premiums in the mid of the year, differently from 2014 that was highly concentrated in the first half.



Beside this effect, we also had a weaker performance in the life insurance sold in the independent broker channel, so it also affected the top line growth. If we were to exclude the performance of both these lines, premiums written would have grown at 12% level, so a much higher level compared to the ones that we presented. But besides this impact on top line, the sensitiveness to earnings is very little, these two line do not contribute that much to our earnings, that is why we have a higher contribution to top line, but a lower contribution to net income and we were able to present in the first quarter of 2015 a net income of R\$ 392 million for this operation, we have grown 70% year-over-year and a return on the average equity here of 57.3%.

The main highlight here was the operating performance at SH1, as we can see on next page, page 8, the combined ratio improved by 9.2 percentage points explained mainly by lower claims in life and credit life segment, as well as the improvement in the G&A ratio mainly due to the lower contributions for the fund for the stability of the rural insurance in Brazil, called *Fundo de Estabilidade do Seguro Rural*.

Moving to page 9, we have our P&C operations, top line growth considering just retained premiums, they grew by 4% year-over-year, driven mainly by the auto-insurance, which have increased by 2.8%, it is sure in limits of premiums retained. Net income reaching R\$ 99 million for this operation, we have grown 15% year-over-year, and our ROAE reached 13.2%, and the main reason here for this role was the good performance in the financial result as the underwriting results dropped in the yoy basis mainly due to higher loss ratio as we can see on page 10.

The higher loss ratio reaching 59.5% for the quarter was due to increased theft and also to the cancelling for the provisions for claims incurred by a not-enough reported - IBNER. So when we look at the effect combined, the combined ratio was 3.3 percentage points higher on a year-over-year basis, but we had some issues that affected these comparison bases (...) when we analyze mainly the commission and the G&A ratio.

We detailed these events in our MD&A but, only to compare the performance here, we were to exclude these effects, mainly different accounting entries, the reclassification that was required by the regulator, and also a reversal of provision for loans losses that occurred in the first quarter last year, the commission ratio would have improved by 1.4 percentage points



while the G&A would have improved by 0.2 percentage points, so it is very clear that this weaker combined ratio was mainly due to a higher loss ratio.

On page 11, pension plans, we can see that we've had a quarter with contributions increasing by 67%, such a strong performance, and a redemption ratio maintained at a single digit level. As a result, we can see on the upper right-hand side, the total assets under management reached R\$120 billion, 37% up year-over-year, and management fee grew by 28%, a little bit below the growth of assets under management, but this was mainly due to a 7 bps lower average management fee due to the focus that we have been implementing on high net-worthy clients.

As a result, net income reached R\$220 million for the quarter, 26% up year-over-year, boosted by, as I have mentioned, the growth in management fees and also widening spreads on traditional plans. A ROAE of nearly 53%, we can see that we've presented a 7.2% lower ROAE due to mainly increased capital retention, due to the market risk capital requirements regulation that is going to be implemented until 2017.

On page 12, we've included a comparison visioning the performance of Brasilprev and industrie's one, as we can see, Brasilprev keeps doing very well in net inflows presenting a growth of 116% year-over-year and accounting for nearly 64% of the industries total net inflows. It is also worth noting that we have reached the first place in AUM for P/VGBL this quarter, so we have a share of 27.2% of total assets under management according to FENAPREVI.

On page 13, we have our performance in premium bonds, so collections achieved R\$ 1.3 billion, a growth of 1% year-over-year. In this quarter we see that the change of the mix with a higher concentration in monthly payment products keeps running, so now monthly payment products account for nearly 57% of the top line, so this, as we've mentioned in the last conference call, it is going to be our strategy going forward at these types of products provided so much more recurrence, much more stable revenues stream for the company.

It is worth noting that, besides this growth of 1% in top line much more important than that was the growth in reserves that we have seen that supported the growth in the net investment



income, 88% higher compared to the first quarter of last year mainly due to increased interests earning assets and also wider spreads due to this hike in the SELIC rate over the recent period.

Moving to page 14, we have our brokerage business. So, brokerage revenues grew by 25% year-over-year boosted mainly by SH1 and pension plans. Net income achieved R\$ 364 million, 38% up year-over-year, and this growth also is mainly driven by the increase in the brokerage income arising from these two operations and the improvement in the operating margin, as we can see, we've had some dilution of costs because when we treat about the reimbursement to Banco do Brasil, it happens nearly on the cash basis. So, if we look at the performance on premiums written and the bancassurance channel in SH1, it remained almost stable compared to the first quarter of 2014, while brokerage income arising from these operations in SH1 grows above 20%, so this is mainly related to the deferrals that happened in the credit life products, so, as I have mentioned previously, we pay Banco do Brasil as a matter of reimbursement of costs on a cash basis, but when you have a deferral, you do not have an expense related to this income that you are agreeing to earning. That is why you perceive such a good improvement in the net margin reaching 58.1%, 5.5% higher as compared first quarter of 2014.

