

Operator:

Good morning, everyone. Welcome to the Porto Seguro S.A. Teleconference to discuss the results regarding the 1Q17. We have present at the event misters Fabio Luchetti, CEO; Marcelo Picanço, CFO and Investor Relations Officer; Celso Damadi General Financial Director and Controller Officer, and Ricardo Fuzaro Investor Relations Manager.

We inform that the presentation is been recorded and simultaneously interpreted into English. All the participants will only be listening to the teleconference during the presentation of the Company. Next, we will start the questions and answer session when more instructions will be provided. If any of you gentleman require any assistance during the call, please ask for the help of an operator by entering star 0.

The audio and the slides of teleconference are been presented simultaneously on the web at the address www.portoseguro.com.br/ri and on the platform Engage-X. On this address, you will identify the banner with the title "Teleconferência", which will conduct you to the presentation platform. Questions may be also submitted through the webcast platform, by clicking on the icon "question to the speaker", "*pergunta ao palestrante*". Those questions may be sent at any time and will be answered live during the teleconference.

Before we proceed, we would like to clarify that possible statements that may be made during this teleconference related to the outlook business of Porto Seguro, operational, financial projections and goals, are beliefs and assumptions of the senior management of the Company, as well as information that is currently available. Future considerations are not assurance of performances. They involve risks, uncertainties and assumptions, because they refer to futures events and therefore depend on circumstances that may or may not occur.

Investors must understand that general economic conditions, conditions of the industry and other operational factors, may impact the future performance of Porto Seguro and may lead to results that are different, quite significantly of those expressed in such future configuration. Now we would like to give the floor to the Company. Please, you may proceed.

Fabio Luchetti:

Good morning, everyone. I thank you all for the participation on our teleconference the results of 1Q17.

So, looking to slide number three, we have the numbers. The economy is still in recession and the drop in interest rates has impacted our performance of the quarter. In addition, on the auto industry we had more competitiveness in the beginning of the year along with our price policy in a more conservative way, but we needed to do it through our margins and profitability, and that made our growth slightly more difficult.

On the other hand, we see some signs of improvement to the economy, inflation is in under control, we have sales of new vehicles by April that dropped in a slower way, 2%, and credits for acquisitions of cars has increased 16% over this period.

The rate of the liability on the insurance, divulged by FENACOR, shows that the whole market is more optimistic.



Social security and financial services have had better performances. Operation and profits have increased over 20%, confirming our strategy of diversification of the business. Expenses are under control, are below inflation, and administrative expenses have remained stable, even at the challenging scenario for the growth of sale.

Financial investments have generated a performance above CDI, however, it has not been enough to offset the drop in interest rate we had over this period. In terms of novelties, we have a private pilot project with automatic cars and we have some bicycles and electric motorcycle, and public transportation.

Those initiatives are more agile transportation means, actually reducing the impact to the environment and actually contributing to the environment. Sustainability is a principle that we adopt to the development of all our products and services.

So, to close, we are paying attention to the challenges and prepared for more adverse times, as we keep with our policies of fostering and developing these businesses, especially in terms of what we are doing about policies.

In terms of our diversification of products, we seek to provide innovative and synergic solutions and providing more options to the main channel, which is the insurance broker.

I would like to ask Marcelo to detail this part of operations so that we can open up for questions. Thank you very much.

Marcelo Picanço:

Good morning, everyone. Thank you for your time and interest. We had an increase by reducing total revenue; it has been difficult quarter for expansions, especially in the auto industry. The total revenue grew 1%, in line with the same quarter of the last year.

This is reflected in our *mix*, we dropped 2.7% in terms of total revenue, reaching 83%. We have continued to grow in other products of insurance where we have a participation that is smaller, in line with the policies of the Company by diversification of business where we have differential products, for example, insurance related to people.

And we also have the result of insurance operations on page five that is a bit above regarding the Combined Ratio, that we had 99.1. Actually, combined is still high for insurance operations and we had the amplified, we had an increase of 1.4%. This is part of the financial results, despite we have actually exceeded CDI and Selic, since we were above that, we were working with a higher Selic last year, and these impacts the amplified combined, an important concept for the Brazilian market considering relevance of financial revenue in the total of our result.

