



[00:03] Moderator – Good morning, everyone, and thank you for waiting. Welcome to BB Seguridade's 1st Quarter 2019 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: <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 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. Bernardo Rothe, BB Seguridade's CEO, Mr. Werner Suffert, BB Seguridade's CFO and Mr. Rafael Sperendio Head of Finance and IR. Please Mr. Sperendio, you may now begin.

[01:50] Sperendio – Thank you. Good morning, everyone, and thank you for joining our 1st quarter earnings call. I am going to take you through this presentation. Let's start on page number 2 with the main highlights of the quarter. On our net income reached R\$1.0 billion in Q1, almost 12% YoY. As you can see on the chart on the lower left-hand side, the increase in the net income was given by the robust performance of financial results, while the operational results remained almost flat YoY. The R\$1.0 billion that we delivered in Q1 is equivalent to Return on Average Equity of 59% annualized, reminding that this is the 1st quarter that we are reporting with the full effect of the restructuring of the partnership with MAPFRE, that cleared almost R\$2.7 paid as an extraordinary dividend early this year. So, these were the main drivers for this increase in the return on equity growth in Net Income. Regarding the commercial performance, on a proforma basis, that is replicating the effect of the restructuring that ended up 2018. For the full year of 2018, the insurance premium grew 17.5%, with credit life standing out by growing 82% YoY. Term life also posted a very strong performance, 9% YoY. In our pension business, the main highlight came from the financial results helped by very favourable dynamics of the inflation index on the final benefit portfolio, and redemption rate reached its all-time low. In this ratio we do not consider in net transfers, it is adjusted pure redemption. Asset under management were up 9% over the last months reached R\$263 billion by the end of March. In premium bonds, inflows grew 6.2% and at the broker, commissions increased 9.3% given the solid commercial performance across the different businesses that I have just mentioned. Moving forward on page 3, we have the main drivers of the net investments income, financial results. On the negative side, we have a lower average SELIC rate as compared to the same period last year. Also, immediate impact coming from the dynamics of forward yield curve, as you may see on the upper right-hand side, the yield curve moved down less than the same period a year ago, which implies in a lower mark-to-market gain in this quarter. On the positive side, we had at Brasilseg, our insurance operation, this the disposal of some securities that were classified as available for sale, which added roughly R\$43 million in financial results before taxes at the insurance company. Also, we saw a very favourable dynamics, as I mentioned, of the Inflation index that helped a lot the financial results coming from the defined benefit pension plan at Brasilprev. It is worth reminding that most part of the liability of the Defined Benefit Pension Plan are pegged to IGP-M and the cost of the liability is calculated with a one-month lag on average.



While the assets that are composed of securities pegged to both IGP-M and IPCA with a slightly higher share of IGP-M coupons and the yield, in this case, is calculated using the current inflation index. As you can see on the lower left-hand side, financial expenses were favoured by the deflation posted by the IGP-M in the fourth quarter last year, while the yield on assets was helped by the inflation posted by those indexes in Q1. So, this is a reversing in the losses that we posted in Q4, as we anticipate our last earning call is now helping the quarter financial results of Brasilprev.

[06:51] Sperendio – The final outcome here, we combined financial results, we are at 61% YoY, and accounted for 29% of the net income. A level that we clearly think that is not sustainable going forward, but we believe that financial results will lose its steam to operating results throughout the year. This is an expected dynamic going forward. On page number 5, we have the performance of our insurance business, Brasilseg. Just a brief disclaimer before diving into the numbers here. It is worth noticing that within the restructuring of the partnership with MAPFRE, besides being very positive in terms of profitability, it was a net negative in terms of premiums. The company we divested there were bigger in premiums than the ones that was incorporated. So, just looking at apples to apples compared on years, it is better to look at proforma figures. So, premiums written grew 15.4% YoY driven mainly by Term Life and a solid commercial performance in Credit Life at 82%, driven mainly by individuals. On page 5, we have the key operating metrics at the insurance segment. So, the Combined Ratio was affected by higher Loss Ratio given the El Niño effect, that affected mostly the crop insurance and the G&A ratio shows 2.7%, due to a higher contribution to the rural insurance stability fund, which takes into consideration the operating results of the crop insurance on a cash basis. That is why the contribution to the funds was not affected by increasing of frequency of claims because there was just in an accounting porpoise and not in a cash basis yet. So, we can expect that these expenses will normalize going forward at a lower level compared to the 1st quarter. Another effect that impacted the Combined Ratio was the increasing G&A Ratio, as I mentioned, but now, more concentrated on a work that the insurance company has been done related to the revision of probability of losses related to civil contingencies and also the regularization of some of transitory accounts judicial deposits. This work is going to be done until the end of this semester, impacted somewhat the key figures, but this is going to normalize over the next quarter. Moving to page 6, we have the financial results of this business, 129% driven mostly by these disposable securities there were previously classified as available for sale, but this very strong performance in financial results was not enough to offset the weaker performance in terms of Combined Ratio, that is why earnings are coming flat compared to the 1st quarter last year, mostly because of the El Niño effect and the impact in G&A, that I explained before. On page 7, now going to discuss the performance of our pension business. Total deposit grows 6.2% YoY, while assets under management grew 9% over the last 12 months. The Management Fees growing slightly less as compared to the pace posted by reserves given the reduction on the average management fee charged. That has been decreasing one b.p. per quarter, as expected. It is not different from previous periods. Finally, in terms of Net Income comparison were up by 45% as compared to a year ago and helped by the solid performance of financial results, as I just explained. Moving to Premium Bonds Collection were up at 6% YoY, driven mostly by the single payment bonds, while net income dropped 34% YoY, given the compression in the net interest margin, as you can see in the lower left-hand side. They are pretty much straight forward. The lower average SELIC rate and lower mark-to-market gains, as discussed in the analysis of financial results. Besides also, the lower rate investment yields that we have been seen, in terms when we are investing the proceeds of the company. Moving to page 9. The brokerage commissions were up 9% YoY, driven by a very strong commercial performance across different businesses, but mainly in pension that added roughly 30.000