And finally, on page 15, we have our guidance for 2015. The first one we changed a little bit the way that we are tracking the guidance. So we have a bottom line guidance from 3.6 to 3.9 billion, we shifted to a growth guidance just for tracking purposes from 12% to 21% net income growth for the year and we reached 46% growth as of March 2015, and the main reason was that we've had a net investment income better than we were forecasting for the beginning of 2015, so we do believe throughout the year the financial result will behave more in line with our estimates, that is why we are maintaining this range, R\$ 3.6 billion to R\$ 3.9 billion in net income and that is equivalent to 12% to 21% growth in bottom line.

Regarding to the growth in SH1 in premiums written on life, mortgage life and rural insurance, we presented a reduction of 0.9% while the guidance is a growth from 15% to 21% and the main reason is what I explained previously, totally related to the performance in crop insurance below the one we were expecting for this beginning of 2015 as in this year the bank decided not to anticipate the working capital lines for farmers, and that is why probably the trend is to have a higher volume of premiums written in the rural insurance more concentrated in the mid of the year differently from 2014 that was concentrated in the first



half. Besides that, we also had a weaker performance in life insurance sold independent broker channel that is why despite our performance, we decided to keep the range and we are going to follow the rhythm of premiums written in the next month to, especially after releasing the government for crop insurance, to see how this line is going to behave, so we've decided to maintain the range.

And the last one, we have a guidance in terms of reserves of P/VGBL at Brasilprev, a guidance from 27% to 36%, we've reached nearly a 41% growth in the last twelve months, double of our estimates, but we believe that this was mostly due to a much more favorable scenario in terms of contributions to pension plans, a better profitability of our investments funds, and also a very low redemption level compared to the first quarter of last year, but we believe that throughout the year this pace of growth will converge the estimate that we have for the year, so that is why we decided to maintain this range.

So, this finishes our presentation, these were the main highlights for the quarter. I would like to thank you all again and now we are open to the Q&A session. 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 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 Batista.**

Hi, guys. Thanks for the opportunity, and congratulations for the strong results. I have two questions: the first one is regarding your guidance. Looking to the total performance of SH1 premiums growth it is well below the full-year guidance. When we compare the same performance of this segment with your budget, how far are you from the initial expectations? I imagine that agribusiness segment is the one that is really lagging at the budget, but any other segment is presenting a below expectation performance?



And the second one, it is again related to the guidance, but of the bottom line. Normally, your first Q represent 22, 21 of the annual earnings, but the earnings of the first Q already achieved 24% the top of your guidance. Do you believe that your earnings will be, at least, in the top of your guidance or this is possible to say that the bottom line of the full year will be very close or, at least, at the top of the range you provided?

**Werner.**

Thank you, Tiago, for your question. Regarding the guidance for SH1, you were right, the one lagging, related to the budget a full-year budget, is the agribusiness insurance, the crop insurance, mostly due to this loans from Banco do Brasil that they anticipated last year and now they have a different model to follow, so we think this will be, during the second half of this year, it will stabilize at a normal level, our budget level, so this performance will improve during the year.

But for the other products, the performance that we have had is the performance that we've anticipated in our budget and, of course, when you look the first quarter it is not the strongest one related to premiums from SH1, when you look the credit life and life insurance they start to ramp up during the second quarter so you will have a better performance this quarter, comparing to the first quarter, of course, and the fourth quarter is very strong also, so when you look the budget for other products, we are in line with the budget.

Moving to the earnings question, we've had a very strong performance in the first quarter, close to 24% of the top of our guidance as you told, but we believe that, during this year, if we have the same performance, we will be reaching the top side of the guidance, but we will need some months more to have a clear view of these movements, and maybe to change this guidance to another net income.

So, earnings from this quarter were very good, but based on the financial results and a very strong performance from the operational side of SH1. We want to sustain this during the year, but we need to have some new information from the second quarter to have a clear view of this performance and, after that, change the estimates in our guidance for 2015.



**Tiago Batista.**

Okay, thanks a lot, Werner.

**Operator.**

Our next question comes from Rafael, from Bradesco.

**Rafael.**

Hi! Good morning, all. I have two questions: the first one is related to the credit insurance. For my understanding, you are still working with features to allow you to sell this insurance in the origination for corporates; I would like to know how the timeline is working for this. If I am not wrong, it is expected to the beginning of the second half; I would like to know if there is any update on this.

And the second question would be on your pension business, Brasilprev. When we look to the administrative fees, the fall QoQ, despite the increase in volume, so it indicates that even in your current base there are some reduction in the fees, so if you could provide any color on this, it would be great.

