Moderator:
Good morning everyone and thank you for waiting. Welcome to BB Seguridade's 3rd 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 Answer Session. At that time, further instructions will be given. Should any participant need assistance during this call, please press *02 to reach the operator. The presentation is available in the 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's current expectations, projections of future events and financial trends that may affect the business of the group and do not guarantee future performance, since these projections involves 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 Süffert, BB Seguridade's CFO, and Mr. Rafael Sperendio, Head of Investor Relations. Please, Mr. Sperendio, you may now begin.

[2:00] Sperendio - Thank you .Good morning everyone, and welcome to our 3rd Quarter 2018 Earnings Call. I'm going to take you thru the presentation so let´s start on slide number 2 where we have a brief summary of what happened in the quarter. Starting with our reported net income that reached R$ 874 million in the 3rd Quarter impacted by only one extraordinary event that happened at our P&C business at Mapfre BB SH2 to the amount of R$18 million. Such event came from the revaluation of the inventory of salvage vehicles aiming to readjust the accounting value to the what we understand likely the recoverable value of these vehicles. So all the inventory was reassessed and impacted our net income at the amount of R$18 million in the quarter. By setting apart these event as well, the one that affected the bottom line of the 3rd quarter last year just to remember third quarter last year was positively impacted by Capital gains that we got from the IPO of IRB, so they both quarters comparable we are setting apart both extraordinary events and looking on a recurring basis, Our net income reached R$892 million in the 3rd quarter this year, down 12.7% from the year ago. As you can see here on the lower left hand side the key driver for this decline in the earnings in the quarter was financial results, financial results were down 44% YoY. And at a lesser extent operating result also contributed to the decline in that earnings with a reduction of 1.3% year-on-year on weaker volumes of pension and premium bonds. Among here the main highlights that helped to build the net income 3rd quarter we have 13.5% growth in premium at SH1 driven by Credit Life and Rural. We also saw such a very important improvement in the combined ratio at SH2, which came in below 100 owed to the improvement in the loss ration and reduction in the G&A ratio. And finally our pension's assets under management grew roughly 10% to 248 billion which in addition to the improvement in the cost-to-income ratio helped the operating results of this business to grow pretty close to 11%. Turning to Financial results on page 3, I'm going to cover here in deeper details what happened to the financial results that led to this 44% decline YoY in the Q3. So as you may see at the lower left hand side sorry right hand side, contribution the financial results to earnings which is the all time low level 16.8% only and the key drivers for the weak performance in financial results the most straightforward one was the declining the average SELIC rate, the average rate in the 3rd quarter this year was 6.4% while in last year was 9.2% so the average interest rate variation, I mean, 30% decline in the average SELIC rate so this is the most straightforward impact.

On the right hand side we have here the forward yield curve that also showed some impact comparable here last year we had a downward move in the forward yield curve. It was almost a parallel move that helped the third quarter last year to get a higher mark-to-market gains on prefixed security, I mean zero-coupon bonds mainly in our premium bonus company. While when we look at the dynamics of the curve, the yield curve this year we can see that in the short and the curve flattened a little bit while in the medium to the long-end part of the curve we can see that there was a steepening in the yield curve that also affected the mark-to-market of zero-coupon bonds in the 3rd quarter this year.So I mean with this dynamics in the 3rd quarter this year compared to the 3rd quarter last year, I mean, lower mark-to-market gains.

And, finally, the biggest burden on the financial results this quarter was the spike in the IGP-M inflation rate with a more modest increase in the IPCA inflation rate. Cause these dynamics has led to significant increase on financial expenses at Brasilprev owed to the defined benefit pension plans, one pension plan that we still have… they are no longer sold but we still have these liabilities in our balance sheet. As the proportion of the liabilities pegged to IGP-M is higher than the assets linked to the same index, big numbers here, all of our liabilities roughly 87% is pegged to IGP-M and less than 1% to IPCA while all of our assets 60% is pegged to IGP-M and only, 37% indexed to IPCA. So such increase in the IGP-M has been a headwind for financial results of Brasilprev but now this is more like in short term effect and we expect that both indexes should converge overtime we can even notice this in the chart on the lower left hand side IGP-M was too low last year even showed deflation and it´s feasible to believe that IPCA will catch up but this catch up might happen maybe in 2019.

