



Conference Call Transcription
Earnings Conference Call | 1Q18
BB Seguridade (BBSE3)
May 08th, 2018

Moderator

Good morning everyone and thank you for waiting. Welcome to the *BB Seguridade's* 1st Quarter 2018 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 answers session. At that time, further instructions will be given. Should any participants need assistance during this call, please press *02 to reach the operator.

The presentation is available in the financial information presentation section of *BB Seguridade's* IR website at www.bbseguridaderi.com.br/en.

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 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 on the MD&A.

With us today are Mr. Werner Suffert, *BB Seguridade's* CFO, and Mr. Rafael Sperendio, Head of Investor Relations. Please Mr. Sperendio, you may now begin.

Rafael Sperendio

Good morning everyone and thank you for joining our Q1 earnings call.

Let's start on slide number 2, where we have the main highlights of the quarter.

The net income adjusted by one-offs reached R\$907 million, down 8.6% YoY, driven by the Selic rate fall as you can see if you look on your left-hand side, you can see that Selic rate led to a 37.3% decline in the net investment income, while the non-interest operating result grew 3.5%. And the main drivers for this improvement in the non-interest operating result was mainly the commercial performance at SH1, in our Life and Rural business, with retained premiums up 8% over the same period a year ago, , being credit life the top performer in this business line.

Another important driver here was the commercial performance in premium bonds, where collections rose 23% YoY, and finally the pension business was also an important piece that helped to build our operating results with AuM growing 16% YoY, and redemption ratio falling 70 bps, reaching one of the lowest levels ever recorded by Brasilprev.

On page 3, we have the breakdown of our adjusted net income, so in the first quarter we have classified just one event as extraordinary, which was an additional provision for pending judicial claims at MAPFRE Seguros Gerais, which is a subsidiary of Mapfre BB SH2. So, during the first quarter we have revised our database of pending judicial claims, and we identified that at MAPFRE Seguros Gerais we were under provisioned, so we had to increase those provisions, which generated a net effect for *BB Seguridade's* net income of R\$ 21 million. So, our accounting net income reached R\$ 886 million, down 11% but setting apart this one-off event the adjusted net income fell 8.6% YoY to R\$ 907 million.



Conference Call Transcription
Earnings Conference Call | 1Q18
BB Seguridade (BBSE3)
May 08th, 2018

On page 4, we have our main headwind for the year, the financial results. So in the first quarter we had the hardest comparable for the year, so, financial results dropped 37% and accounted for only 20% of our net income, being the 47% decline in the average Selic rate the main drag on financial results.

On your upper right-hand side we can see that the continuous downward revision of the expected year-end Selic rate led the forward yield curve to move downwards, which generated some mark-to market gains on our exposure in zero-coupon bonds that helped somewhat to offset a little bit the lower Selic rate in the quarter. On the other hand, the lower IPCA weighed on inflation protected securities classified as held to maturity, while the higher IGPM brought a negative effect, increasing the financial expenses at Brasilprev, in the defined benefit pension plans.

Now, from page 5 on, I will go over the main highlights of our main business lines, and starting with SH1, our life and rural business.

Premiums written grew roughly 5%, with the spotlight on credit life, as I mentioned in the beginning of the presentation, that grew 76% over the same period last year. Term life increased 2%, while mortgage life rose 12.3%. On the other hand, rural was down 8.8%, explained here by the 34% decline in crop insurance. This is something that up to now does not concern us that much, as we expect the biggest volumes of working capital loans to be granted now in the second quarter, differently from what happened last year, where we had much earlier disbursements started in mid-February last year. The other rural insurance lines, I mean, credit life for farmers and rural lien, they are doing really well, rose 29% in credit life and rural lien grew 7%. So, they have been performing really well, the main issue is the manner of comparable here for crop insurance. So, if we would excluded the performance of crop insurance and DPVAT, the mandatory insurance for vehicles in Brazil, that does not depend on us, it had a price reduction this year, but if it would excluded those lines, premiums written in SH1 had been growing 15% YoY, which is a very decent performance.

