



**Operator:**

Good afternoon, everyone and thank you for waiting. Welcome to BB Seguridade 1Q13 Earnings Conference Call.

This event is being recorded and all participants will be in a listen-only mode during the duration of company's presentation. After this, there will be a Question and Answer session. At the time further instructions will be given. Should any participant need assistance during this call, please press \*0 to reach the operator.

This event is also being broadcast via webcast in BB Seguridade at the website [www.bancodobrasilseguridade.com.br](http://www.bancodobrasilseguridade.com.br). The presentation is also available in the financial and information session. Participants may view the slides in the order they wish. Before proceeding, let me mention that the information presented follows the consolidated and denominated financial Statements in accordance with ISRS except were otherwise indicated. For more information on the Statements of the Company, please check MD&A.

With us today are Mr. Marcelo Labuto, BB Seguridade's CEO; Mr. Leonardo Mattedi, CFO, and Mr. Werner Suffert, Head of Investors Relations. Mr. Marcelo, you may begin.

**Marcelo Labuto:**

Good afternoon. I am Marcelo Labuto, BB Seguridade's CEO. This conference call is very important for us, because it is our first earnings release and also it is the first time we publicly met the market as our shares started being traded. As you will see, we still have some restrictions related to the quiet period, in accordance to the legislation about our offering, and also following the best corporate governance practices.

Anyway, going briefly to our 1Q earnings, I would call your attention to the operational results. As you have seen in our previous earnings, we did post a lower net interest income, which limited the bottom line growth. On the other hand, we showed an above the industry revenues growth with a favorable performance in the income statement line that shows the underwriting pension plan and premium bonds results.

Besides that, we will also see a growth in the relevance of the banking channel in the revenue stream. In this moment, we cannot give you colors about our expectations or estimates about the future performance, but the fact is that the IPO increases the visibility of our business, which only reinforces our responsibility to explore all the potential existing in the insurance market as a whole and in particular, the opportunity to go deeper in Banco do Brasil's customer basis.

Thank you very much. Now I hand over to our Head of IR, Werner Suffert.

**Werner Suffert:**

Thank you all for attending our first earnings conference call. My name is Werner Suffert and I am the Company's Head of Investor Relations. Before starting, I would like to remember you that the secondary public offering of BB Seguridade's shares is still ongoing and we will be in quiet period until the offering closing its relative.



Therefore, we will not be able to answer questions related to the offering to our shareholders, or even related to the Company, if the subject is not directly linked to our first quarter earnings.

Moving to our presentation on page three, we would like to comment on the main highlights of the 1Q13. BB Seguridade reached a 24% market share in the segment it operates, considering premiums, written and collection from pension plans and premium bonds. This was a result of growth in our top lines, especially in the pension plan segment, and in the premium bond business.

BrasilPrev, reached the leader in terms of total collections, more important if we were to consider revenues net of redemptions, according to SUSEP data, we reached 43% of the market in this quarter.

In the premium bond segment, our revenues grew by 27% in comparison with the 1Q12, which allowed us to reach a 25% market share. The insurance segment posted a growth as well, in this case, of 21% in terms of insurance premiums.

Besides that, we have seen an operational performance characterized by improved combined ratios, both in SH1, life, rural, housing and insurance products; and SH2, auto and PNC products. Our captive broker brought the bulk of the growth in the revenues with insurance, premium bonds and pension plans, as the bank insurance gained relevance in the in the period.

In this sense, BB Corretora revenues reached R\$388 million in the 1Q13. We reached a net income of R\$472 million, up to 54% over the same period of 2012. In adjusted basis, our income reached R\$455 million, delivering an ROI of 34.7%. This level of return was achieved in an unfavorable scenario for the investments income.

On page four, we can see the key profitability ratios for the segments operated by BB Seguridade. We know that our activities in the insurance, pension plans and premium bond segments are managed to partnerships with Mapfre, in the case of the insurance segment, Mapfre BB SH1 and Mapfre BB SH2, with Principal, in the pension plan segment, Brasilprev, and Icatu and Aliança da Bahia, in Brasilcap, for premium bonds.

