



[00:10] Moderator – Good morning, everyone, and thank you for waiting. Welcome to BB Seguridade's Fourth Quarter 2018 Earnings Conference Call. This event is being recorded and all participants will be in a listen only mode during the companies' 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: <http://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's 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 of the statements of the company, please check on the MD&A. With us today are: Mr. Bernardo Rothe, BB Seguridade's CEO, Mr. Werner Suffert, BB Seguridade's CFO and Mr. Rafael Sperendio, Head of FP&A, Accounting and IR. Please Mr. Rothe, you may now begin.

[02:00] Rothe – Thank you everyone for participating on our conference call. I just want to make a few remarks before I give it for Rafael to make the presentation. You know, it's a big honour to be the CEO of BB Seguridade, one of the best, the biggest and leader in the market. It's a company that went through a big transformation last year, we are now a different company from what we were at the start of last year, after a great job done by my predecessors. You know, we have a new team, including in our companies, insurance companies. We are available to deliver better results in 2019 and 2020. We have big challenges ahead of us but we are pretty sure we can deliver, and we're going to return to increasing profitability through all these next years. We are the leaders in the market and that makes us a big target in terms of the competition, that try to replicate what we have, the competitive advantages or even deconstruct what we have in place. That means that we need to keep evolving all the time, changing the way we do our business, change the products that we have, to be able to compete and keep the leadership that we have. We are going to focus even more in client satisfaction and specialization of our sales force. And you know, counting on BB, the network of Banco do Brasil that is a very strong in terms of selling insurance and our products in general so we are very, as I said, motivated to keep delivering better results through all 2019 and 2020. With that, I would like to call Rafael for the presentation. Thank you.

[04:15] Sperendio – Thanks Bernardo. Good morning, everyone. I'm going to take you through the presentation now. So let's start on page 2 where we have the main highlights of the Q4, recurring profit of R\$840 million in the fourth quarter, down 10.7% YoY dragged by the 40% decline in financial results, partially offset by 4.1% improvement in the operating result, as you can see on the chart on the lower left-hand side. The financial result suffered a lot in this quarter due to the spike in the IGP-M inflation rate in the period from September to November last year, which substantially increased the cost of our financial liabilities of our defined benefit pension plans, which are no longer sold, but it still impacting our financials. So financial results at the Brasilprev had a big hit in Q4, we expect that was an eventual impact that might reverse. In fact, is already reversing in December the IGP-M showed some deflation, but the main point is that it does not affect the income statement now, it's going to help the P&L just from the first quarter of 2019 on. In terms of dividends, our pay-out, which



achieved R\$2,9 billion in 2018, if we add it to the extraordinary dividend pay of R\$2.7 billion with regards to the restructuring of our insurance partnership we've had with MAPFRE it amounts to something around 10 % dividend yield considering the current price of the stock, so, it's a very good return to shareholders. Our annualized return on equity for Q4 reached 41.4%, down 80 bps year-on-year. Something that it's worth mentioning here that despite the decline we have in a net income of almost 11%, we haven't seen that same proportion of decline in return on equity, which shows that when considering the moves related to the restructuring, it shows the more efficient capital allocation we have. So by restructuring our insurance company, we freed up some Capital that was not really efficiently allocated. So it helped to hold return on equity in a high level of the 40s and we expect that it can be even higher from now on considering a lower level of the capital allocated in this operation. Another highlight we in the quarter is the growing in the management fees of 8.5 % at Brasilprev, driven by the 9.5% increase in the assets under management at the pension segment. In premium bonds, the main highlight was related to the increase in net interest margin of 90 bps, which helped the financial results to grow 25.7% year-on-year on 4Q driven mostly by the yield curve, which flattened in the 2 last quarters, and so it helped a lot the financial results at the premium bond company. Lastly, here we have the accounting of R\$276 million recorded as an additional commission at the broker. We forced the new agreement that we have in our insurance company related to our commercial performance in credit life and credit life for farmers so in case we exceed the commercial targets for these products, BB Corretora is entitled to receive an additional commission at the end of the year, so these R\$276 million refers to the commercial performance from April to December. It was only recorded in December, because we got the last approval from the regulators of this reorganization only in November, so it was really booked in December. From 2019 on this volatility will not exist anymore, we're going to book month on a month basis according to our estimates related to how much we expect to receive as an addition commission at the end of the year. So, from 2019 on, it's going to be a different. We will not see this full payment in the end of the year anymore.

