



Conference Call Transcript  
1Q16 | Earnings  
BB Seguridade (BBSE3)  
May 10th, 2016

**Operator:** Good morning everyone and thank you for waiting. Welcome to BB Seguridade's 1st 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 star 02 to reach the operator. The presentation is available in the "Financial Information" 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 and future strategies of BB Seguridade are based on the Management 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. Thank you all for joining our conference call for the first quarter results. So, beginning on page 3 we have some highlights of this quarter and the first one is our Net Income that reached R\$ 958 million equivalent to a growth of 1% YoY and it was mainly driven by combined net investment income of BB Seguridade and all our affiliates and controlled companies mostly because the downward *shift in the forward yield curve* and the higher average Selic rate. In our operation with Life, Mortgage Life and Rural Insurance we had an improvement in both operating results and in the Net Investment Income. So it was really close to each other, the Underwriting result grew by R\$ 15 million, while the net investment income grows R\$ 12 million YoY. And in the P&C we can also highlight the improvement in the financial results which grew by 21%. For Pension Plans, we reached R\$ 157 billion in asset under management, 31% up in the last 12 months with Brasilrev keeping the leadership in ranking in P/VGBL reserves. In terms of Net Inflows, the company keeps recording a very good performance with 56% market share in Net Inflows for the quarter. In Premium bonds, Net Income grew by 29% YoY, was mainly driven by a wilder spread and, also, an increased average balance of interest earning assets. And finally, in Brokerage segment, brokerage revenues grows by grows of 4% YoY and was mainly driven by a very good performance that we had in Life, Mortgage Life, Rural and also in Pension Plans. We are going to cover it later, how these segment supported the growth in Brokerage revenues. Moving to page 4, we have a brief overview of BB Seguridade's performance. So, as you can see, the growth of the Net Income was boosted by the good performance of the financial results which grew 11%, while the Non-interest operating results dropped by nearly 4%. And here I'd like to emphasize that in this quarter we had some effects that happened throughout twelve month period analyzed which turned both quarters not entirely comparable. We explained in our MD&A but just to summarize here, beginning in June last year we had three sequential changes in tax rules that affected our company somewhat, was mainly related to



tax expenses. In July last year a decrease in social contribution that affected the income taxes and also in March this year we had a change in the tax regime, in the broker, that increased tax expenses on gross revenues. So, because of all these effects, we are comparing a quarter, that is the first quarter of 2015, that is completed clean of all these changes, while the first quarter this year is considering all this changes in the tax rules. That's why, in our view both quarters are not entirely comparable and we were already estimating that this would be the hardest comp. for the year, the first quarter. Just to give you some color, by combing the earnings before taxes of all our companies, we can see that the earnings before taxes grew roughly 5,5%, while compared to 1% growth in Net Income because of the, mainly the change in the social contribution. So these were the main effects, that's why we believe the first quarter is the hardest comp. we are going to face throughout 2016. On page 5, we can really show why such a good performance in financial results in almost in all companies. We can see that the combined net investment income of all our affiliates and the composed companies net of taxes was 11% higher YoY, as mainly as a result of higher yields on financial investments, and you can see in both left and right hand side that the higher average Selic rate and the downward shift in the forward yield curve supported the growth in the financial results mostly in the companies that have a higher exposure to fixed and floating securities, mainly SH2, the P&C company, and also Brasilcap, the premium bond company. These two, they were the ones that benefit the most because of the environment from financial results. On the other hand, we can see on the lower left hand side the dynamics of the inflation rates. The lower inflation that we had this year hurts the return the inflation protected securities held to maturity, specifically in SH1 and also in Brasilprev, that have a very peculiar dynamics that is related to the difference between these two inflation indexes: IGPM and IPCA. So we have a higher concentration in IPCA, inflation protected securities, held to maturities in Brasilprev, the pension plan company, while the liability in this company has a higher concentration in IGPM. So, the financial result of BrasilPrev was benefited in the first quarter last year because of this spread that we had in terms of IPCA as compared to the IGPM. When we look the dynamics in this year it was completely the opposite. We have a higher IGPM as compared to IPCA and that's why the financial results of BrasilPrev dropped year over year, mostly related to this dynamics.