So, talking about retained premiums here, business with lower volume in the crop insurance, which is the line that received the most for reinsurance. Retained premiums grew 7.6% as compared to the first quarter last year.

About the operation performance, on page 6, we can observe an improvement about 120 bps in the loss ratio over the same period last year, supported by the lower than expected loss ratio in rural, we were expecting a very severe damage coming from La Niña, but didn't happen this last cycle, which helped the improvement of loss ratio for rural, mainly in crop insurance in the first quarter this year.

Commission ratio rose 520 bps YoY driven by the increasing commissions in part of our term life portfolio distributed in the bancassurance channel, since the third quarter last year. This is a temporary increase of commissions that increased the level of the average commission charges in SH1, but that's something that hurt somewhat the performance in the company itself but for BB Seguridade as a whole, the totality of these increasing commissions will flow to our own broker, BB Corretora, so this is, on a combined basis, very positive.

The G&A ratio fell 220 bps over the same period one year ago, driven by the release of some provisions for impairment of overdue premiums, that we managed to recover, so we worked those provisions and the outcome of these dynamics, our combined ratio deteriorated by 180 bps YoY as a result of the increase in commission ratio, that the decreasing loss ratio and the lower G&A wasn't able to offset.

On page 7, you can see that this increase in commissions dragged down the underwriting results, which fell 11% year-over-year to 640 million. Net-investment income down 49%, pretty cool considering the decline in



Conference Call Transcription
Earnings Conference Call | 1Q18
BB Seguridade (BBSE3)
May 08th, 2018

the average Selic rate. And both the increasing commissions and the lower financial results dragged down the net income of the business unit to a 15% to R\$ 336 million, with a return on average equity of 49.7%.

Talking about P&C on page number 8, premiums were up 1.3% driven mainly by auto insurance sold by the independent broker channel; auto grew 4.7% compared to the first quarter last year.

On page 9, we have the operating performance of these business line. We can see that the combined ratio of these business increased by 130 bps, as we can see in lower hand side here, driven by the improvement in the loss ratio mainly in casualties, and the lower G&A ratio, also driven by the release of some provisions for the impairment of overdue premiums and claims to be recovered from reinsurance. These three effects let the G&A ratio to a decline of 130 bps YoY. On the other hand, the commission ratio was up 150 bps, driven mainly by the increase in commissions charged by independent brokers when selling auto insurance.

On page number 10, we can see that these increasing commissions paid to independent brokers for auto insurance have dragged down the underwriting result, which fell 1% YoY. Financial results down 16%, as a consequence of the lower Selic rate, and finally the business unit recorded a net loss of R\$18 million as compared to a net loss of R\$4 million in the first quarter last year.

On page 11, our pension business, Brasilprev, we would like to highlight here that in the first quarter we had a different strategy than the one we adopted last year. Last year the distribution network had total flexibility, when analysing funds of periodic pension plans or sporadic pension plans, and this year we created more incentives to them to focus more on periodic contributions in nearly half of this first quarter. And this explains the 24% decline in gross deposits and the 59% in net inflow, as the average ticket of the periodic contributions is much lower than the one for the sporadic contributions. But it is a very important source for a more stable revenue stream going forward.

When we look at the quality of these funds that have been raised, redemption ratio declined, maintaining this positive trend of declining 70 bps to 7.4% in the quarter, one of the lowest levels ever recorded by Brasilprev. In terms of assets under management, reserves grew 16% over the last 12 months and growth of 10% in management fees to R\$628 million in the first quarter this year. The average management fee kept the pace of decline of one to two bps per quarter, but that is something that was totally expected, because of the environment now with the lower Selic rate. Our cost to-income ratio for this business increased 40 bps year-over-year, but on the other hand, the higher IGP-M dragged down the financial results of this business; the financial results dropped 20% YoY, that is why despite the management fee growing 10% and the net income grew 6%, mostly because of these lower financial results.

