

**Operator:**

Good morning. Welcome to the conference call of Porto Seguro SA to report the results of the 3Q16. Today with us we have: Fabio Luchetti, CEO, Marcelo Picanço, Vice President of Financial Business, Investment and Investor Relations, Celso Damadi, Vice President of Controller and Finance and Ricardo Fuzaro, Head of Investor Relations.

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

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Before proceeding, we would like to clarify that statements made during this conference call relative to Porto Seguro's business prospects, operational and financial projections and goals 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 risks, uncertainties and assumptions because they refer to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future results of Porto Seguro and may lead to results that differ materially from those expressed in such forward-looking statements.

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

**Fabio Luchetti:**

Good morning everyone. I would like to thank your participation in Porto Seguro's conference call to release the results of the 3Q. On slide three you can find the main accomplishments of the period. On 3Q16, our main business lines grew and the insured fleet has increased 8%, reaching a peak of 5.6 million vehicles.

The number of lives insured, both in health and dental insurances, has improved more than 7%. Furthermore, Conecta has exceeded the number of 100 thousand clients and the credit card has achieved 2 million units, a growth of 10%, thereby strengthening our diversification strategy.

We have also recently acquired Chubb's portfolio, strengthening our position in the premium segment, including 50 thousand autos in our insured fleet.

In terms of insurance operations, the combined ratio was affected by a higher loss ratio, especially in auto and health segments, which has impacted the entire industry. Even though last year auto insurance performance was much better than our historical leverage, it also created a strong effect in the comparison basis.

On the other hand, we are already seeing signs that our measurements to improve have proven to be effective both for financial services and businesses on improving.

In terms of the expenses, we are improving our operational efficiency and administrative expenses of insurance have declined in the quarter and has increased less than 1% during this year.

In non-insurance businesses, we have had better returns, especially associated to the increase in our revenue from Conecta and lower P&L of our credit cards, especially because of risk prevention measures we have been adopting since last year.

Now, we are talking about our financial performance, the return of our financial investments have contributed to the quarter, in line with CDI and exceeding our results in the same period of 2015, when our performance was poorer.

And in closing, we are optimistic that the actions and projects that we are conducting will help us to get through the challenging times in our economy, we still see many opportunities on the market, keeping our growth, without failing to focus on profitability.

Now I am going to ask Marcelo Picanço to continue the presentation, giving specific details of each business line.

**Marcelo Picanço:**

Good morning everyone. On slide number four, you can see that in the 3Q our revenue has grown 6%, especially driven by automobiles that grew 8%, already taking in the inorganic effect of the acquisition of Chubb's portfolio, P&C has also grown 19%, and life 24%, and, as we said, these are products on which we have great emphasis in our portfolio as a Company.

In terms of the breakdown of our portfolio, financial businesses 8%, insurance 85% and automobile has decreased slightly from 67% to 65%.

Now, on slide number five, you can see our combined ratio and for this year we have had the best combined ratio so far, 1.6 p.p. above the combined ratio of last year and seasonality is relevant in our automobile business.

Then, the expanded or amplified combined ratio, considering financial expenses, dropped to 0.9 p.p. and the financial revenue is quite relevant in the composition of our final results, our bottom line, and that is why we have that amplified combined ratio, not used as much in other markets, but we think it is important to show it because the financial share in our overall results is significant.

Insurance profitability is below the results we had last year, suffering slightly with a higher loss ratio, especially in automobiles and health too due to higher increase and expenses, and this quarter was better than last year. We are in the process of recovering our results.

On slide number six, talking about financial service businesses, we have had a growth of about 11%, a consolidated ROAE of about 8% and we have operations in the initial stage in terms of start up, which we are still developing.

It is important to emphasize that in the case of our credit card, there has been a decision of the Company of reducing the concession in some more risky lines, which has driven our financial revenue to shrink and, at the same time, to comprise our risk profile, reducing risk because in our understanding, we think that because of the economic crisis, we should be more cautious.