SH1, life, housing and rural insurance we have reached R\$1.1 billion in premiums issued, reaching 28.4% of our ROI and a net profit of R\$133 million attributable to BB Seguridade, representing 29.3% of our total adjusted earnings.

At SH2, auto, and PNC insurance business, we've reached R\$1.6 billion in premiums issued, with ROI of 4.4%, and net profits of R\$12 million. SH2 ROI was impacted not only by the decrease on the net investments income, but also by the end of fees for quality issuance.

We remember that in February 2013, following the prohibition to charge such fees, SUSEP allowed the insurance companies to differ the cost associated to hiring new policies, if this rule were in place in the entire quarter, and we would consider the normal performance of its net investment income, ROI would be very different from the levels we have seen in this quarter.

At Brasilprev, pension business, we posted R\$6.1 billion in contributions and a net



profit attributable to BB Seguridade of R\$96 million, ROI was 54%. At Brasilcap premium bonds segments, our total revenues were R\$1.1 billion and adjusted net income of R\$ 17 million for BB Seguridade, ROI of 63.4%.

Moving to our distribution segments, BB Corretora, insurance brokerage reached R\$ 388 million of revenues, and adjusted net profit of almost R\$194 million, 42% of our adjusted net income. On a consolidated basis, our adjusted net income for the quarter was R\$455 million, and ROI of 34.7%.

Moving to page five, as you can see, our underwriting results grew in all our lines of business. Although the net income was partially offset by the decrease in the net investments income, which suffered from lower average interest rate when compared to the 1Q of previous year, and also the negative impact of marked-to-market in our financial assets.

In a nutshell, SH1, life, rural and housing insurance, net results grew 19%, reaching R\$107.5 million in the 1Q, despite the decrease of 32% in the net financial results. At SH2, auto and PNC insurance, as a consequence of the decrease of 78.6% in the net investment income, our net profit decreased to R\$24.6 million in the quarter.

At Brasilprev, pension products, although we experienced minor growth in the adjusted net income, there was an increase in contributions and premiums during the period. We saw the pension plan result grew by 9%. At Brasilcap, premium bonds, the decrease in our adjusted net income was due to the effect of lower interest rate, SELIC, and, to a minor extent, to a marked-to-market effect.

Moving to page six, the adjusted net income in the 1Q13, grew 5.3%, despite the adverse effect of the financial results. The main difference in our adjusted net income to our report in net income is the change in the accounting of unique payment plan in premium bonds, which increases our adjusted net income by R\$35 million, the new remuneration rules of BB Corretora, for the month of January of 2013, as some of the contracts were only in place at the start of the February 2013, which amounted to approximately R\$18 million, after taxes.

On page seven we will pinpoint some highlights on our performance, in relation to the market. In the auto insurance, we grew faster than the market, reaching a market share in the quarter of 15.7%. In the last segment, although we grew slightly less than the market, we managed to keep our leadership position, and a quite stable difference to the second player.

In the housing credit insurance, we increased our market share from 4.9% to 5.4%, gauging on the credit concession of Banco do Brasil. In the rural insurance, we grew 140% in premiums, as a result of the crop insurance renewal.

Moving to page eight, also in our pension plan and premium bond businesses, BB Seguridade posted growth rate above the market, and the quarter on quarter comparison, as shown in the graphic on this page.

As a consequence of this growth rate, on a consolidated basis, which considers all the revenues from insurance plans, pension plans and premium bonds, BB Seguridade was able to show a quarter on quarter growth rate higher than the industry, by 9.6%,



reaching more than R\$10 billion in premium, contributions, and premium bonds issued in 1Q13, reaching 23.9% market share.

Now, we will talk about performance in our insurance segment on page nine. At SH1 life, rural and housing insurance, we experienced a decrease in our loss ratio, especially due to the decrease in the rural plants for the 1Q12.

In that quarter, our loss ratio was higher due to the weather we had in some regions in Brazil and its effect in the insured crop. We did not see any major changes in our commercialization and general expenses. Therefore, we experienced an improvement in our combination ratio, followed by a lower contribution of investments income in our amplified combined ratio.

