

Operator:

Good morning. Welcome to the conference call of Porto Seguro S.A. to report the results of the 2Q16. Today, here, with us, we have Mr. Fabio Luchetti, CEO; Marcelo Picanço, CFO and IRO; Mr. Celso Damadi, CFO and Controller; and Ricardo Fuzaro, Manager of Investor Relations.

This presentation is being recorded and simultaneously translated into English. All participants will be in listen-only mode during the Company's presentations and, then, we are going to start the question and answer session, when further instructions will be provided. Should any of you need any assistance during this conference call, please, request the help of an operator by pressing *0.

The audio and the slides of this conference call are being simultaneously broadcast on the internet at the address www.portoseguro.com.br/ir. At this address, you will find a banner called Webcast 2Q16 that will lead you to the presentation platform. You may also ask questions through the webcast platform by clicking on the icon "Ask the Speaker". These questions may be sent at any time and will be answered live during the conference call.

Before proceeding, we would like to clarify that statements made during the conference call relative to Porto Seguro's business prospects, operational and financial projections and targets are beliefs and assumptions of the Company's management and are based on information currently available. Forward-looking statements are not guarantee of performance, they involve risk, uncertainties and assumptions because they refer to future events and, therefore, depend on circumstances that may or may not happen.

Investors should understand that general economic conditions, industry conditions and other operational factors may affect the future performance of Porto Seguro and may lead to results that will be materially different from those expressed in such forward-looking statements.

Now, I would like to turn the conference over to the Company. Please, you may start.

Fabio Luchetti:

Good morning to everyone. I thank you for your participation in this conference call to report the earnings release of the 2Q16. Starting on slide number three, you are going to see the main accomplishments and highlights.

On the 2Q we have had a growth in our main business line mostly associated with our geographic expansion strategy, and also our focus on project diversification, which has contributed to enhance our client base.

We have implemented many actions to improve, we also took advantage of cross-selling opportunities. We have added a considerable number of brokers, such as the case of life insurance, pension and also property insurance. And we have had a growth in premium of around two-figure numbers.

In auto insurance, the market has decreased by 4%, and our three brands increased by 6% in the quarter, thereby strengthening our market share leadership in the country, except for the South and Center West regions of Brazil, where we are second.

The insurance fleet has grown by 7%, reaching 5.5 million vehicles, and we added the 600.000 lives in person insurance, thereby reaching 7.5 million life insured. Additionally, we have also grown 14% in the number of our lives and dental insurance, getting to almost 0.5 million life insurances issued in the quarter.

On the other hand, the Company's operational result has decreased if compared to the same quarter last year because of a higher loss ratio, which has also had an impact in our bottom line, especially in auto insurance. The loss ratio of our auto insurance has increased about 2 p.p. until May, in line with the market.

Also in the 2Q15 we had a lower loss ratio than our historical leverage, thereby offsetting our comparison basis strongly. In terms of structure, our productivity gains have provided good results, and administrative expenses remained almost flat during the quarter.

In terms of financial results, we outperformed the benchmark, partially offsetting the lower operational results. We are working to improve our profitability during the year, and we believe that some of the events that had an impact in this quarter's results were quite atypical.

Now, I am going to turn the conference over to Marcelo to continue the presentation to give details about each business line.

Marcelo Picanço:

Good morning, everyone. Thank you for your interest in our conference call. I am going to briefly go through the main highlights of our financial performance. Initially, revenues in the 2Q have grown 7% combining all our business lines, the insurance financial services, general services, and the growth in the quarter has reached 6%.

In many lines, this is the growth above the rest of the market, especially motor insurance, even though it is below our historical level of growth over the past few years, and mostly due to the macroeconomic situation in the country.

Especially we have managed to grow in some products more than 20% related to people, but in many other lines, in fact, the economic slowdown has affected our two-digit growth.

In terms of premiums, we have managed to remain stable in terms of the share in the total revenue, with a small highlight to the increase of the share of services and a reduction of our financial businesses because of the reduction of our revenues from credit cards.