It is important to emphasize that this caution has implications in our revenue, revenue from interest, and on the other hand, what will come afterwards is the offset of smaller provisioning for risks, which takes place at different times, but in our case it has started showing its first signs of us getting the results of a smaller exposure to risk.

On slide number seven, the results of our financial investments, even though we are right on the CDI, in Brazil these allocations - there are two stories, first is variable income, which is very relevant considering the gains and because of the shares we invested on, we have had relevant gains, and also our tactic position in pre-fixed interest rate, which have also proven to be good.

On the other hand, our position in real interest, that have been carried over for a much longer period, with a smaller inflation that we have had along that period suffered slightly greater, but this is not a tactic short-term investment, this structural medium and long term, in line with our liabilities and reserves, basically exposed to inflation risks.

So, even though at other times and previous quarters this position has provided significant gains, on this quarter specifically in the short term window, has provided some losses.

On slide eight we show that the allocation of exposure in our portfolio has increased slightly this quarter in this inflation index tactic. So, real interest above 6% is quite interesting. As long term allocation, we have to reduce pre-fixed and increase our allocation in corporate bonds, which seems to be appropriate for this period.

Even though our annualized volatility has been the smallest we have had over the past five quarters, with a stress of 1.1%, which is relatively low considering a maximum limit of having up to 3% of our portfolio stress levels. To be transparent, we use BM&FBOVESPA ratings to run these stress simulations.

Lastly, our net earnings, R\$205 million, relatively stable in the quarter compared to the same period of last year, and year-to-date numbers is 13% below year-to-date numbers of last year. On the other hand, the return on equity has reached 13.5% in the quarter and 13.9% in the year.

Considering a non-recurrent tax gains in 3Q15, if we take that out we would have a quarter profit, 13%, and the annual would go down 10% instead of 13%.

So, we are trying to recover the results of this year, the situation of the economy in the sales of automobiles and insurance is still affected by the overall economic slowdown scenario, but we are trying to recover, favoring the recovery of our results.

Now I would like to open for the questions and answers session.

**Thiago Kapulskis, BTG Pactual:**

Good morning. Thank you for letting me ask a question. I have two questions. The first one regards the recovery of results. Should we expect more price increases in the future? How do you see the competition environment? Could you mention numbers for us in terms of what we should expect in terms of price increases in the future? What are you expecting in terms of loss ratio? This falling trend we have seen, do you think it will continue in the future quarters?

My second question regards the low income auto insurance. We have seen the latest changes by SUSEP, how do you see that? Are you planning to launch any new low income motor insurance in the near future, how do you see the competition taking action? If you could give more comments on that.

**Fabio Luchetti:**

In terms of price increases, we have been implementing price adjustments since August and we have been slowing down in terms of growth. We expect the market to make its own composition in terms of people, especially in the automobile portfolio. So, the prospects for the market is towards moving.

Current numbers have shown that some players, some of them relevant, with indications of an upwards trend. We hope in the next two quarters there will be, in fact, price adjustments to improve results, especially considering interest rates and very strong pressure of costs with parts. Dealers are not selling new cars.

So the intention is to not put too much pressure in the price adjustment. Loss ratio, we expect it to drop over the next six months. I think the level will be adjustable in terms of loss ratio, in our case 1.5 p.p. or 2 p.p. and we are hoping to recover.

As to low income insurance, we should have implemented some adjustments. Each insurance is conducting its own analysis in terms of how to position their products. Nowadays, we have three brands in that segment, we will operate in low income insurance this year with Azul, with a strategy more focused on prices and we feel the market demand.

We have Renova, which is quite helpful in the case of spare parts. So in terms of cars, we cannot put them all now, there is maintenance and supply of alternative parts and sometimes it is difficult to operate all over Brazil because of logistics. We will start from São Paulo and gradually expand this project as we gain more expertise.

**Thiago Kapulskis:**

Thank you very much. Just a short follow-up, when are we going to see this starting? Next year?