The insurance profitability regarding market scenario, which we are still having premiums, which we are still compressed regarding needs, be it for the increase in frequency and actually resetting margins in the past, actually had decreased, reached a bit below 10 % of our capital, it is a bit below that of the last year. It has been showed in a preview stage of the margins we have seen affected by the auto. But, when we talk about other businesses, not insurance, financial services and services we had a situation that has been quite strong of 19%, almost 20%, and return on accumulated equity of over 10%, and profits extended to 38%.



The main factor to this recovery is related to expansions of revenue and business with credit card, that was the third factor and we equalized the risks, we had to compress revenues a bit, we were able to get the risk to levels that we consider healthy and, with this, we allowed the expansion of profitability with controlled risks.

And also our other businesses, in services that have also started having better results than those presented last year, in line with the growth expected in certain business cases, the stages are quite initial or intermediaries, so many of them are going to a breakeven and certain situations that are similar.

Speaking a bit of financial operations results, we have 3.4% of profitability, regarding 112% of bank deposit or CDI, and we mainly have that because of the positions and the differences between the Real and the market, and also variable income, it has been a quite productive quarter regarding our divisions.

And because of the smaller average CDI, we had a reduction of 13% in the financial result regarding 1Q16, we had 119% CDI, 126%, and we have also pension funds with quite vigorous results. The comparison we had this year it is against the quarter when we had best result in two years of performance so, we have to have the perspective there.

On slide eight, the main conclusion we have is that we maintained the strategic allocation very much in line with what we done in the past years and quarters, maintaining higher shares, so there is an oscillation between 2.5% and 3.5% in terms our position. We also made some reduction in pre-fixed. This depends very much on the time, and we have certain fluctuations that are relatively small, considering our history.

And our use of risk measured by the percentage of stress, we exposed our portfolio, it is also in line with what we have seen in certain high in the 1Q, because we believe that we got it right, that the allocation was quite positive for the scenario. And volatility even dropped.

And lastly, on slide nine, we have generated net earnings of R\$216 million, a reduction compared to 1Q16 10%, and a return on capital, we had a reduction of 3 p.p. regarding last year.

Mainly, when we look, we have seen a decrease of R\$34 million in the result of insurance that partially offsets, but not totally, by financial and service businesses with R\$12 million and the controlling company that has part the excess, generated R\$3 million below. This is actually the main impact was the result of insurance that has dropped over 30%.

With that, I would like to open up to questions. Thank you.

Gustavo Schroden, Bank of America:

Thank you. Good morning. I would like to ask two questions. First, I would like you tell us the competitive environment and in terms of pricing. It has been mentioned that there is competitiveness in the industry, but I would like to understand with more clarity, what has been more competitive or not and if you have been able to place or readjust prices in the automobile sector the way you expected or if you are having more difficulty compared to what you expected before.

My second question is also regarding autos, our ratio that has grown in the past 12 months at least. In your mind, when will you reach a peak? Have you reached the peak, or is it going



to take more time? For me to understand the trend of the hike; if there is difficulty regarding the auto insurance? Thank you.

Fabio Luchetti:

Thank you for your questions. Regarding the competitive environment, actually, this quarter has been quite complicated. Still is. We noticed a slight move, the market to move to a better scenario, very slow, considering the scenario we have been in, the economy, security, the drop in interest rates.

The market will be much more nimble considering the growth in 2016. We expected the 1Q would have a tougher reaction. Unfortunately, it hasn't been as we imagined, but we have some signs that people are actively moving.

Regarding prices, we made all the adjustments we considered correct, although the performance has been worse because we started aligning businesses to line last year, but because it is a bit longer, we had a cycle of 2.5.

We've gone through six months, when we look at the crops, the crops fit here, so prices will then be according to the outlook of claims we would receive.

And then I'd answer the question of claims, understanding if we reached the peak of the loss ratio has reached its maximum, and some states have reached an absurd point, Rio de Janeiro, we had 40%, over 40% in terms of loss ratio. And what we see in the media.

I think the scenario is clear to anyone that is currently looking at this hike, well it's much better to look ahead rather than back, and if you do our homework, we understand that our challenge is to recompose our revenue from this point of view of underwriting and pricing. We're well positioned.