On slide number five, with regards to our operational results, focusing on insurance specifically, the combined ratio this quarter is well above our history and what we delivered over the past few years, and this is related basically to an increase in loss ratio in some business lines, but especially because of automobiles that have grown significantly this quarter, partly due to climate events that we believe are not recurrent, but we cannot say they are 100% atypical for the time of the year, but they rarely happen, and this year really they were quite more intense, especially in May and June.

We have also had some increase in crime rates, but we cannot yet say whether this is a consolidated trend. And we still need a few more weeks or maybe some months in order to be able to tell that.

So, the combined ratio based on a strong growth in loss ratio of almost 6 p.p., and even with the offset of the financial result, has reached 92.6%, slightly more than 4 p.p. above the 2Q15.

In terms of financial results and services, revenues are flat, 3% in the year, 5% in the quarter. There is a reduction in the revenues from the rotation credit and installments for the credit card, and this was a decision that we made to reduce our risk exposure and to manage the direct risk of this portfolio.

So, we have taken a few credit restrictive measures because of the profile of the customers who decided to pay their invoices in installments. And our risk is very much measured by our bad debt.

We believe this is stable, and depending on how the crisis evolves, it is important to say that it may reduce risk in the future, but in the short term, it affects the following months. And this year we are using different risk measures than we were using in the 1H15.

On slide number seven, with regards to financial results, yield and income, the yield for the 2Q was quite significant, 3.6%, and in fact it was the highest nominal yield, the largest reported yield for the 2Q, and this is because of our reference in the CDI, it is high, and also because the performance of investments have beaten the benchmark. And our benchmark is CDI, and Bovespa, because we also have investments in the stock market, and they also had a good performance at this time of the year.

But especially the main driver that added value here was a fund associated to interest rates and inflation, which have had quite a significant dynamic in the 1H16, especially in the 2Q.

This is not a new allocation. We have been doing it for a while, as you can see on slide number eight. Our allocation historically is from 22% to 28% indexed by the inflation. We have pre-fixed, an allocation that is much more dependent on prices, but we had a relevant exposure here. And in terms of the financial results in the 1H of the year, it was very positive because of that.

In terms of risk exposure of these investments, it did not increase much, to the opposite. We are having a reduction in our risk as compared to the same period last year. Our allocation back then was stronger in pre-fixed bonds, and also volatility has behaved better than it had been in the past three quarters. So, in terms of risk exposure, there was not a significant change.

Last on slide number nine, considering our operational performance and relevant reduction in our operational results, our total net income was R\$175 million, corresponding to an ROAE of almost 12%, 11.9% to be more accurate, and in the 1H16 it went from 19% to 14% this year, and the total year to date net income was 18%, especially because of the results of the 2Q.

Now, after this very brief presentation of our financial highlights, I would like to open for questions and answers. Thank you very much.

Thiago Capucci, BTG Pactual:

Good morning, everyone, thank you for the opportunity of asking a question. I have two questions. The first regards loss ratio. We have been able to see, considering the events, that pricing was not ideal. Obviously it is easy to look at things *ex post*, but there was a significant increase.

What I would like to understand is more or less, obviously, given the estimation of what is one-off, could you give us more color on what is one-off and what is more or less recurring in terms of loss ratio? And what we can expect in the future in terms of loss ratio?

And then I will ask my second question.

Fabio Luchetti:

Hello. Thank you for your question. As we are talking about overall loss ratio, I think we breakdown motor and health, so motor was well above what we had expected, especially considering the economic scenario, even advancing some elective events. Now, in motor, it is about 0.6 above the curve that we were expecting. So, it is very much adjusted over the next few months.

And they are different from what we had in the past. Automobile loss ratios in our portfolio, and also the comparison basis was not really very favorable because last year we had a performance that was much better than we had forecast. The positioning of Azul in other regions of the country, we had also planned that Azul was in fact going to change prices, it was going to be slightly more competitive, it was going to gain market.

So, in comparing the two quarters in terms of automobile loss ratio, there is this effect that we are slightly more competitive in Azul. And so we have about 0.6 in automobile.

Thiago Capucci:

Thank you. This is clear. I have a second question regarding competition. How do you see the competitive environment? Do you see any possibility of a price increase in the next few months for moto insurance?