**Fabio Luchetti:**

Well, these low income projects, when we use this expression, there are many different ones. Porto has launched Azul Light and also some other projects with tracers with an inbuilt insurance, many people want it. Also Itaú Theft.

But these projects usually have a certain fashion with reduced coverages, people that will accept the payment of slightly less than the full market price of the cost.

In terms of the legislation, the difference between low income and other types of insurance that we have been selling is the use of parts. And I think this is innovative. So, for this type of insurance specifically, we will launch in the beginning of next year.

**Thiago Kapulskis:**

Thank you very much for your answer.

**Marcelo Cintra, Goldman Sachs:**

Good morning everyone. I have two questions, the first one regarding Chubb. What would Chubb impact in your numbers: numbers of vehicles? Do you have loss ratio within and without Chubb? What about AIG, when is it going to be incorporated and how do you see their loss ratio? Is it higher or lower than Porto? Then I will ask my second question, thank you very much.

**Fabio Luchetti:**

Regarding Chubb, we have incorporated about 50 thousand items, 70 million in terms of premiums more or less, we remain focused on the premium segment and Auto Porto will benefit considering the segmentation in the segment where Chubb operates.

AIG we are still waiting for SUSEP for their opinion, we think they will release their opinion this year referring to 20 thousand items that will be incorporated in AIG. It will be concentrated in the state of Minas Gerais, which is very interesting for us because that state none of our three brands have a very good positioning.

It also has a very low price strategy, and considering our strategy, that we allow channels to operate the three brands, we show the three brands, we will offer to the distribution channel an AIG item and they will be renewed for Itaú or Azul, considering the price difference compared to Porto.

**Marcelo Cintra:**

Thank you very much. Still with regards to Chubb, we can see that in Porto alone the loss ratio, when you look at it, did this acquisition have any impact in the loss ratio, higher or lower when you compare it to Porto without it? Does it drive loss ratio up, down or no difference?

**Fabio Luchetti:**

I understand your concern, but the impact is very small because the acquisition is still very recent, and it has been diluted in time and anyhow it is a very low impact. It is just 50 thousand items. It has been implementing some price adjustments, so we are talking about 50 thousand items that will be diluted in a fleet of more than 8 million vehicles sold impact in terms of loss ratio practically null.

**Marcelo Cintra:**

Now I have a question about admin expenses. It dropped in the quarter, when we look year on year too. If you look at the historical trend, it is at its lowest level in the past ten years, if I am not mistaken. Is it really structural? Is there any more room to improve admin expenses? Are there new initiatives related to this? Thank you very much.

**Fabio Luchetti:**

Yes, this is structural. We have adopted a position a few years ago considering that our business model is very much based on relationships, so whatever trust and stability in terms of services, lots of logistics, providers out on the streets, people who provide services to customers, independent brokers. The structural changes by experience, we try to do it little by little, very gradual, trying to preserve people's focus at the right place.

We have adopted a strategy of doing it systematically. This reduction should be systematic, not too abrupt. So, we favor doing something systemic that would expand along many years.

So much of what we have been doing is related to the projects that we have implemented, most of them will be complete by next year, and we have other projects, other methods that we include as they mature, and therefore this is a scenario that will continue for some time in terms of gradual systemic reduction and not so aggressive.

**Marcelo Cintra:**

Thank you very much.

**Gabriel Guzan, Bradesco:**

Two questions. The first one is about real estate properties that you own. Have you made any strategic decisions in terms of reducing your portfolio of real estate properties?

Second question regards interest rates. Is there any room in your portfolio for increasing your portfolio with more fixed income? Or even going into higher exposure in equity and EBITDA?

**Celso Damadi:**

Thank you for your question. As to investments in real estate, we have been reducing our exposure in real estate properties. Last year we have completed the two buildings in our headquarters here in downtown São Paulo. And from now on we are not likely to have any major constructions, we are not planning any construction in terms of CAPEX.