On page 12, we have here our premium bonds business. So, collections were up 23% YoY, keeping a very strong commercial trend that started in the 3rd quarter last year. We also had a very good performance in terms of cost on this business, with G&A falling 9% YoY. But on the flip side, because of the lower Selic rate, financial results were down 50% and the net interest margin was down 220 bps YoY. That's why this business is totally spread based, net income was down 53% YoY. But delivering a return on equity (ROAE) that was still very attractive: 53.4%, well above our cost of capital.

And finally, on page 13, we have our broker: BB Corretora. As you can see on the upper left-hand side here, the strong performance in sales of credit life, mortgage life and premium bonds more than offset the weaker performance in pensions and in P&C in the bancassurance channel. So, the brokerage income grows 1% YoY with a slight improvement in the EBIT margin. But on the other hand, this lower interest rate dragged down the financial results of the broker, where the investments are almost totally invested in floating securities,



Conference Call Transcription
Earnings Conference Call | 1Q18
BB Seguridade (BBSE3)
May 08th, 2018

that's why despite the increase of 1% and improvement in the EBIT margin, the net income was down 3% and the same factors explain the decline of 240 bps in the net margin.

And to wrap up the presentation on page 14, we have our accountability with our guidance for 2018. So, in the first quarter we underperformed the guidance, our recurring net income was down 8.6%, and when we expect the net income to stay within the range of -2.0% to 2.0% for the full year. But it's worth mentioning here that the underperformance in the first half was already expected, given the scenario of the interest rates this year versus 2017. So, we had the hardest comparable in terms of financial results in the first quarter with the Selic rate falling roughly 50% YoY.

But the expected dynamics for interest rates implies on a slowdown of this pace of decline in financial results, which is going to help the earnings to gradually converge to the forecasted interval in the 2018 guidance. So, although the consensus for average interest rate for the year has been revised downwards, it's now lower than we had as the assumptions for the guidance, but we feel it's feasible.

In addition to this, we also need to account on an improvement in the commercial performance. It has been doing well in most of the lines, as we talked about credit life, mortgage life, and premium bonds. But we still have some homework to do in term life and pensions, and also need to count on the recovery of the crop insurance from the second quarter on. It's not an easy task but the guidance is still feasible considering all these moving parts.

Well, that's all I would like to emphasise and we can now jump to the Q&A session.

Moderator

Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press *9 in your touch tone phone now. To withdraw the question, please press *9 again. Please hold while we collect the questions.

Our first question comes from Felipe Ikari from Itaú BBA.

Felipe Ikari, Itaú BBA:

Hi, good morning Werner and Rafael, and thank you for taking my questions. The first question is regarding Ciclic. Could you give us an update about the company? I know that the company is still in an early stage, but could you share with us your first impressions or maybe some numbers about this? And, do you expect to extend the products offered at Ciclic in the near future?

And the second one is regarding the Livelô points as an incentive for the sales force. How are the results from last year? And are you still using this to help sales? Thank you.

Werner Suffert

Felipe, Werner speaking. Firstly about Ciclic. Ciclic, as you said, is our company that is dedicated to digital channel outside Banco do Brasil channels. So, we are talking here about the open market, trying to sell



Conference Call Transcription
Earnings Conference Call | 1Q18
BB Seguridade (BBSE3)
May 08th, 2018

products to clients who are not clients reached by the Banco do Brasil channels. So, it is, as you said, still at an early stage, we still don't have numbers to share with you but as an initiative in the channel, we think we are in the right direction. This is even important to know more about these clients, these clients are not our main target but they will be, in the near future very important for the operation. So, we are understanding how this channel works, how these clients want to have information about insurance and pension plan products. And this is the main important initiative linked to Ciclic. And talking a little bit about other products that we will be able to offer using Ciclic as a broker, our goal is to start with pension plans but we will increase this throughout the years when we have more information about these clients and what kind of products they want to buy; we will increase other products and we will offer them all products linked to the companies that we have, and maybe other products that they will need to have, will want to have via a platform like Ciclic.