At SH2, auto and PNC insurance, we also experienced smaller gross ratio and also we saw a decrease in commercialization expenses, especially in the auto and affinity segments. The combined ratio for SH2 reached 98.6%, as a result of a lower net investments income, the expanded combined ratio was 97.4% in this quarter. Considering this performance of both companies, the combined ratio of the insurance segment as a whole dropped from 93.3% to 90.4%.

On page ten, I would emphasize the performance of our Company, in life, housing and rural segments. Even with a weaker net investment income BB Mapfre SH1 managed to deliver a 6.9 p.p. growth in its ROI, which reached 28.4% in the quarter.

The bottom line growth was driven by an expansion of almost 21% in earnings premiums, followed by a reduction of 8 p.p. in the claims ratio, and of 7 p.p. in combined ratio. On page ten, we emphasize the increase of SH1, life, house and rural segments ROI driven by higher earned premiums with rural claims and combined ratios. Therefore, the company ROI reached 28.4% as compared to 21.5% in the same period of 2012.

On the next page, we show the 11% growth that we had in premiums written by highlight for rural products. However, the most important point on this slide is the breakdown of distribution channels, in the bottom side of the slide. Here, we see that the banking channels and insurance gained relevance and accounted for 80% of premiums written in the quarter.

The message I would like to pass on slide 12 is that as in the life segment, in the PNC business, we also had an incorporation of performance with improved, combined and claimed ratios. Earned premiums posted 12% growth, dropped 3 p.p. in combined ratio, slightly decreased by 20 p.p..

This operational performance was also offset by the investment income, which compressed our earnings, thus, leading to the observed decrease in ROI in the 1Q13.

Moving to page 13, again, we saw a higher increase in the sales, to the banking insurance channel, in comparison to other channels. In 1Q13, this channel increased its stake from 30.5% to more than 34% of our revenues. Premiums written of the PNC segments grew by 22.0%, driven by auto insurance.

In our pension business, as you can see on page 14, our gross revenue grew from



39% over the 1Q12, but what I would like to emphasize here is that the net inflow of contributions in this quarter, 1Q12, we had 41% of the net inflow of contribution, when compared to the industry.

In this quarter we actually managed to increase this figure to 43.5%. This movement has been driven by growth in Brasilprev technical reserves which registered 34%, if compared to the 1Q of previous year. Our ROI was 53.7%, increased mainly due to the increase of the shareholders equity to a less extent, also because of a lower net investments income.

At Brasilcap, on page 15, we would like to highlight our growth at collection, which was 26.6% quarter on quarter, and, thus, led us to an increase in the market share of net collections. As of the 1Q13, our market share in terms of net collections was 29.1%. Anyhow, we increase in the ROI mainly due to the decrease in our financial results, as explained previously.

We finish our presentation with the brokerage business, on slide number 16. BB Corretora posted a 21% growth in brokerage revenues, most of these revenues came from the brokerage in SH1, followed by the brokerage revenues coming from the pension business.

Our adjusted net profit grew from R\$167.5 million to R\$193.6 million, which represents a 23% growth quarter on quarter. Our net margin remains pretty stable, ranging in the 50% of our brokerage revenues.

Those were the most important topics we would like to point to you. I would like to thank you for this opportunity to introduce our Company and to explain what is behind our 1Q earnings. Now we will open this call to the Q&A session.

**Allan:**

Hello, am I through?

**Werner Suffert:**

Yes.

**Allan:**

Thank you very much. I just have a few questions on results. Congratulations on the top line *inaudible*. I just wanted to get some clarity on how to think about your adjusted net income versus your operational net income, as you highlight in your numbers, which one will drive ultimately the dividends payout ratio and the distribution of income going forward?

Hello. Did you get that question?

**Werner Suffert:**

Just checking if we understand the question in order to give you the answer, the payout will be made on the accounting booked revenues.



**Allan:**

So, if I just get your adjusted net income of R\$454 million is that what the payout ratio will be based on or will be based on R\$472 million?

**Werner Suffert:**

The payout ratio will be based on R\$472 million.

**Allan:**

R\$ 472 million, OK. So, That is the key to look at the operational numbers rather than the adjusted numbers which were impacted by the variance in the financial income?