So, we are moving some of our branches, and we are not planning any major investments in constructions and building. From now on, we still keep our fixed assets at a smaller proportion. Was that your question?

**Gabriel Guzan:**

Yes. Are you thinking of divesting?

**Celso Damadi:**

We have some properties that are for sale with some level of divestment, not very relevant. But yes, we are expecting to sell R\$100 million of real estate properties over

the next two, three years. It is not really relevant, but it is a reduction of our fixed assets.

**Gabriel Guzan:**

Thank you. My second question is about the financial results.

**Marcelo Picanço:**

It is interesting that you asked this question. Today in the Brazilian market, considering insurance companies, we can have more bold capital allocation. It is 2.5%, 3% of equity, this is a low share compared to the US and Europe, and in Brazil this comparison is bigger, considering our interest rate. We are allocating private equity, this allocation, and 8% of our allocation is in private credit.

We have been working for quite a few years. We are not talking about high yield or high risks, it is more solid companies. And we always seek alternatives of having a more avant-garde allocation, longer – but on the other hand, we need to study the opportunities of doing this. So, today the balance between short and long-term results, and the breakdown, it should be in line with our strategic objectives.

We do not have the intention of implementing any major changes in our allocation portfolio. We will change it slightly, for example nominal for real rates, real for nominal, and sometimes we are more protective, sometimes we take more risks. But we have found a balance in terms of this.

**Gabriel Guzan:**

Thank you very much.

**Phelip Semple, Rosas Participações:**

Good morning. About dividend payout, last year you reduced it to 35%. I would like to hear your expectations for 2017. Are you going to go back to that level, or are you going to go back to previous levels? So, in total numbers, what should we expect?

**Marcelo Picanço:**

Because the adjustments that we are making in investments and CAPEX, and some of them in a finalizing phase, they are important projects for the expansion of business lines that provide profitability to shareholders, such residential and life products that have new levels twice as much as automobiles. They are businesses that we believe will increase the return on investments, the return on equity along time.

So, this is still in a process. It is difficult to tell exactly when, but we think that next year – we are not seeing any changes in that. We want to keep our payout at a level of 35%. We do not know the exact number, this is the Board that is going to define, and we will consider change from 2018 onwards.

But from now to next year, we are planning, considering our medium and long term expenses in investments, that this will not yet be possible or would not be recommendable.

**Gustavo Lobo, JPMorgan:**

Good morning, everyone. I have a slightly more encompassing question. When we look at the scenario of weak sales of new cars, and a reasonably stable penetration of car insurance, how do you see the prospect of growth of automobile insurance in two or three years' time? And how do you see the positioning of Porto Seguro in the industry, considering that you are market leaders and Porto Seguro is a premium brand? How are you dealing with the current scenario? How do you see the growth of the industry and market share?

**Fabio Luchetti:**

That is a difficult question to answer. It is a very fair question. The economic scenario from last year and this year, it is very difficult to tell whether this is going to sustain systemically. The level of penetration of insurance and cars in São Paulo, as compared to other societies, is still very low. The penetration rate of the insured fleet is very, very low. It is about 1/3 of the circulating fleet is insured.

The market, and we are no different, we are exercising how we can attract this new public. In some states in the South, for example, there is a good penetration of Porto Seguro, they have some of the largest fleets in Brazil, and we need to find mechanisms of attracting the fleet that is today completely uninsured.

And, at the same time, we need to assess the real impact of the economy, in contrast with all behavioral change. Will people want to have a car or not? All these things are in our radar, and they are part of our strategic plan more systematically.

At the same time, we have been looking at the distribution channel, which is increasingly more active in the segment. We have invested greatly in training over the past three or four years — not just in training, but also in improving the software that translates some of the products that are more complex, to facilitate distribution and to offer products in property and casualty insurance. Of course, it is difficult to have a full coverage in the case of automobiles.