Moving now to the performance of our main business lines on page 4 starting here with SH1 Premiums Written grew roughly 14% YoY, on the back of strong performance of the credit life which was up 24% YoY and Rural which grew roughly 27%. Regarding to the operating metrics, combined ratio improved by 20 bps YoY with the reduction in the commission ratio given the end of the temporary increase in the commission rate of some products within the term life insurance portfolio distributed in the bancassurance channel so these increasing commission was enforced from the 3rd last year until the 1st quarter this year. So this explains mostly the improvement in the combined ratio. In addition, loss ratio was up 50 bps YoY given higher frequency and a a higher cost per claim in credit life and the increase in the loss ratio in Rural… increasing in Rural was mostly related to the drought that affected the corn crop this year.
The G&A ratio was up 410 bps as a result of the impairment related to non- performing premiums and reinsurance receivables. Financial results grew 2% YoY and all in net income grew 6% YoY in the 3rd quarter this year reaching the return on average equities of 52%.

Turning now to P&C on page 5, Premiums Written were up 12.5% YoY driven by casualties and auto in the independent broker channel. Regarding the operating performance combined ratio improved 780 bps YoY driven by the lower G&A and lower loss ratio. Across the board the improvement in the Loss ratio is mainly in the auto insurance wich keep improving. Loss ratio was down 510 bps YoY. So, the result of these increasing premiums in addition to the lower combined, led the operating results to reach R$94 million as opposed to the loss of R$45 million in the 3rd quarter last year. In addition to the decline in financial results of 21% on the back of lower interest rate the net income of the company reached R$66 million in Q3 up 246% YoY reaching a return on equity of 8.2% in the profit.

Next page we have our performance in private pension plans. Contributions reached the highest level within the year R$8.5 billion but still down YoY… YoY declined 19.7% still impacted by the macro uncertainties which we hope that will fade out from November on. Redemption ratio normalized after the impact of the increased volatility that started with the truckers strike May this year. Our pension reserves reached 248 billion, up nearly 10% over the last 12 months. And this increasing in AUM helped management fees to grow 8% on YoY basis with the average management fee declining 0.03 p.p. YoY. When we analyze something that is not here in this slide but in terms of the cost structure in the company also have been improving cost-to-income ratio improved by 270 bps. In addition to the improvement in the management fees operating results grew 11% as compared to the 3rd quarter of last year. But considering the decline in the financial results that we already discussed in the beginning of the presentation, financial results at Brasilprev were affected by the spike in the IGP-M inflation rate so financial results dropped 88% YoY and led the net income of this business to decline 17% YoY and to reach a return on equity of 35.6%.

On Premium bonds on page number 7 here we ended Q3 with 1.1 billion in collections down 16% YoY given the weaker sales volume. Financial results fell 62% YoY driven by the compression in the net interest margin which was mostly driven by the lower SELIC rate and lower mark-to-market gains as I explained well when we were discussing the financial results of the company. For this business specifically as financial results are the primary source of earnings the net income declined at same pace down 62% YoY with a return-on-equity still well above the cost of capital, reaching 30% in Q3.

And finally on page 8 we have our Insurance Broker, our brokerage Income fell 11% YoY driven by soft sales of pension and premium bonds. It´s worth clarifying here the accounting dynamics at the broker. The lines that are growing at a fastest pace like credit life and crop insurance are the ones that are deferred into the P&L while the lines are been shrinking are recorded on a cash basis. So although the brokerage income had fallen 11% YoY in Q3 the balance of unearned commissions increased by 11% in the last 12 months and reached 1.8 billion as of the end of September.