Gustavo Schroden:

Thank you. Just a follow-up to the two questions. When you say the loss ratio has reached a peak, do you believe that the effect of repricing that started last year will start having an effect here? Or is it because you had a view of stabilization in these frequency claims, not only Rio de Janeiro and other capitals you would expect.

Fabio Luchetti:

I would attribute to the price. Our price is very well positioned, and that is why we may have lost some states or market shares to actually give everything to prices. We see that the current situation in the country, there's no sense in putting the price down.

In terms of frequency, we see an increase here and there, but this is very specific to some states, when you take a state like São Paulo, there's a gap there, and certain states reached that level, we won't have more loss ratios. In Rio de Janeiro, I think it'd be more of a critical point, but the state itself, the platform, everything. Everybody is moving to try to control violence there.

And from now on we move towards stabilization.

Gustavo Schroden:

Thank you very much.

Tiago Kapulskis, BTG Pactual:

Good morning. Thank you very much for the possibility of asking questions. I have two questions. The first one is regarding non-insurance business, that is becoming more relevant in the Company, it is already 20% of bottom line. It was 13% a year ago.

What level can this area reach, considering your focus on diversification, other lines that are not, for example, auto, insurance lines? And my question in this regard is regarding credit cards. We have the changes in the rotation, and we had April, the month of implementation. And how do you see this dynamic of delinquency? Has it been more or less what you imagined? So, these are my two questions.

Fabio Luchetti:

I'll speak more about the non-insurance, for cards I will let Picanço talk, because he has more details on that, regarding the revolving credit.

We do not have a clear, saying "non-insurance, we want it to account for 30%, 20%, 40%, 50%". We have a strategy that has to be strong, that we can benefit from the synergies, from the block of customers that come through insurance, which is very large, distribution channels, brokers that have lots of relations, and introduce a new product that certainly have better margins, so there are certain products that are being placed in our society.

For example, even within insurance you still have home, life, funds, pension funds. Auto suffered more, the distribution network ends up speeding up a bit, but that's our wish, even though we have, in our strategy, we try not going to go to open sea to operate with cards, Conecta, these things mature over time, as we did the consortium today.

The broker channel in the past accounted for 5% of consortium, now accounts for 40%. So, the distribution channels gradually learn how to introduce these products. If the market is competitive to us, it's also to them. And, above all, to us, this growth is important, not only because it helps decrease in our strategy the price, also profitability, but also the distribution channels for us, it is interesting that it is in line with our policies and strategies.

So, our outlook in a very macro point of view in the mid, long term is that we can actually reduce the dependence on the south, southeast regions in Brazil, and insurance especially. It's a great opportunity for relationships to us, but our great dream is that the net income of Porto Seguro, but also accounts for 30%, not the margins represent here today, so we're working hard on that.

And we noticed that we've been able to evolve and the crisis that this year has been going through, actually that's through the strategy we have.

And I'll ask Marcelo to explain the revolving credit, on credit card and the impacts we noticed. Thank you.

Marcelo Picanço:



Just add something that Fabio said regarding cars, we had a strategy of the product aiming very much to work with synergy with customers with our clients. The best way, we see the possibility of actually exploring our internal bases that are far from saturation. So, we still have a possibility of growing the products, specifically of the cars, and within our internal basis with synergy, more than what we have today.

So, the most penetrated portfolio did not reach 40% in terms of penetration. So, we need more penetration, credit cards and insurance portfolios.

Specifically talking about the change and recent changes, I believe that first of all, the first months to look at that, would be May, because April was the first maturity, people are still on revolving credit. The transfer to a model of payment of invoices on installments will actually be effective as of May, and the critical variables.

So it is too soon to talk about it because we haven't seen the margins in this new model. People have not chosen them, those have started earlier in the month, they have not yet the maturity, that would be in June.

So, they have to look at this, but not only delinquency. The main factors to ensure that we have results that are balanced, that do not suffer a compression towards the end, is related to the average terms clients would choose in terms of payment, invoices on installments, and that may lead to greater risks because this is not clear. On the other hand, it means smaller installments that do not overload the pocket of consumers so much.

So, we have to see which one will impact more, whether installments are lower or the terms are longer. So, the unemployment dynamics affect less the population in general, since we work with a more specific customer base, we are less fearful of unemployment rather than the open retail.