**Sperendio.**

Hi, Rafael, thank you for the questions. Regarding the credit life for SME, the idea is to offer the product during the origination on the beginning of the second half this year. And on Brasilprev, the question that you have mentioned regarding the throughout that happen on QoQ, this is not a good comparison because it has less working days as compared to the fourth quarter last year. So, if we were to compare them, the best way to do it is to compare with the first quarter of 2014. But, regarding the question overall, we saw a 7-bps lower management fee this year in the first quarter of 2015 and the main reason was because we have been concentrating our efforts in high net-worthy clients mainly in the VGBL products that normally you have a management fee around 1%, so besides that, we see that we have



a very competitive management fee, and this is totally in line with our main peers in the segment, most of them are working in the bancassurance channel. So, we have been very comfortable and this is totally related to mix, with a higher concentration in net-worth clients and the dilution of the participation of the traditional plans, the finance benefit one that we used to offer to clients until 2002, we are not offering these products anymore, but these products charge a higher management fee, as this participation is being diluted is totally normal that we can see these decrease in the average management fee.

**Rafael.**

Ok, that is perfect. Thank you, Rafael.

**Sperendio.**

Thank you!

**Operator.**

Our next question comes from Francisco, Banco Safra.

**Francisco.**

... Surprisingly on expenses that are always below my expectations. I just would like to understand why do you believe the expenses came lower this quarter and specially because pension performance was strong and, as far as I know, pension consumes more time of the Banco do Brasil managers, so it should cost more for the BB Corretora, if you can talk a little bit about expenses then I do my second question later.

**Sperendio.**

Hi, Kops, Rafael speaking. Sorry, we missed the beginning of the question, but I believe it was related to expenses at the broker business. The main reason for these lower expenses are related to the lower volume of sales that we saw in the first quarter of this year as compared to the first quarter of 2014. When we have these (...) of movement, we know that these new sales that we used to call here at BB Seguridade and Banco do Brasil overall,



these new sales take more time and consume more of the total facilities of the bank as compared to what we call the recurrent ones, that is for example monthly life insurance, so when we sell a monthly life insurance for the first time, the expense is higher, but as you will accrue these monthly payments into earnings the expenses related to this revenue flow is much lower.

As we saw in the first quarter a lower volume of new sales, it is totally natural that we can see improved margin. Besides this effect, we also have another one that is related to the way that we improved the result in BB Corretora. If you look at the pace of premiums written growth at SH1 in the bancassurance channel, it has remained almost stable on the year-over-year basis, while brokerage income has grown above 20%.

The main reason for that is that the deferrals that happen mainly in the credit life products, on average, the credit life insurance accrued into earnings is in nearly 36 months for the individual's products and 18 months for SME product, when you have this deferrals, you do not have an expense related to this income that is being accrued into earnings. We reimburse Banco do Brasil cash basis and when we have these deferrals, you do not have a counterpart related to expenses on the income statement, that is why we saw an improved margin.

We have most of these effects, lower volume of sales mainly related to lower volumes of crop insurance and also an accounting effect regarding the way that we recognize the expenses and the way that we recognize the income, that is why we saw these improving margins. But this is not going to be a trend as we do believe that probably the volume of sales will improve in the second, third and fourth quarter of this year and probably the operating margin as the broker business will come back to the average levels that we have in the most recent period.

**Francisco.**

Well, now this is much more related with the mix between new sales, the recurring sales than necessarily mix between like a pension and SH1, I got it.

My second question, if I can, is regarding the *indutor* program, the program that you guys induct the Banco do Brasil managers for commercial efforts. That has been a very good



driver for sales performance. In March, you guys changed the focus and the sales, especially on credit insurance that they resumed. You guys can give us an idea of which products will be maintained in this program for this next month and what are your plans regarding that?

**Werner.**

Hi, Kops, Werner speaking. The main products for the Sinergia program to use Banco do Brasil's sales force to distribute will be products from SH1 and Brasilprev, and the SH1 life insurance will continue to be a very important product to be delivered using Banco do Brasil channel, and we will also emphasize the credit life. It started in March, but we will have these products using strongly Banco do Brasil channel to distribute it during all this quarter, so second quarter it will happen and fourth quarter it will be very strong also.

In Brasilprev side, we will start to move from the periodic plan and to a sporadic one because of the volume that came to our company reserves, so we start in the first quarter strongly in the mix of monthly payments products and now we are focusing more to the same business lines, life and Brasilprev, but products like sporadic plans in Brasilprev and annual insurance in the SH1.

**Francisco.**

Now it makes totally sense. Thank you, Werner.

**Operator.**

Ladies and gentleman, as a reminder, if you'd like to propose a question, please press \*9. This concludes today's Question & Answer session. I would like to invite Mr. Rafael Sperendio to proceed with his closing statements. Please, Mr. Sperendio, go ahead.

**Sperendio.**



**Conference Call Transcript**  
**1Q15 | Earnings**  
**BB Seguridade (BBSE3)**  
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Thank you all for the participation in the earnings conference call. We remain always available in our Investor Relations team and our email, [ir@bbseg.com.br](mailto:ir@bbseg.com.br). Thank you.

**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.