[09:26] Sperendio – Moving on to financial results on page three. On lower right hand side, we can see that financial results fell 43% as I mentioned in the beginning of the presentation, accounting for 20% of the company's net income. Among the main factors that led financial results to post such a decline, we have the most straightforward one was the lower SELIC rate, as you can see on the upper left hand side, but the spike in the IGP-M inflation index was the main drag on the financial results in Q4. So, this lead Brasilprev's post financial losses in Q4 for the first time in its history. So, we call that the most part of the liability at Brasilprev was referred to the defined benefit pension plan, they are pegged to IGP-M, while the assets that are backing these liabilities has a growing share of securities pegged to the IPCA, the retail inflation index in Brazil. So, although the Q4, another thing that is important to highlight here, as you can see, on the lower left hand side, in Q4 the IGP-M was lower than the IPCA. But, this not really reflect the performances on the financial results in the P&L, because when we look at the way that interest is compounded on the liability, it worth to mentioning that there is lag, in fact here, from one to two months. So, the period from September to November is the one that is responsible for the spike in the cost of our liability. It's worth to highlight in here that September and October ranked as being the fourth higher inflation index of the year. That's important as I mentioned, to emphasize that it was one time effect, we can consider one time. It hits the financial results in Q4, but it's already showing some improvement that we might expect upfront the first quarter of 2019 on, because of the deflation of the IGP-M in December. Talking about the positive signs in financial results, the most important one is the move in the forward yield curve as you can see, the light colours represents the beginning of the quarter and the dark colours represents the end of the quarter. So, you can see that the grey lines that the yield curve flattened in



the 4Q18. Which helped a lot Brasilcap with mark-to-market gains in zero coupon and inflation protected security in the end of the year. Now, on the page four, we have a brief of the rural performance, a commercial performance of our life and rural operation, which also begins to operate with the home insurance and commercial lines from December on. We observed here that the lines that are more correlated to the credit origination posted a very strong performance in 2018 and led premiums to grow 7% in the year with a spotlight on credit life, which grew 20% in a very strong performance, in credit life, mortgage life and in rural. Now, on page five, in terms of the operating performance of our business, because we are still in a transition period from the old formation to the new formation from December on, we have brought here, and I hope you find it useful, a proforma analysis that, basically, assume that new formation that we have being enforced since the beginning of 2017. So, the blue line shows the number as reported, while the yellow line shows the proforma figures. Another adjustment we have here is related to the commission ratio to normalize this commission was really booked in December, so when we look at the dashed lines here, it shows that normalization of these commission payed, have been paid since April not fully in December. Something that was highlighted here in terms of our performance, as reported, that the loss ratio increased by 4.8p.p. and it was mainly driven by the increase in the frequency of claims we had in rural, mostly related to de drought we had in the Midwest and the excess rain we had in the South part of the country. In addition to that, we also observe an increase in the loss ratio related to the life segment to a specific claim we had in a coinsurance of a group life policy, we have with another insurance company, so we think it's something that may be a single event in the Q4 talking about life specifically, and should not repeat on forward. The commission ratio increased, but it was a straightforward effect coming from their renegotiation we had with MAPFRE related to this commercial performance fee that we received as a function of our commercial performance in credit life and credit life for farmers. And when we look at the outcome of all these movements in the combined ratio, we can see that it is worsened of 4.6 p.p. and totally related to the increase in commission and increase in the loss ratio. On page six, we have a brief explanation of our financial results, which fell 32% year on year due to a lower average SELIC rate in the quarter. And also in the fact that is worth reminding that in the fourth quarter of 2017, we've booked some capital gain on stock market transactions. So, it wasn't repeated in the fourth quarter 2018, so this gain amounted to R\$82 million and this dragged down the financial results comparative in the fourth quarter of 2018. The net income fell 53% year on year, so mostly related to this increase in the loss ratio, the performance fee paid to the BB Corretora and also the decline in financial results, these are the main drags of earnings of SH1 in Q4. On page seven, we bring here our performance in the pension segment, so in terms of gross contribution we saw a decline of 7% year on year in Q4, greatly reducing the rate of decline that we had been observing until the 3rd quarter of the year. Net inflows fell 36% while the redemption rate reduced by 20 bps year-on-year. Our pension reserves grew 9% and reached R\$257 billion in 2018, helping management fee to grow 8% year on year in the fourth quarter and 10% grow in 2018.