It is not going to change overnight. We try to have a combination of factors that may overlap a possible pressure on the automobile portfolio. Azul has been growing significantly. Nationally, it is at a significant position, surpassing some other brands, and of course, when we look into the future scenario, it might be much more favorable to Azul and Itaú than Porto, that is slightly more segmented in the premium brand segment.

**Gustavo Lobo:**

Then the strategy is to promote many initiatives to try to cope with the more challenging scenario in the industry. But more specifically, do you see the recovery of automobile premium prices next year, or is it still low-single digit, a weaker scenario with a falling nominal rate?

**Fabio Luchetti:**

In terms of premium, yes, I do believe there is a positive scenario with growth prospects, because the results of the industry, if you look and also SUSEP and



seasonality and the combined rates of many different scenarios, they are different. And the future scenario is not really favorable. Many players are using financial results with very poor operational results. So, there needs to be a recomposition. Now, the growth in business, I still believe in a more moderate organic growth.

Of course, car insurance in Brazil is one of the most mature insurance segments, but there is still a lot of room for growth. But in the consolidated numbers, this curve will be moderate for the items, but definitely slightly more optimistic.

**Gustavo Lobo:**

If you allow me one last follow-up. So, this composition is already happening. We have been nearing some players' industries, talking since August about a stronger price recovery. Is this what you are seeing in the short term?

**Fabio Luchetti:**

The market does not always react in the way we wish they would. At least not just that fast, but we have seen quite a few movements towards this direction. In some regions in Brazil, such as Porto Alegre, Salvador and Rio de Janeiro, levels of robbery and theft have really exploded. It is 30% in some of these regions. So, definitely people will need to do their homework as soon as possible.

**Eduardo Nishio, Banco Plural:**

Good morning, everyone. Thank you for the opportunity. I would like to go back to the loss ratio question versus price. You have increased it in July and August. And the prices you have increased would make up for your loss ratio for the next six months. My question is, is this 1.5 improvement based on the 3Q16 or is it in relation to last year? Question number one.

Looking back you increased prices in July and August, and this was very much driven robbery and theft rates. So, this 1.5 to 2 increase already contemplates higher robbery and theft rates, and is this the main driver or trigger for higher loss ratio? How do you see this issue of robbery and theft, and is it going to get better or worse in future quarters?

**Fabio Luchetti:**

Thank you for your question. Actually, this issue of improving loss ratio by 1.5 p.p., 2 p.p., of course not all of it is going to come during the year of 2016. This will come gradually, probably until the 2Q17.

As to robbery and theft, there are two variables. In the short term, what the insurance companies can do is to increase prices adjustments to suit the frequencies that we are observing, but I do not believe that robbery and theft rates will go down rapidly.

At the same time, it is very important for us to review the underwriting policies of the insurance company to understand what is going on now on the streets, which types of cars are being robbed, which are the modalities, where those robbed cars are going to, what is the purpose, regions and everything, so that the combination between price adjustments and underwriting policies may lead to good results.

Increasing prices alone is very unstable in terms of preserving our profitability. So, this is a little bit what we are doing, and we think we are doing it well. Only after the next two quarters we will see the recovery of our loss ratios by about 2 p.p.

**Eduardo Nishio:**

Just going back to loss ratio, these 2 p.p. of improvement, if compared to the previous year, or compared to this point that we started in the 3Q of 57.7%, and also taking the opportunity, can we already see an improvement of prices in the 4Q? Because it is usually gradual and it only comes after a few quarters, but are we going to see a reflection of the price improvement in the 4Q? And also the review of your underwriting policies.

**Fabio Luchetti:**

So, this is in relation to this year, in relation to the year 2016 and not in relation to last year. In these two prices, this is more complicated, because it is one quarter compared to the whole year. So, you are talking about 25%, this is very much diluted. So, when the perception - we need to be careful because the 4Q in automobile insurance is very seasonal, and last year was an exception because for some reason December was slightly more impacted, but usually the 4Q has a much lower loss ratio as compared to other quarters. This is more seasonal rather than the result of some action that we take.