The net income of the BB Corretora dropped 17% YoY driven by 2 factors in addition to a weaker top line. So the first one was the reduction of financial results directly related to the lower SELIC rate and second factor was related to the compression of the EBIT margin which was driven by the increase of the total items sold, as you can see at the lower right hand side, the number of products sold in the 3rd quarter this year doubled as compared to the 3rd quarter last year.

This is totally related to the strategy that we talked about on our last earnings call to shift a little bit the focus towards low ticket insurance products. So this strategy remained until the mid of the 3rd quarter this year. But the flipside of this strategy is that it takes a toll in the EBIT margin in the first moment as the cost of products sold consume a big part of the commission, but this is a one time effect can be related to the low ticket of the product or related to the deferrals but we believe that is one time effect because it might be diluted over time revenues due to the accrue into the P&L happen the associated costs with the revenue. We can even see that the EBIT margins are ready showing improvement on a QoQ basis improved by 30 bps in the 3rd quarter now as compared to the second one. To wrap up here the presentation now, on page 9 we have our guidance monitor year to date to September we underperformed the revised guidance. Our recurrent net income was down 8.8% as opposed to the -6% to -4% expected variation in earnings according to our guidance.

So the key drives for the short fall versus our estimates were too faster than expected move within the big layers in the pension industry to cut low few to zero, we expect that it might have negative impact of 0.5% of the forecasted net income for this year.

Also we are high lightening the higher than expected IGP-M inflation rate. We haven't been waiting on the financial expenses at Brasilprev and the higher than expected loss ratio for Rural, because of the droughts that affected the corn crops and also a higher than expected loss ratio in credit life.

Another factor that also has been impacting but more related to our commercial performance was all the uncertainties among the presidential elections that happened in October. It brought some additional dificulties to raise funds to a long term product like pension plans. So, although these factors has been weighting on the bottom line we believe that it is still feasible to think about a convergence to the guidance range on Q4. So our current expectations points to the 4th quarter being the strongest within the year. In order to this to happen we need to count on many, 4 assumptions. The first one is related to the recovering in the commercial performance in the pension plans, a normalization of the loss ratio in life, rural as well, the approval of SH2 and we hope that we will not see any negative surprises coming from yield curve until the end of the year. So, according to these assumptions we believe that the net income will converge to the value estimated so out of the last four months in three months, we got the average monthly net income that we need to reach the guidance. So it´s totally feasible to think about these convergence until December. So that´s all I'd like to emphasize and we can now jump into Q&A session.

[21:07] Moderator - Ladies and gentlemen, we will now begin the Question & Answer Session. If you have a question, please press *9 on your touch phone. To withdraw the question, press *9 again. Please hold while we collect the questions.

[21:28] Moderator - Our first question comes from Rafael, with Banco Bradesco.

[21:33] Rafael, Banco Bradesco - Hi good morning all. I would like to hear from you a little bit of your view on how is the competition on the pension business, competition from the asset managers and if you believe that the model of open to make partnerships with asset managers to sell pensions would be a strategy viable to you guys and or if you would be in disadvantage to not offer this kind of solution?

[22:09] Suffert - Thank you Rafael for your question. The model that we have nowadays is linked to the Banking Channel, the bancassurance, using Banco do Brasil branches and all the other channels available in Banco do Brasil to distribute our pension plans it'll continue to be our main strategy, but we are open and we have initiatives in place to follow this trend that we have in the market linked to the open platforms, so we would be able to distribute our products using other channels, we don´t have any kind of problems doing this and we are discussing this already in the market. And we have also Ciclic that is the initiative that we have to distribute products to people that they are not the main target for banks. They are targets for these open platforms on investment but they are not nowadays to the traditional banks they are targets. So we are moving a little bit our strategy but on the next years we would to [sic] have part of a new flow coming. The net inflow coming to Brasilprev, coming from Banco do Brasil channel but of course we are ready and increasing our initiatives to deal with this change in the market environment with this new competitors in place.