**Werner Suffert:**

That is true. The adjusted, just to give you an idea, without excluding some numbers that are not going to happen in the next quarters, but to the payout, payments, we will use the R\$472 million income.

**Allan:**

Ok, can you give some any other color on cross sell ratios? Are there any metrics you can provide us? I appreciate you are growing faster than the market, hence, that suggests your penetration is going deeper, is there any specific cross sell metrics you can share with us?

**Werner Suffert:**

Thank you. We will try to give you more information about that, about cross selling ratio, but first of all we will see if some of this information would be considered a strategic one and all the others we will deliver to the market.

**Allan:**

OK, thank you very much.

**Susan:**

Hi, I have a question in terms of the net interest income, mainly SH2, I would say primarily, but also SH1. Net interest is significantly weaker. What are the changes you are seeing this quarter, is it up to a more normalized level both in terms of net interest income in both SH2 and SH1?

**Werner Suffert:**

I think that you mean the results going forward?

**Susan:**



Yes, I assume that there are some elements marked to market losses, in addition to falling spread. Some of these maybe non-recurring, some of these maybe just recurring, what is it ongoing in net interest income? What can we expect specifically for SH2 and SH1?

**Werner Suffert:**

Yes, you are right, we had some problems related to the market to market, we fixed bonds and the inflation linked bonds. We will try to respond, we had this question in the Company's conference call in Portuguese, and we are going to disclose to the market as soon as possible how these movements in interest rates impacted our results. We will release for each company as soon as possible what was the impact on each Company.

**Susan:**

Great. If I could just get more details on what was one-time versus recurring, that would be wonderful. My next question is about the commission income. If you get the revenue breakdown, Brasilprev has a much higher contribution this quarter, is this something that, in terms of commission breakdown, you think is sustainable? The mix and the commission seem to be shifting a little bit to both Brasilprev and SH1.

**Werner Suffert:**

You mean the brokerage fee paid by Brasilprev to the broker?

**Susan:**

Exactly, on slide number 16. The revenue breakdown, income intake by Brasilprev is roughly something like R\$ 70 million net. Is this kind of a sustainable business structure change in terms of mix or is there seasonality or any one-time to this?

**Werner Suffert:**

This is related to the mix, what happens? For example, SH1 has some deferrals that we need to consider, mainly to the life products. In the case of Brasilprev, there are no deferrals, that is why when you increase the contribution of pension in business, we can see that the brokerage income gained share among the other businesses.

So, that is what happened in this quarter, and we cannot really see, going forward, because we are in the quiet period. To understand, for example, at SH1, credit life businesses, and on SH2, auto loans, in the broker, there are deferrals regarding the recognition of these revenues, while Brasilprev there are no deferrals, that is why we have a gain of share in this quarter.

**Susan:**

Thank you. My last question is about the premium bond business. Earnings were extremely strong there for the 1Q, is it sustainable on the ongoing basis, are there any one-time items there?



**Werner Suffert:**

I will highlight that, because of being in the quiet period, we cannot speak about strategy and give any information regarding the future of the sustainability of earnings. Sorry, but after the notice of closing we will be able to give you this information. We apologize.

**Susan:**

Perfect. And when will that be, when will be the end of the closing period?

**Werner Suffert:**

We can tell you that by the end of May we will be able to discuss all this.

**Susan:**

Perfect. Thank you very much.

**Operator:**

This concludes today's Q&A session. I would like to invite Mr. Marcelo Labuto for his closing statements. Please, go ahead, sir.

**Marcelo Labuto:**

Thank you very much for joining our first conference call. Our IR team is available for any further clarification. Additional information can be found on our website [www.bancodobrasilseguridade.com.br](http://www.bancodobrasilseguridade.com.br). Thank you very much.

**Operator:**

This concludes BB Seguridade's conference call for today. As a reminder, the material used in this conference call is available at the IR website. Thank you for participation and have a nice day. You may now disconnect.



**Conference Call Transcript**  
**1Q13 Results**  
**BB Seguridade (BBS3)**  
**May, 14th 2013**

“This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the company hosting this event, which was transcribed by MZ. Please, refer to the company’s investor relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript.”