But obviously, the midterm aspect is perhaps the most critical variable to be observed, more than the delinquency. And we are always going to have the clarity about a month, a month and a half.

Tiago Kapulskis:

Perfect. Thank you very much for the answer.

Marcelo Picanço:

Just to close, our expectation is to seek to maintain results close to what we have today, without major losses in terms of our bottom line.

Tiago Kapulskis:

Perfect. Thank you very much.

Gustavo Lobo, JPMorgan:

Good morning. I have a question that is more geared to midterm. Correct me if I'm wrong, but over this period of cycles of interest rate with the market of insurance under pressure, we go through a transition period in which the ROE of the Company will be a bit below the normalized level.



First, I'd like to understand whether it makes sense to have this estimate, and second, how long should this transition period take, and third, what should be a sustainable level of ROE in an environment of interest rates in terms of insurance?

Fabio Luchetti:

Hello. Thank you for your question. Considering the scenarios you've mentioned, obviously the expectation of ROE tends to be lower than in the past year. We estimate that it's feasible to work with a number of 15% looking ahead, and transition considering trying to fit all the adjustments necessary in terms of pricing, everything, we estimate that it'll take a year, year and a half, approximately, so that we have full transition, and then work with future outlooks to get back to a level of 15%.

Gustavo Lobo:

Thank you very much.

Eduardo Nishio, Banco Plural:

Good morning, everyone. Thank you for the opportunity. I have two questions. The first one is related to guidance that you mentioned in the call last quarter. I'd like to know how to think about that. You had a growth of 10%, increasing 1, 1.5 to 2. And I'd like to know how you see these dynamics now that the 1Q has been reported.

Regarding cars, my question is how are we going to see this dynamic over the quarter? Picanço mentioned that your target was to maintain profitability of the portfolio, but if you simply do simple math, you see that the impact of interest rates is relevant. There will be a negative letter in the 1Q because of this change, you have interest rates on cars dropping significantly or not.

This said, you have some variables that you do not know yet, but I'd like to know what the estimates are, even if you have great compliance to installments and favorable terms, how do you see the impact?

And still regarding midterm, what would be the average term of the credit card portfolio before the changes that have been made? If it is 20 days, 30, 40 days? This is usually the duration of your portfolio regarding the changes. Thank you very much.

Marcelo Picanço:

Thank you for your questions. Let me make something clear. When I talk about bottom line in the profitability of the portfolio, not referring to credit only, all the revenue lines that I am referring to. The most important thing to say is we came to fund in our business, which is lower considering the profile of the customer than the tendencies other sectors have. So, below 15%. Some people are working on 40%. So, the impact of that portfolio is very high.

When I talk about inflation we have other credit lines. We have other revenues that actually, in terms of fees and sales that we make, the car protections that we call massified operations that we can offset that. This is not a promise, but we're actually working with a mindset of seeking lines of offsetting the drop.



We have noticed this may happen, but let me make it clear that we're not only talking about credit revenues.

Regarding the second question, the average term of the portfolio, we have a trend on the short term. Well, this is something that is regarding our strategy; maybe other people may see another way of actually calculating that, but something we cannot answer.

I'd like to ask you to kindly repeat your first question, we had a little flaw and we couldn't actually understand it.

Eduardo Nishio:

The first question was regarding to reinstate, if you could give us some information on the top guidance that you mentioned regarding the results of the 4Q that you saw in 2017. IPS growth was 10% for the year, and the improvement with a combined ratio of 1.5% to 2%. And if this is still your prevision once you have reported the 1Q.

Ricardo Fuzaro:

We cannot give top guidance, we end up being penalized by CVM. We assume that we have the possibility of increasing the return regarding the past, but we do not inform the value because of this.

Eduardo Nishio:

I understand. Thank you.

Operator:

Since there are no more questions, I'd like now to give the floor to the Company for their final remarks.

Fabio Luchetti:

I'd like to thank once again everyone for your questions, inputs, for the interest in our Company, and take the opportunity to reinforce that if you have any additional questions, feel free to contact our department of investor relations, or access our website, which is www.portoseguro.com.br. Thank you very much.

Operator:

The Porto Seguro teleconference is concluded. We thank you for the participation, everyone, and we wish you a good day.

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