Moving to page 6, we are going to start to cover business by business in more detail. So, beginning with SH1, the Life and Rural business, we can see that premium written were down 2.9% YoY and mostly as a result of the weaker performance in credit life, and the spotlight here is on the performance of the Life insurance premiums which grew by close to 11%, Mortgage Life that grew nearly 12% and rural, which grew 61%. But, on the other hand, when we look at the business, the sales mix here, the higher concentration and the faster pace growth on the rural segment, that's a line that we do not retain that much risk, meaning the crop insurance only retain 20% of the risk. Retained premiums dropped by nearly 7% because of the higher concentration in Rural in total premiums written. On page 7, we can see the operating performance of this business segment. So, as we can see, the combined ratio deteriorated by 350 bps and explained mainly by higher claims in credit life segment as well as an increase in G&A ratio mainly because of higher contributions for the



funds, for the stability for the rural insurance in Brazil. This is totally linked to the higher participation of the rural in premiums written and also, in the case of G&A, higher expenses with location and operation because as we already mentioned in the last call, both SH1 and SH2 they are moving to a new headquarters, so, we also have some concentration of higher expenses. But let me relate to rentals, since third quarter last year and we do believe from the second quarter on, this movement is almost known we do believe this G&A ratio will normalize forward. On the claim side we can see that the loss ratio was infected by the accounting of additional claims in the products that we call non-contributory product in credit life. That's, just to explain it in more details, we have two big segments in the credit life. So, one that is offered to clients. So, clients are paying premiums to insure their credit operations and the other segment that we also offer credit life insurance is the one bought by Banco do Brasil. So, the bank also insures part its portfolio against the death of the clients. So, in this segment, specifically, because of some mismatches that we had in our database we had some claims that were not reported and we identify they in the first quarter because these mismatches we now are making a normal processes, so, we don't believe that this is going to be the recurrent level in terms of claims in the credit life segment, probably from the second quarter on it is going to normalize because all these claims that were not previously reported they were totally concentrated in the first quarter this year. So, this almost explains totally the increase in the Loss ratio from 32.8% to 34.3%. If we were to explain this effect in credit life, the Loss ratio would have been 32.7%, a little bit lower than the one reported in the first quarter last year. On page 8, we have the breakdown of the SH1 Net income, which dropped by 3% YoY and we can see on the upper side here that the underwriting result was up 7%, while the Net Investment Income grows by 7%. The main reason for the fall of 3% in Net Income was totally related to the increase in the social contribution according to the regulation enforced in September last year. So, it was the main reason for the dropping in Net Income, while we can see the low operating in the net investment income grew in its single digits as compared to first quarter.

Moving to P&C on page 9, we can see that the top line in premiums written grew by 3% driven mainly by the casualty insurance which increased by 18% while the auto insurance was down 10%. In terms of retained premiums, we can see that a dropped by nearly 4%, this is totally related to the increased share of casualties in total premiums written, so like the rural in the case of income, it's a line that also demands a higher level of reinsurance, that's why, besides growth in premiums written at 2.5%, retained premiums dropping by nearly 4. On page 10 we have the operating performance of this business segment. So, the Loss ratio was up 470 bps mainly due to a higher claims in auto insurance because of the increased robberies and thefts and an increased in usage of assistance it was the main driver, this loss ratio, when we look in the year over year *basis*. The commission ratio grows by nearly 110 bps. It's totally related to the sales mix more concentrated in casualties, that has a higher commission ratio. And in G&A, it was by 70 bps mostly driven by transferring provision for IBNR - Incurred but not reported claims - and IBNER - Incurred but not enough reported claims - so we increased the provisions for these types of claims and it was impacting the G&A ratio for SH2 besides also the fact that we are also moving to the new headquarters. So, as a result of the increased loss



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ratio, commission ratio and G&A, the combined ratio went up by 620 bps YoY. As a result, on page 11, we can see the breakdown of the net income of the underwriting result was negative R\$ 105 million as I explained before it's totally related to the performance in the combined ratio, but on the other hand we had a very good net investment income performance, so financial results were up 21%, and as I also explained previously it's a company that has a higher concentration in securities floating rates and fixed rates as you can see on your right hand side this is also helping to boost the performance in net investment income that's why SH2's financial results grew by 20% while the financial results in SH1 grew at single digit.