[18:22] Sperendio – Well, on the other hand, we can see that the performance of the net income of the company, it is down 37% year-on-year in the fourth quarter, totally driven by the financial loss we had related to the higher cost of our liabilities as I mentioned in the beginning, fully driven the spike in IGPM inflation rate. On page eight, we have our performance of our premium bonds operation. So collections fell by 29% year on year, being Q4, the best quarter of the year, so this decline was mostly related to the hardest comp it faced which led collections to reverse the growth trend that we were seeing since the beginning of the year, so until September. The financial result was the main highlight, with a year-on-year increase of 26% in the fourth quarter, and net interest margin expanding 90 bps due to the mark-to-market gains we had in zero coupons



and inflation protected securities in the fourth quarter. And due to this strong performance in financial results, in the 4th quarter, the net income grew 7% year on year, reaching 40% annualized return on equity in the quarter. On page nine we have BB Corretora so, commissions grew 26%, 4th quarter year on year, basically due to the R\$276 million recorded as additional commission that BB Corretora received due to its performance related to credit life and credit life for farmers. By adjusting these factors of the light blue bars in chart on the upper left hand-side, it shows that on analysis by distributing the additional commission in a linear way throughout the period of April to December and we did the same for 2017. You might remember that we have a right down of commission receivable which was fully concentrated in the 4th quarter 2017. So, we also made a kind of adjustment in our revenues by splitting linearly throughout 2017 and by making these 2 adjustments we can say that the brokerage income on adjusted basis declined 8% year on year, dragged by the soft performance, commercial performance we had in pension plans and premium bonds in 2018. The EBIT margin increased by 40 bps, also adjusted by these effects, reached 81.3% a decline of 200 bps in 2018 fully driven by the strategy that we have in the middle of the year, when we focused more on the lower ticket products. By doing that we had some contraction in the EBIT margin, which already reversed in the third quarter of the year, we believe it is going to normalize to the average we have until 2017. On page ten we have our accountability for our 2018 guidance. We ended 2018 with net income down 9.3%, falling below our revised guidance range of decline of 6% to 4%. We can assign here 2/3 of this deviation to two events, first of all, something that completely escaped from our control and it was very difficult to predict, was the spike in the IGP-M inflation index during the election period, which ended impacting very significantly the cost of our liability related to the defined benefits pension plan at Brasilprev. The second was also in the pension segment that was the exemption of the load fee, so it was something that we were already expecting. We have been cutting these fees for a long time, but we were doing this more gradually, but it was not a way that market responded which led us to cut these fees more abruptly in the end of September, we cut all of them to zero. The remaining 1/3 of the deviation was assigned to the decline in the premium bonds collection, which ended up impacting BB Corretora's result along with the increase in the frequency of claims in life and rural in the end of the year, these were the main drags on earnings. And to wrap up the presentation, on page eleven, we have here, our estimates for 2019, as you can see, we have introduced two more guidances for this year, for net income we expect a growth of 5% to 10%. With insurance premium, we are working here on a proforma analysis that is replicating the post corporate reorganization structure of our partnership with MAPFRE through the full year of 2018. And it also excluding the DPVAT, it's a mandatory government insurance, so it doesn't depends on our performance, so we are excluding from our comparable, it and to these proforma analysis, we expect premiums to grow 7% to 10% in 2019. And in term of the reserves at Brasilprev we expect to grow from 7% to 10%. The presentation is over, we can now move on to the Q&A session.

[25:45] Moderator - Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please, press *9 on your touchphone now. To withdraw the question press *9 again. Please hold while we collect the question. Ladies and gentlemen, our first question comes from Tiago Batista with Itau BBA.