**Eduardo Nishio:**

Thank you very much.

**Gustavo Schrodin, Bank of America:**

Good morning. Just one question that I want to ask. There are two quarters that we have been seeing increase in robbery and theft, and how this may be offset by prices. On the last answer, you mentioned process reviews.

I think this has not been the first cycle of slowdown we have gone through. It will not be the last one probably, these are well known problems that always happen at certain times. How are you going to prepare yourselves for the next cycle if we assume we are coming to the end of this cycle? We see some signs of improvement. Why are the initiatives other than price not so effective in this cycle?

And what are the lessons that your company has learned from this cycle in order to try to reduce your exposure to cycles? It is natural, but we have been talking a lot about prices, and I would like to hear more about your internal initiatives, why they were not so effective in this cycle, what you can improve in the future, if reviewing underwriting policies is already a good indicator. I would like to hear your view on that.

**Fabio Luchetti:**

I think it is perfect, even though your question sounds more academic. Practically speaking, the insurance needs to work on statistics and data, and there are some variables that are not under our control. The ones that are, yes, we control.

Whatever is very much dependent and ethereal, there is one economic aspect with a higher, lower impact, depending on the segment. For example, bankruptcy of states such as this year, when the police does not have money to fill up the tank with gas to go out on the streets, this is a very serious problem. So, states all over Brazil are in a chaotic situation.

Policies change, because technology changes, too. We introduce a new technology for a fraud prevention strategy and soon criminals find ways to get around your technology and you introduce new tools for fraud prevention, and networks formed by many segments, and soon afterwards criminals also find a way out or around. So, we need to preserve the provisions for bad debt, so there is an impact in the short term and you reposition yourself.

But the main problem in terms of the fraud technology industry is like you are always lagging behind a little bit, you are running after something that is always ahead of you. That is why we need to have a price combination that in a short term you manage to preserve the profitability of your properties.

We have a research and development area that is very strong, both in fraud prevention, underwriting, choosing appropriately the best risk. This is an art. If we knew exactly who is going to have a claim or not, that would be ideal.

So, if you have better intelligence, another technology makes it possible for us to have that, we need to have hardware technology which makes it possible for us to monitor the circulating fleet with more than 5,5 million cars that are out on the streets.

**Gustavo Schroden:**

I think that prices might be the first antidotes in the beginning, but my point is, for example, we have seen the chop shop law being approved in São Paulo, which at first was successful. We observed good results, mainly last year. I was referring more to this type of initiative that could somehow minimize the impact. Could you discuss the chop shop law for other states? We know that crime is all over, they are innovative, too. This is more what I was hoping to hear from you.

**Fabio Luchetti:**

In fact what I said in our last quarter, deep down the law is there, the states need to adapt, and everyone should follow the example of São Paulo, follow the legal steps so that you have the best regulation in terms of chop shops, with legal chop shops, but the states are bankrupt.

So, they can hardly pay their payrolls and through the federation of insurance companies, FenSeg, we have been talking to all public securities secretaries of all the states as a policy to understand when each one of the states will do what they have to do.

But economy is not really working in favor of that. There are other priorities, for example, in terms of health. Unfortunately the chaos in the country, because of the economy, has delayed actions which undoubtedly and unarguably reduce our problems. São Paulo is taking the lead, and we have finished the benefit of the law by 5%. So, it contributes really for a better control of car robbery and theft in the state.

**Gustavo Schroden:**

Thank you very much.

**Operator:**

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

**Fabio Luchetti:**

So, I would like to thank you all once again for your questions, contributions, for your interest in our Company, and I would like to remind you that if you have any questions, please feel free to get in touch with our investor relations department in our website [www.portoseguro.com.br](http://www.portoseguro.com.br). Thank you very much

**Operator:**

The conference call of Porto Seguro has now ended. We thank you all for your participation, and have a good afternoon.

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