On page 12, we have the pension plans business, as you can see this quarter we had a drop in both contribution and net inflows which is totally explained by the strategy adopted this quarter to focus more on periodic contribution plans, mostly monthly contribution plans, which presented a lower average ticket as compared to the sporadic contribution plans but they are really helpful in terms of building a more stable revenues, strength, going forward, so besides not contributing that much on a first moment it helps a lot to build a more stable revenue in the future and it's also sustainable for the company. When we look at the redemption ratio, it was 9.2% annualized, 9.2% of the assets annualized were redeemed at the first quarter this year, equivalent to a drop QoQ nearly 30 bps, a slightly increased YoY, but total in line with a most recent historical behavior. We see on the upper right hand side that total AuM grew by 31%, reaching R\$ 157 billion, and management fee grew by 25%, a little bit below the growth but it was mainly due to the 7 bps lower average management fee total in line with the increased share of the high net worthy individuals in the client base and also a decrease in the share of the traditional plan, the one that is the defined benefit plan was the main driver of the decrease in the average management fee charged. So we can see that the outcome was a net income of R\$ 223 million for the quarter, 1% up YoY, but when we look in the earnings before tax figure, we have a growth of nearly 10%, Brasilprev was also impacted by net increased in social contribution and this was mostly, the performance in earnings before tax, was mostly related to an increased management fee in terms of increased AuM, also a very good performance in the cost to income ratio 'cause of the strict control of the expenses we have in the company so a very healthy performance for the pension plans business.

On page 13, we have all the performance in the premium bonds segment. So collections achieved R\$ 1 billion, 21% down YoY, and mostly related to the this drop was mostly related to the lower average collection, so the total bonds outstanding grew by 9%, while collection dropped by 21% and that can be explained by a higher share of monthly payment products in total collections and also a decreased average collection per bond. It is worth noting here that, besides the drop in top line, the net income grew by 29% and was totally supported by the growth of 71% in the financial results as you can see because of the wilder spread that we were able to achieve as I told previously, the downward shift movement in the forward yield curve and the higher average Selic rate helped a lot the financial results of the premium bonds segment. So we were able to reach 130 bps spread in the quarter. It's also worth highlighting that the increased balance of interest earning assets.



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Finally, on page 14 we have the brokerage segment. So, revenues were up 4% YoY and boosted mainly by SH1 and it's also linked to a very good performance that we manage to deliver in the Life segment which grew by nearly 11%, 61% in Rural and 12% growth in the mortgage life. So these were the most important drivers for SH1 and besides the accounting mismatches that we had, it's worth to highlight here, besides credit life keeping a weak performance of -62% YoY, still has commission sales accruing to the income statement of BB Corretora is also helping the growth in brokerage revenue arriving from SH1. And besides that we can see that the pension plans are also helping the growth in brokerage revenue because of the focus on periodic plan so besides having a drop of 6% in total contribution, we can see that the revenues, brokerage revenues arriving from Brasilprev, they grew YoY, mostly related to the focus on periodic plans ,that also offer a lower volume of contributions to the pension plan company, but in terms of new sales they pay a higher commission as compared to the sporadic contribution plans. So this also helped the growth in revenue at Corretora. And as a result we can see that net income reached R\$ 371 million, 5% up YoY, and also the net margin growing by nearly 6 bps YoY.

To up here the presentation we have on page 15, the guidance for 2016. So this quarter our net income grew by nearly 1% below the range that was believed in the first quarter, in February this year, we released the 4Q results, so we were estimating a growth from 8% to 12% . And the main reasons for missing the guidance were, first of all, the basis are not directly comparable as I mentioned previously because of the changes in taxes rules that we had in the second half, mainly in the second half of 2015 related mostly to the increase in social contribution, restatement that tax expenses on financial revenues earned by the holding company and also the change of BB Corretora's tax regime to the non-cumulative system in march this year, which also lead to a raise in tax expenses on gross brokerage revenues so we can see that both quarters are no entirely comparable. And, besides that, another reason for missing the guidance was the weaker than expected performance in credit life insurance and also a higher level of claims in the underwriting segment, insurance segment due to the increased loss ratio in the credit life and auto insurance, mainly. It is worth noting here that the guidance is for the full year, so we need when we have changes just like these ones that we had in tax rules, it has a big impact in partial comparison, so, this effect we do believe that is going to be diluted throughout the year, mainly in the second half when the change in tax rules they get to be enforced. Just to remember, if we were to equalize the tax rates in both quarters, and also, if we were to remove the effect of, a we can also call one up effect in the increase in the loss ratio in the credit life, the growth in net income would have been nearly 7,5%, and that's why we feel comfortable that we can keep the range of the guidance and the there is no indication that we can change the guidance for the full year up to now. So, that's all. We finalize all the presentation here and thank you all for listening and we can move to the Q&A section.