Fabio Luchetti:

I think that the market has witnessed this movement of slowdown, and some prices going down. But what we have been seeing, on the whole, in spite of the setback, if we analyze combined ratio, especially isolated loss ratio, when an insurance company decelerates, the loss ratio should go down, which is what we would expect.

But what we are seeing is that there is a drop in premium but we are not being able to hold loss ratio. So, this will not create this competition, because people will need to somehow balance their results.

With these prices, I cannot see that there is a downward trend. I think there is an upward trend because parts are getting more expensive. And a recovery of economy will not take place this 2H16 yet, there is violence, unemployment, theft, crime rates,

also, with older vehicles. So, the whole basket that would lead to balance are not really very favorable.

So, we think that the scenario will be difficult to manage in terms of competitiveness. We adjusted prices two or three months ago, and it had an impact in our sales more recently, and we think that after August we will recover our budget.

Thiago Capucci:

Thank you very much. It was very clear.

Francisco Kopps, Safra:

Hello, everyone. Congratulations on Portopark initiative that we find very interesting. The result much more in terms of talking about prospects, I think that the scenario for automobile is quite challenging, both for fleet, which will get older, and because of the reduction in the sale of new cars, and an increase of robbery and theft. So, I think that the scenario will deteriorate over the next few months and year.

And my question is: do you think there will be a certain business mortality in some company that will operate and auto insurance will go down, go out of business?

Fabio Luchetti:

You asked difficult questions. We need to have a meeting to discuss our answer here. I am going to try to answer in parts.

In terms of more business mortality, I think in terms of new cars, all the desire of the middle class in terms of buying new cars, it is going down, but new cars represent just 10% of the insurance market — 90% is old cars. Of course, it is necessary to have more creative models. We launched Auto Roubo Itaú, and people will hire insurance at 80% of the price schedule. It is a simpler type of auto insurance.

And we have just launched Azul Light, and they can have lower rates than the official car price table, but 80% of the sales in the Light is all new, people who have never had insurance before. So, it is a call for creativity.

We have a huge fleet in Brazil today that is uninsured, and we need to find a way to reach the mindset and the wallet of that population. And in terms of the businesses, of companies going out of business, fewer players, I would not be able to tell. It is very much related to strategy, operating overseas, a better understanding the Brazilian market.

Recently we had an agreement with Chubb, which decided to give up the automobile market, they are still in Brazil, but they are no longer operating in auto insurance. The market still concentrated in the segment and we are paying attention. Of course, this is a good position in the market and many insurance companies, sometimes they want to stop and they worry about preserving their small portfolios in order not to affect their brands.

Today is time for us to value that. So this is our position that we have in the context that you have mentioned.

Francisco Kopps:

Thank you, Fabio. Thank you very much, your answer is very clear. Just one second question, much more specific. I would like to ask about CAPEX. Your CAPEX has been quite significant and I see that most of the CAPEX over the next few quarters is related to the development of systems.

Could you give us a little more information about which type of systems those are and its major investments, do you have a date for it to end? Is it on going, continuous, investment? Do you think this will ever become part of your assets, rather than your investments?

Fabio Luchetti:

It is true, you are right. There was a period when we invested a lot in infrastructure, hardware, furniture and the data center, and now we are going up the hill and we are in the software phase. We are finishing our SAP implementation and we are also developing a system for life. There is another system that we call boarding, that we are merging the automobile, a system with all back offices functionalities and operations of Itaú, automobile that we are bringing customers of the bank to our structure, integrating with Porto Seguro automobile system.

This will be quite helpful in terms of reusing administrative expenses and we also have property and causality system, one of the oldest ones we have. We had some problems in terms of scale.

So, we have been investing in terms of property and life. But as a whole, about 80% of our investments in development will end in 2017 and this will be very favorable for future CAPEX.

Francisco Kopps:

Thank you. That was what I wanted to hear from you.

Marcelo Cintra, Goldam Sachs:

Good morning. Thank you for the question. I have two questions, one is a follow-up on the previous comment of Fabio related to CAPEX. New projects, especially for automobile, older automobile. I would like to understand how the implementation is going, pricing and the so called low income insurance, and the use of new parts, is this already out in the market or is the product on the shelf? And then I will ask my second question.