So, moving to the second question, about Livelos points. We started this effort last year and to have different ways to incentivise Banco do Brasil managers and employees to sell our products. This is completely in line with Banco do Brasil initiatives, it's inside their other programs that they have to incentivise products being sold using Banco do Brasil channels. And the performance started last year – I will say – in the second half of 2017, and now we are entering the growing phase of this strategy. So, the managers they can see on a daily basis how much they will receive Livelos points because of the products that they are selling, and this is helping them to have more information about how much they will receive back in this program, that, as I told you, is a complementary program besides others that Banco do Brasil have to incentivise their sales force. But this is a very important one. We launched it last year and we are increasing the pace this year, to help us on the main drivers of growth that Rafael explained during the presentation.

Felipe Ikari

Ok, thank you. That was very clear.

Moderator

Our next question comes from Carlos Macedo, from Goldman Sachs.

Carlos Macedo

Thanks. Good morning, gentleman. I have just one question really. Could you talk a little about the restructuring process that you are going through SH2. You know, if you have anything that you can share with us, or data that you can point where, maybe we are going to get or expect some changes by. To understand because it could shape the company and change how the company looks and operates. So, just trying to get an idea of how we can set up for the future.

Werner Suffert

Thank you, Macedo, for the question.

About the restructuring of SH2 and SH1, or the partnership with MAPFRE, the main movement, the main changes that we will have is what we have already disclosed to the market but is still in place... it's to sell the companies dedicated to the independent broker channels back to MAPFRE, and also our auto insurance and large risks insurance business that we have part of them in Aliança do Brasil Seguros in SH2, and other parties



**Conference Call Transcription
Earnings Conference Call | 1Q18
BB Seguridade (BBSE3)
May 08th, 2018**

of auto insurance related products for bancassurance in Brasilveículos. So, in this business we will be only distributing products via BB Corretora, using Banco do Brasil channels to do that, and we will continue with exclusivity with MAPFRE products for these two segments. So, large risks and auto insurance we will sell with exclusivity products from MAPFRE but without the underwriting risks of this business in BB Seguridade. So, our main driver of growth will be premiums and top line, and they will do the underwriting part of this business. On the other hand, all other bancassurance products will be in the new SH1, where our goal is to continue to be increasing the top line but with high margin products like the ones that we are operating now, trying to continue and focus even more in these products to increase the profitability of SH1 and, as a consequence of this, the profitability of the broker as well. And this will guide to higher and better numbers for the holding level.

Carlos Macedo

Perfect, thank you. Just one question. A couple of questions to follow-up. One, the part of SH1, particularly life insurance business that are sold by third party brokers, will that be also sold off as part of this? And the second, is there any timetable for these changes to become effective?

Werner Suffert

About the independent brokers in life-related products, our goal is to sell these products. We will focus completely our operation in bancassurance, so all Banco do Brasil channels and clients will be our targets for this product. Regarding the timetable, we don't have a deadline to close these negotiations, but we have some points, a few points to reach an agreement with our partner. And when we have any new information about this we will disclose it with the market.

Carlos Macedo

Ok, thank you.

Moderator

Ladies and gentlemen, as a reminder, if you would like to pose a question, please press *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

Well, thank you all once again for joining our earnings call. Just to highlight, we will keep the guidance because it is still totally feasible despite underperforming in this first quarter. It was already expected because of the hardest comparable we had in terms of financial results mainly for the fact that Selic rate dropping by nearly 50% YoY, it's very hard to offset this impact in the short term. But we believe that we will be improving in the commercial performance, the counting improvement mainly in the rural and pension, we will be able to gradually converge to the guidance range, mainly in the second half, not totally in the 4Q which was one



**Conference Call Transcription
Earnings Conference Call | 1Q18
BB Seguridade (BBSE3)
May 08th, 2018**

of the weakest last year, which is not common, but we look historically, usually the 4th quarter is the strongest one. So we are going to have some easy comp in the second half, that's why we believe that this is feasible. Of course, it's challenging but feasible. Thank you and have a good day.

Moderator

With this we conclude BB Seguridade's conference call for today. As a reminder, the material used in this conference call is available in BB Seguridade's Investor Relations website. Thank you very much for your participation, have a nice day. You may now disconnect.