new pensions accounts, periodic plans that they have a very big contribution to the commissions, besides very strong performance in insurance mainly in Credit Life. Besides commissions increasing 9%, Net income grew slightly less, 6%, and the main reason for growing less was related to declining in the EBIT margin that falls 200 bps YoY, and the main reason was the increasing the number of items sold out as we pay Banco do Brasil, we reimburse the cost on a cash basis. Every time we have an increase in the numbers of products sold, we have compression in the EBIT margin. But this is pretty much straight forward, going forward we don't think it is going to repeat, it's going to normalize, as we have been changing our focus to products with a higher tickets or closer to the average from second quarter on. To wrap up the presentation. On page 10, we have our guidance monitor show in the 1st quarter we outperformed in two indicators: Adjusted Net income and Premium growth at Brasilseg. We believed that is too early to make any kind of revision now and the factor that led us to overcome our earnings guidance statistics are related to the performance of financial results, we don't believe it will be repeated throughout the year. In terms of outperformance at Premium Written, we observed that Credit Life specifically was the main driver of this outperformance, and Credit Life will be able to maintain such a strong performance when it starts to pay hard comps from now on. We are still cautious and now, we believe that both indicators will converge to the guided range over the next quarter. That is all and now, we can jump to the Q&A Session.

[15:33] Moderator – Ladies and gentlemen, we will now begin the Question and answer session. If you have a question, please, press *9 on your touchtone phone now. To withdraw the question press *9, again. Please, hold on while we collect the question. Our first question comes from Tiago Batista with Itaú BBA.

[16:03] Tiago Batista, Itaú BBA – Hi, guys, good morning. The first question I have is about the loss ratio in every business segment. For sure, we saw a big increase in the loss ratio, for sure this level will not continue for long this time. But, it is possible to see some normalization or some decline in this loss ratio in every business already in the second quarter, or this is more a movement we can expect for the second half of the year? The second question... If you can give a little bit more color about the net inflows in the pension business. We saw a material reduction in net inflows in the 1st Q. Can you give a little bit of more color of the trends that you are seeing in the inflows in the pension business?

[17:00] Suffert – Thank you, Tiago, for your question. Werner, I will answer the first one and Rafael will answer the second one. The crop insurance loss ratio was in a very high level during this 1st quarter, due to the El Niño effect. We believe that this loss ratio will start to drop in the second quarter on. This, of course, will be higher than other crop cycles because started at a higher level, but it will be much lower than the annualized numbers from this quarter. It will reduce throughout the year, but it will be at higher levels than the ones we had in 2018. OK?

[17:50] Tiago Batista, Itaú BBA – OK. Thank you.

[17:53] Sperendio – Regarding the pension business, Tiago, we saw a drop of roughly 50% in term of net inflow. Of course, there is some effect from the competition, that specifically talking about Q1 figures, the distribution network of Banco do Brasil had a big focus on a periodic plan. It is a portfolio that has lower ticket as compared to the average. It manages in terms of inflows, if we were to compare total inflows grew 6% YoY at Brasilprev. If we were to look at how much Brasilprev contributed to commissions at the broker at the growth of commission rising from the sales at Brasilprev's products increased 17%, almost three times. It clearly shows



the strategy of the focus on these periodic plans in terms of a number of active pension plans in the company; we saw a jump of 30.000 new plans added in the 1st quarter this year. Because of this lower ticket, we saw an impact on the total inflows. That's why net inflows declined by almost 50%. We kept this focus until March, late February, and end of March. April 1, we are moving our focus toward the sporadic plans, now, in the second quarter. They have higher tickets, we believe that the net inflows will normalize from now on. This was, more or less, the dynamic that it has occurred, in the 1st quarter. I am not sure if it was clear enough, but the main summary, the focus on periodic plans that have lower tickets.

[20:24] Tiago Batista, Itaú BBA – OK. Very good Rafael. Thanks Werner.

[20:32] Moderator – Ladies and gentlemen, as a reminder: if you would like to pose a question, please, press *9. Ladies and gentlemen once again, as a reminder: if you would like to pose a question, please, press *9. Ladies and gentlemen, this concludes today's Question and Answer section. I would like to invite Mr. Sperendio to proceed with his closing statements. Please, Mr. Sperendio, go ahead.

[21:41] Sperendio – I would like to thank you, everyone, once again, for joining on our earnings call. Our investor relations team is available for any further questions you might have. Thank you and have a good day.

[22:00] Moderator – With this, we conclude the BB Seguridades Conference 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.