Fabio Luchetti:

Hello, Marcelo. Thank you for your question. Obviously, we have been trying to offer new projects with lower average tickets, but much more in terms of expanding our coverage and benefits, and also looking at segmentation. Of course, young entrants have never had insurance before are much more worried about protecting the property, rather than adding other benefits, as they mature they might add other things.

We are investing and we are quite happy with what we have been seeing. We need to be careful in order to avoid cannibalism in products. We will move forward with that.

In terms of low income insurance, even though it is ruled by SUSEP, it needs to be revised. When they saw that the market was kind of frustrated in the way they published their rules, because they should allow using alternatives or recycled parts, renovated parts is not enough to cater to all the market.

The thing about the low income market is because you are not going to use new parts in a ten year old car. This is relevant to attract a new audience and there was a change in the superintendent at SUSEP. So, we are expecting SUSEP to go back to their agenda, so that this issue may go back to the agenda and might issue a new decision.

Marcelo Cintra:

Just a follow-up: do you have any expectations in terms of whether we should have this review this year by SUSEP insurance superintendent? Have you been talking to them about this?

Fabio Luchetti:

It is difficult. We are expecting to see it in the 2Q, and they did not publish it. It is difficult, I cannot make any commitment. I cannot tell about a day, if anything is to be published, I think it will be in the 4Q.

Marcelo Cintra:

Great. Thank you. And my second question going back to repricing, as you said, and the fleet increase, I understand that Azul may have had some price realignment, but in terms of Itaú, the new origination of the last few months, have prices going down in Porto too? The portfolio, is it already having any impact in terms of your fleet?

Fabio Luchetti:

As for Itaú, there are two effects to analyze. Number one: last year, as we have had many price adjustments, we are comparing an Itaú base of last year that was smaller. There is a growth that is a little bit organic. In Itaú, exposure to fleet insurance of companies is slightly bigger, or it is quite bigger than Porto and Azul that does not even have that.

For this segment especially there was a deterioration in loss ratio. Prices have all been realigned and we are going to recover it in the 2H of the year. This explains a little bit about the loss ratio of Itaú, that it is a little bit off, but this is also related to the fit with the bank channel, internal adjustments of products and especially the previous basis was slightly lower because of final adjustments.

In Porto, a slightly more premium project in the automobile insurance market, and it is still one of the most difficult to position in the economy we are going through, and certainly Porto will reposition itself.

Marcelo Cintra:

As to Chubb, has it already had an impact in your numbers, their portfolio?

Fabio Luchetti:

Not yet. We are waiting for SUSEP final position with regards to that operation and then these numbers will start to show.

Marcelo Cintra:

Thank you very much.

Rafael Frade, Bradesco:

Good morning, everyone. Going back to the loss ratio, that you said in beginning, that your loss ratio was 0.6 above your forecast. When we look, there was a worsening of almost 500 b.p. year on year. I would like to understand how much is just due to the great impact of June or should we expect a good recovery in the 3Q? Or a not so bad worsening.

Fabio Luchetti:

Just a minute, we are trying to explain this to you in the best way possible. Just a second.

We came through an agreement between the 1H, 2H. Actually, as we had an adjustment, expecting that there would be an increase especially in Azul because of the positioning, we are in a dilemma between what happened last year in contrast what is happening now in terms of actual versus budgeted.

In fact, in the 2Q there was a more significant increase and we were off in terms of our forecast because of hailstorm, floods and we are seeing something similar to the World Cup. With regards to the first six months, there was an increase greater than expected. If you look at last year, that is not so relevant in terms of what we expected.

The 2H of the year is historically better than the first one, so we try to recover apart from price realignment that we have already done and (36:03) business. Everything is heading towards what we expected and we are estimating something more or less 3 p.p. increase in automobile portfolio, looking at the year as a whole.

Rafael Frade:

Thank you.

Gustavo Schrobi, Bank of America:

Thank you, good morning. I have two questions to ask. The first automobile loss ratio. I remember the last year there was a quite positive effect in the work with junkyards here in São Paulo, the chop shop. There was an increase in robbery and theft on the 2Q, and I thought that was just in São Paulo.

I know that the chop shop law is not being all that effective. It has been inactive in São Paulo, but I would like to hear if it will be implemented or active in another state.