[26:25] Tiago Batista, Itau BBA - Hi guys, thanks for the opportunity. I have one question about the possible impact of pension reform on the BB Seguridade's business. We saw in sixteen a material increase in the pension inflows during the discussion of the pension reform. Do you believe we can see something similar now? And also, what are the main impacts that you believe the potential approval of a pension reform should have in BB



Seguridade's business?

[26:59] Rothe – Thank you Tiago for the question, Bernardo speaking here. You know, we consider that the pension reform is going to be very positive for the country as a whole. When pension business is a more medium to long-term impact. You may see some people running to do something this year, but not something that we expect and putting on our numbers. But it is a very positive thing in the long run, because it is going to increase the need for a pension plans and so on, so it's positive in the long run, medium to long run, maybe next year, more than this year. That is how we see it, although, again we consider that the pension will be approved in this year and the impact is going to come over time. But the pension reform also can increase confidence in the market and so on and so forth, and that can impacts employments in Brazil and increasing employments and increasing available income by Brazilians overall, it is very positive for any insurance business, so we see that, as a positive impact in other part of the business as well.

[28:19] Tiago – Perfect, thanks, Bernardo.

[28:25] Moderator – Our next question comes from Mario Pierry from Bank of America.

[28:34] Mario Pierry, Bank of America – Two questions. First one, I'm trying to reconcile your guidance for 2019, of growth of 5% to 10% in net income. When we look at your operating results in 2018, excluding financial results, they increased 3%. So, I would imagine that under an better economic environment that this should be growing faster. And, on the other hand, when we think about financial results, declining 40% in 18, I would imagine it has to be much higher in 19, because interest rates are likely to be much lower in Brazil. So I'm trying to understand why 5% to 10% is seems conservative to me if maybe can give us a breakdown or what are you expecting in the operating results and financial results and what is the Selic rate you have embedded is on your guidance. Similarly, when I'm looking at the premium growth that you're guiding to SH1 segment of 7% to 12%, it's not much higher than what you reported in 18, 7%. Also, when you're talking about growth of reserves in Brasilprev of 7% to 10% it is actually lower than 10% that you delivered in 18. So I'm just trying to understand: why do these four guesses seems so conservative? Thank you.

[30:09] Sperendio – Hi Mario, Rafael speaking. So, first of all: the assumption that we have in guidance for the Selic rate, we expect it to remain flat for two years, so we don't expect any increase or decrease throughout 2018. In terms of the operating performance, it's worth mentioning that we expect it to increase. If we were to breakdown the guidance of operational performance and the financial results, I would tell you that we expect the operational performance to be more close to the top of this guidance, while in terms of financial results, our expectation for 2019 that we can post even a decline. And why? It's worth to mentioning that part of the contribution of financial results used to come from SH2 and it's not a part of conglomerate anymore. So, because of the exit of SH2 we can expect a decline in financial results. If we were to compare apples to apples, of course, it might post an increase, but that's not the reality, we need to compare the numbers with the ones reported 2018 because of this effect, financial results might decline. Well, related to the expectation we have in the premium growth, we are very optimistic with the performance in the lines that are correlated to credit origination. So credit life, mortgage life, these ones might be the main drivers for premium growth in 2019. Of course, they are different things, credit life used to grow until last year more concentrated on individual segment, we expect that the SME segment might recover in 2019, but overall, these are the main drivers. But regards to performance in term life, something that accounts for 40% of the premium we have in SH1, so it is



hard for such a big portfolio to grow in a such fast pace, so that's why when we analyse our performance in 2018, the premiums grew 7% in 2018. We are now using these 7% as the bottom of the new guidance range, so we are expecting a very good performance, but it might be gradual, off course, according to the improvement in the activity in the economy, what we believe it is going to show some material improvement from second half on that is why, what is embedded in our guidance range for net income. And the same for reserves at the pension segment, one of the main drag we have is related to the lower Selic rate of course, it is not a big decline as we have in 17 and 18, but it is still a decline. So, the 7% to 10% that is a lower Selic rate, assuming that we will offset part of it with some recovering in pension inflows, but it is still a significant impact that we have in AuM growth.