**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.



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Please hold on while we collect the questions. Our first question comes from Guilherme, with Itaú BBA.

**Guilherme - Itaú BBA:** Good morning guys. Thank you for the opportunity and congratulations on the results. I have two questions. The first is on your guidance. We know that the results represent 22.5% of the low end of your guidance, and we know that you suffered the impact of the higher PIS/COFINS taxes in this quarter. But my question is how comfortable you are with your earnings guidance, especially considering that the market consensus expect Selic rate to decrease in the second half of the year. And my second question is about the performance of Credit Life insurance products. We saw a mature contraction in the written premium growth in Credit Life insurance. Could you comment if this is expected to increase in the coming course. And, also, could you comment out of the contraction, how much was due to the cancellation of company's credit life and how much is due to the low credit origination. Thank you.

**Rafael Sperendio:** Hi, Guilherme. Rafael speaking. Thank you for the question. So, when we look at the guidance, as I mentioned, we are very comfortable up to now to keep the range that we disclosed, from 8% to 12% growth, and when we look, in terms of contributions to the full year Net Income, we mentioned also, it's accounted for nearly 22%, considering the bottom of the guidance. If we were to look at the previous years and how the Net Income was distributed throughout the four quarters, despite that there is always volatility that we had in the financial results, when we go back to 2013, 2014, we can see that the distribution of the results throughout the year was nearly 22% in the first quarter, 24% in the second one, 26%, 28%. That's, on average, how the results can be broken down in the four quarters of the year. So, it's not very different from the legacy that we saw on previously years, despite this volatility that we saw in the most recent periods in the financial results. So, and, as I mentioned, we look at the first quarter of 2016 as the most difficult comparable to the quarter that we are going to have this year, mostly because of these changes in tax rules. And if we were to exclude this effect we could see that the earnings before taxes grew by nearly 5.5% and, also, setting apart the increased loss ratio in Credit Life, that we do not believe that it's going to be recurrent, the growth rate would have been up nearly 7.5%. So, we, because of these effects, the operating performance is pretty in line with our expectations. The only one that is not really in line is mostly the performance of the sales in Credit Life, and mostly related to a higher cancellation. Normally, we have higher cancellations in the beginning of the year. This year it was slightly higher than we had in 2015, but it's also a decrease in trend when we look for the full year and reached the peak mainly by February and then it goes down, and also has some peaks in July and December, but well below the level that we have every February. And that's why we feel comfortable that Credit Life will recover the performance throughout 2016. And, besides that, once again, the level of claims that we had in that SH1, we don't believe it's going to be recurrent. Probably it's going to slow down in the next quarter, as well as the G&A ratio probably will decrease slightly because of the end of the processing of moving to a new headquarters in SH1. And, also, we can expect a better performance in the financial results in Brasilprev, that was impacted by this dynamics of IPCA and IGPM inflation rates



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that was very positive in first quarter last year and hurts the financial results of this segments early this year. So, we do believe that we are going forward, as we are going to face a more fair comparable phase in the next quarters and, also, a more normalized loss ratio in SH1 and SH2 and also, a better performance in sales for the Credit Life and also in pension plans and we are going to start to focus more now in sporadic plan. We'll be able to reach the guidance by the end of the year. That's our expectation now.

**Guilherme - Itaú BBA:** Ok, perfect. It's very clear. Thank you, Rafael.

**Rafael Sperendio:** Thank you.

**Operator:** Ladies and gentleman, as a reminder, if you'd like to propose a question, please press \*9.

Our next question comes from Eduardo Rosaman, from BTG Pactual.

**Eduardo - BTG Pactual:** Hi, Rafael. Hi, Werner. My question is on 2017, right? I know we are still in May and there have been, it's trust to have long term deal on Brazil. Even when talking about the next twelve months, but what can we expect in terms of your results for 2017, right? Because the scenario for growing premiums remain a very tough one, to say the least, right? And it seems that there is a very good chance the Selic rate will start moving down the next six to twelve months. So, I wanted to know if it's fair to say that it would be very challenging for BB Seguridade to show any earnings growth at all, like next year, in 2017, right? And I also wanted to understand what can you do to avoid this scenario. Is it just a matter of waiting for the macro to recover, or waiting for Banco do Brasil to start growing again its own portfolio, or can you change the mix of the products to increase penetration, increase efficiency. So, if you can elaborate a lit bit it'd be interesting for us. Thanks a lot.