Fabio Luchetti:

In fact, there was a great impact of the chop shop law in the state of São Paulo, especially last year, but unfortunately, we are not being so fortunate in other states. Things are quiet slow and the market has been doing things also, because of the federation of property insurance companies gone to the public security department and the traffic departments. We want those issues to go into the agenda of other states too. We are expecting to have some positive effects next year.

In fact, there was an increase in robbery and theft, especially higher this year in some states, really going through a really critical scenario of violence, such as the case of Rio de Janeiro. Numbers have gone way up recently in Rio Grande do Sul also. We have been witnessing some violence in some states that also have an impact in the the motor insurance.

We also had an increase in crime rates in São Paulo, especially towards the end of the 2Q and this something very one-off, very similar to the World Cup. In one month there was a sharp increase and then it went back down, and we do not really know what lies behind that in terms of the universe of crime, but we can indulge into a crime conspiracy. There are many theories about that, also in terms of the stock up of drugs that they want to down. This is all beyond our control.

Gustavo Schrobi:

This is very good, thank you. The second question regards your financial results. You said that towards the end of this year and early next year that this should go down. What is the Company thinking about that? Do you have any allocation strategy? What should we expect for the Company in terms of a more challenging financial scenario? Thank you.

Marcelo Picanço:

Hi Gustavo. I think there is a consensus in the market about the drop in Selic interest rate. The only discussion is when and how much, we know that this will come. A normal country cannot have a 14.5% basic interest rate for a very long time, and we are all longing for normality.

There are two aspects here. It is quite simple, but there are two things. One is the operational aspect, and the answer is: we price according to our expectations, our future curves. So if the interest rate curve is going down, we try to increase prices because the operational/financial equation needs to be integrated, and as we are going to have a smaller yield in the midterm, so then we start to put that in prices of whatever we sold today, that in 12 months there will be a drop in the interest rate.

The first aspect is pricing, and the prices need to go up because we are expecting a smaller yield from the money.

Second, in terms of asset management, we already have an allocation, but it is kind of traditional, we call it structural, but that is very much associated to inflation bond and pre-fixed bond. We are trying to take advantage of the time where interest rates are still high, they were high and remained high, so there are some bonds that we have had for quite some time, and they have higher yields. So we are not operating in post-fixed in most of our portfolio, we operate in pre-fixed and in inflation, and this is not a coincidence. It is related to the protection against fall.

We want to have a stability in value, so that we are not so exposed to post-fixed interest rate. We have been doing it for many years, and we keep that strategy. The difference that recently we had in Brazil is the attachment between pre-fixed interest rate and inflation, with many bonds still paying 6.3, 6.4, 6.2 plus inflation. That is really amazing in any geography, and we are also allocating and trying to take advantage of those pricing levels because they seem quite interesting for us and for anyone that has the discipline of caring this through the long term, which is what we do.

Gustavo Schrobi:

And just complementing, these pre-fixed bonds that you have, have you contracted them recently? Can you somehow offset the impact of the basic interest rate next year with the bonds? Can you kind of protect your financial results, shield it with the pre-fixed bonds?

Marcelo Picanço:

Actually, in the market it is longer than 12 months, so there are some bonds with longer duration, in the long term, because they are not disappearing in 12 months. So the model of banking, current account and treasury, they know that the money will stay there and renew, so durations are longer than that. It is close to three years.

Yes, we can go through falling interest rate, keeping yield in a structural part. Of course we also have treasury, it is more tactic, with where we win and lose depending on management. We have bonds that we bought some time ago, a year ago, and more recently, even less than one month ago. I think we are capturing an interesting yield.

If you look at the average level of the curve, and if you look at the Selic, CDI, there are some bonds that are below that, as the face yield that keeps the relationship with the CDI is more positive and more interesting. I think we are relatively hedged against a drop, but we can partially offset a relevant drop in the interest rate.

Gustavo Schrobi:

Thank you very much for your answers.

Philippe Semple, Rosas Participações:

Good morning. What is your technical vision in terms of your current volume for the next few years, that you imagine that might be necessary to increase provision? Thank you.