[23:46] Rafael, Banco Bradesco - Werner, Just follow up so is very clear that you look for other channels but the question is if you are also looking for other products as you mentioned about this open platform. The idea is mainly focus on Brasilprev through different channels or also maybe you could be offering other products to those different channels?

[24:07] Suffert - Just to clarify, we will have different channels and also different products. So for some segments that they want to have access to other asset managers the product that we don't have nowadays in our asset manager that provide products for Brasilprev, we are able and now we already have, our clients they are able to reach this product from another players. So this is the trend that I mentioned, it´s a trend for the channels and also a trend to diversify the products available but not only products from our asset managers but also products for other asset managers.

[24:53] Rafael, Banco Bradesco - Thank you

[24:55] Moderator - Our next question comes from Carlos with Goldman Sachs

[25:06] Carlos, Goldman Sachs – Thanks everyone. A quick question on… Rafael you mentioned during the presentation that one of the reasons why you aren´t seeing an inflection and the revenues from the BB Corretora was some of the, some of the brokerage fees are deferred because of the nature of the products. When you expect those, I mean you obviously know, the mix there or when they are going to start handing your books and recognize as revenue, when do you expect that inflection to take place and for the revenues to the BB Corretora that better reflects, you know, the recovery that you see in sales particularly in SH1?

[25:45] Suffert - Thank you, Macedo for your question. Starting with SH1 we already have a good trend of premiums, Written Premiums, but because we are growing very fast on credit life. This trend of increasing Earned Premiums and also having a positive effect on our broker on deferred commission, as Rafael mentioned in our presentation this commission, they are increasing 11% unearned commissions, but they will start to be part of our earnings from next quarters on because we started this trend of a higher credit life growth last year on the 4th quarter and we are entering the second year now. So, this start to have a positive effect from the 4th quarter on but will be more strong thru 2019 because we will have two whole years of good performance and this growth that we have. And we will also have a positive impact coming from other products so the difference that we have nowadays coming from the contributions from Brasilprev comparing with the contributions that we had in 2017 and 16 is impacting the costs, of course, but from now on we will continue to have higher commissions coming from Brasilprev because of the election that happened in October and the end of the uncertainties that we have until now, people they are now restarting the year, you know, savings, investments for long term products, like the one that we offer in Brasilprev. So, these two factors, the second year of a very positive trend of credit life in SH1 and a better year in Brasilprev will guide to higher commissions on our broker.

[28:01] Carlos, Goldman & Sachs – Thank you.

[28:06] Moderator – Ladies and Gentleman, as a reminder if you would like to pose a question please press *9.

[28:31] Moderator – Ladies and Gentleman, once again, as a reminder, if you would like to pose a question please press *9.

[28:55] Moderator – 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.

[29:10] Sperendio – I would like to thank you all for joining our Earnings call and I would like to reinforce here to the commitment to the guidance I remind still totally feasible after all the uncertainties related to the political environment fade out with a… Now we know that Mr. Jair Bolsonaro will be next president of the country. We believe that investors will be, say, less concerned about committing their savings with long term products and when we look at the return of the products, they have been showing a good performance due to the a second dynamics of the forward yield curve. And it´s worth reminding that December is always a good month for pension because individual will seek to get their tax related to PGBL. Employment is also showing some times of improvement. So, the environment is changing for the better, that is why we are still confident that it is totally feasible maintaining the guidance range. And we hope that we are gonna deliver a good performance until the end of the year. So thank you all and have a good day.

[40:46] Moderator – With this, we conclude the BB Seguridade's conference call for today. As a reminder, the material used in this conference call is available on the BB Seguridade investor relations website: www.bbseguridaderi.com.br. Thank you very much for your participation, and have a nice day. You may now disconnect.