[34:20] Mario Pierry, Bank of America – Ok, just a quick follow up. When you mention fees at Brasilprev, it's stays flat on a quarter on quarter basis, I think the first time in a while, 1.08%. We used to see this decline at least, one basis per quarter, does it mean that the pressure on asset management fees are over and then we should expect their flat or is a investment seasonality in this figure?

[34:52] Sperendio – There are no seasonality. The main thing is that declined quarter on quarter, but you can see by the [incomprehensible], that's something important to know. Of course, if Selic stays 6.5% for longer, this competition might increase, of course, we need to respond by providing more qualified advisory, financial advisory services to client in order to improve their capital allocation and increase their exposure to private securities and to the stock market itself. Well, we expect, we consider a trend to management fee that keep declining, but a lower basis every quarter. Remember it used to be 200-300 bps per quarter, three hundreds per quarter, two hundreds; it's more close now to a hundred per quarter.

[36:03] Rothe – Just to add: it is part of our job to offer new set of products to our clients in the pension plans, so we can have funds with carries a higher fee, but it is part of what we have been doing, so that is going to be a positive impact from one side, but on the other side, we want to increase the participation also of low income and middle income people, in pension plans. They tend to be more conservative in terms of what they do, they are going to compare a more saving than anything else, so fix income funds tend to grow with a higher, you know, management fee, in this middle income kind of clients, than what we charge in private clients, for example, they tend to be lower than the multi mercado fund, and equity fund, so on and so forth. So, the trend over time we tend to grow the participation in the total management fund through this type of higher management fee types of fund. Ok?

[37:20] Mario Pierry, Bank of America – Ok, thank you very much.

[37:27] Moderator - Ladies and gentlemen, as a reminder: if you like to pose a question, please, press *9. Ladies and gentlemen, once again, as a reminder: if you like to pose a question, please, press *9. Ladies and gentlemen, our next question comes from Eduardo Plural.

[38:29] Eduardo Nishio, Banco Plural – Hi everyone, thank you for the opportunity. Nishio here. Question to Bernardo. Bernardo congratulation for the new post: just wondering, if you, as a few days you've being in charge as a CEO, just wondering your views and what you can do, any changes you can do to make BB Seguridade growing faster than has been for the past few years. If you can give us your impression and what strategies to boost earnings, I would appreciate it, thank you.



[39:10] Rothe – Thank you Nishio, for the question. You know, I can tell you that, first, two quarters of the year it is pretty much done, because you have [incomprehensible], so we are going to see the good job done last year, that is going to start reflecting in the results that we are going to see this year. What I'll try to do here is to focus on client satisfaction to make things more sustainable over the time, even in that increasing competition. Insuretechs coming to the market and so on and so forth, so we have to increase client satisfaction with our products, we have to increase Banco do Brasil's employee's satisfaction in selling our products. We are going to focus pretty much in improving our products, improving the process of selling our products throughout different channels, the digital journey has to improve and we are going to do a lot of things on terms of that, because we have also a new brooker, right, the digital broker Ciclic. So we have to improve the portfolio product in Ciclic to grow. So we have several measures that we are going to focus from now one to make results improve and prove sustainable over time, not only thinking about 2019, but thinking also 2020 and so on. So, you know, focusing on client satisfaction and improvements of products and profits of selling our products that are the main drivers strategies in this year.

[41:02] Eduardo – Ok, thank you so much.

[41:19] Moderator – Ladies and gentlemen, this conclude today's question and answer section. I would like to invit Bernardo Rothe to proceed with the final statements. Please, Mr. Rothe, go ahead.

[41:32] Rothe – I just want to thank everyone for participating our conferece call, you know, we have all our IR team at your disposal to clarify any doubts that you may have in terms of our performance last year and what we expect for this year, so thank you very much and see you in the next conference call. Bye.

[42:01] Moderator – With this, we conclude BB Seguridades Conferece Call for today. As a reminder, the material used in this conference call is available on BB Seguridades Investor Relation Website. Thank you very much for your participation and have a nice day. You may now disconnect.