Celso Damadi:

We are really compliant with SUSEP standards in terms of pension, health, automobiles, other portfolios, all of our reserves are very appropriate, very compliant, and I do not see any novelty coming up in the future, apart from the normal business increase.

Philip Semple:

Thank you very much.

Domingos Falavina, JPMorgan:

Good morning everyone, and thank you for the opportunity. This is more related to credit cards. There was an increase in provisions in spite of the slight drop in coverage, an increase in provision to R\$80 million from R\$40 million in the last half of the past year, and R\$70 million in the 2Q15. Do you think it will be around R\$80 million in terms of your provision? How should we think about this number? If it is going to go up, down or flat.

Marcelo Picanço:

Actually, our expectation is stability to drop in terms of performance. What we have in the portfolio, part of the credit that was given still due to a more aggressive policy is an example, with a slightly smaller score.

As the bond are redeemed or if their headed towards the final loss and are taken out from the portfolio, the newer part of the portfolio, those acquired more recently, will have a better bad debt performance. And we think that those provisions may go down because of operational performance, not because of accounting adjustments.

Of course, there are some adjustments in provision models that are related to evolution of the models and recognition, variable that changes, but I think we have already reached a high maturity level with that regard and we are not expecting any development ex operation in terms of what is happening, in terms of booking.

Domingos Falavina:

Thank you. And taking the opportunity, TJLP is higher. It is leaving all financial companies with a reduction. What do you think is more reasonable in terms of the interest on equity rate?

Celso Damadi:

Domingos, JCP is higher this year, but as a reminder, there was an increase of social contribution on the income, from 15% to 20%. So I think the effective tax rate of interest on equity will sort of compensate the tax increase.

It will almost amortize the 5% tax increase we have just had. On one hand, the tax rate went from 15% to 20%, but then on the other hand, we have the compensation of the increase of TJLP both in terms of equity and our long term rate.

Domingos Falavina:

So working with a flat year on year would be reasonable?

Celso Damadi:

Yes.

Eduardo Nishio, Brasil Plural:

Looking at future quarters and next year, how do you think the market will behave? We have a scenario of dropping interest rate, higher unemployment and robbery and cars theft. Do you think that the price increase will be able to offset the drop in interest rate?

Fabio Luchetti:

Hi, Nishio. Thank you for your participation. Well, yes, we have been dealing with these drivers in our price composition for a long time. So all these variables like inflation, fall in interest rate, higher loss ratio, all these drivers go automatically into our calculation.

So whenever there is any change, they will be transferred into prices. What might hold more or less is the economic scenario. So, somehow we are seeing that everyone is looking at that scenario where price increases are unavoidable considering many different aspects.

Eduardo Nishio:

In health, what has happened in the quarter for the significant increase? What are the measures that you have taken? Why is there such a marked difference in results between different players in the market?

Fabio Luchetti:

In terms of health, what happened is that there was a considerable increase in expenses related to elective surgeries that can be scheduled. So someone was delaying a knee surgery, bariatric surgery, and there was a significant increase in 2Q, which has driven these results to be very poor.

It is hard to make comparisons with other players, because the product mix is completely different: we have no individual health insurance in our portfolio, we operate in SMEs, only above 20 lives, because we understand the risk scenario and we are reviewing. This is where we operate. We accept two lives on if it might be profitable in the long term, but if you look in the middle and long term.

So it is very difficult to compare. We know that our loss ratio has always been well below any other player in the market. And we are taking some actions. And answering your second question, this is what we are doing: reassessing all processes, how these questions come, repositioning with the network, repaginating our hospitals, audits.

So, we are implementing more strictly second opinions to avoid avoidable surgeries where the outcome in years will be similar to if you operate or if you go to physical therapy. The insurance company wins and also the patients. So we want to drive loss ratio back to its historical levels.

Operator:

If there are no more questions, I would like to turn the conference over to the Company for their closing remarks.

Fabio Luchetti:

Well, I thank you all for your questions and contributions, and your interest in our Company. And if you have any additional questions, please feel free to get in touch with our IR department or to go to our IR in our website, www.portoseguro.com.br

Operator:

Porto Seguro's conference call has now ended. We thank you all for your participation and wish you all a good afternoon. Thank you.

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