**Rafael Sperendio:** Thank you, Rosman, for the question. So, when we look at 2017 and, also, I would like to go deeper into the strategy that we have been adopting in 2016, so, facing a more challenging scenario for credit linked products we are already started to focus in Life and Pension, that's why you are seeing a very healthy performance for traditional Life growing in double digits basis above the one that we reached last year and in pension plans it's gonna prove a good performance by the end of the year, the slowdown of 6% is totally related to the strategy, totally in line with the budget for the year. So, we are focusing in lines that are not really strongly dependent on the macro environment, the case of pension plans, the mostly related to the under penetration that we keep having in Banco do Brasil clients base, as well as the life insurance. So, that's why we keep focusing in these two lines that we see that there is room to keep growing premiums. Talking about 2017, something that is very difficult, and that's not very clear what is going to happen in next year, mainly in terms of interest rates. When we look at the consensus, the Brazilian Central Bank, the Focus report is estimating a drop in interest rate as you have mentioned, so in this scenario probably we will see an impact in the financial results of the company and a lower contribution to BB Seguridade Net Income but, with a scenario like that we can expect a much better performance in lines that have



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been affect the most this year, that are the ones that depends on credit origination, mostly credit life. So, mainly in the SME segment, that is the one showing the weaker performance within the credit life segment. So, in a scenario like that also a decrease in interest rate, we can expect, as a result, an improvement in the macro environment and, probably, it's going to be a much better scenario for this lines like Credit Life, Mortgage Life and for most in the SME segment, the segment mostly underpenetrated segment in Credit Life products.

**Eduardo - BTG Pactual:** Great. Just like putting the question in a different way. Just to understand here. Because the way your business model is structured, I understand that after, If you are growing fast, the top line should decelerate, the top line; you don't have the effect on the earnings right the way, right? Because of the recognition of the revenues and because of the structure and nature of the business, so it take some time for the earnings to decelerate, but if you start after a while, the same thing happens in the opposite direction. If you start growing again in the top line, takes some time for your earnings to accelerate as well. So this is can we assume that this is true? So, even if in 2017 we see a recovery in terms of premiums, the affect would be spread out through 2017 and 2018, right?

**Rafael Sperendio:** Alright, but so when we look at the, and that's a, I forgot to mention, when I started to answer the question I tried to make the link with the strategy in 2016. It makes sense what you mentioned, but when we look at the strategy that we adopted it's also totally focused on way, we tried to offset this lack until we start to recover and rebound the performance in top line. When we focus in Life and Pension, Pension is a very resilient business and we have the advantage of having underpenetrated client base in Banco do Brasil, so it's very stable, we can see, besides all these changes that we are having in the macro environment, the redemption ratio keeps very stable in a single digit level so we do not see any major indication of a change, so it's a cushion that we can count on, any, I'd say, volatility in terms of sales or financial results going forward. It's the same case for life, that we have been focusing in the the difference from Credit Life, despite being a very profitable line, the Credit Life is very volatile, and strongly dependent on the credit origination and also it's linked to the macro economy, also, has a very high cancelation ratio as compared to Life, so this focus that we have in life insurance, we believe that is going to provide going forward much more stable revenue stream and much more recurrent in terms of both account perspective and cash flow for the company next year. That's why we believe that, differently from 2012, 2013, now we are building a more resilient business to phase any major change that we can have in both interest rate, inflation over the next year. That's why we have been changing our strategy in 2016, to focus on these lines, to offset and try to reduce this gap that we may face once interest rate goes down and we have a rebound in sales.

**Eduardo - BTG Pactual:** Thanks a lot, Rafael.

**Rafael Sperendio:** Thank you.



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**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.

**Rafael Sperendio:** I'd like to thank you all for joining the call. Thank you for the questions. And the message that remains here is also to highlight these quarters they are not directly comparable because of all these changes that we had in tax rules. We already were accounting on the first quarter of 2016 as the hardest comp. that we will face throughout the year. So, we do believe that all, when we look and going forward over the next quarters, when we start to compare apples to apples in terms of tax rules and also once the claims ratio normalizes also the G&A ratio in SH1 as well as the financial results in the pension segment. We believe that it's totally reasonable up to now to reach the guidance by the end of year and we do not see any modification that will lead us to change the range that we have in terms of growth in Net income for 2016. So that's all, 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.