

Operator:

Good morning. Welcome to the conference call of Porto Seguro S.A. to announce the results of the 3Q17. Today here with us we have Fabio Luchetti, CEO; Marcelo Picanço, Vice President of Financial Services and Investor Relations; Celso Damadi, Vice President of Controllershship and Finance; and Ricardo Fuzaro, Head of Investor Relations.

We would like to inform that this conference call is being recorded and simultaneously translated into English. All participants will be in listen-only mode during the Company's presentation. After Porto Seguro's remarks, we are going to start a question and answer session when further instructions will be provided. Should any of you need any assistance during this conference call, please press *0 to reach the operator.

The audio and the slides deck can be accessed at Porto Seguro's website at the address www.portoseguro.com.br/ir and on the platform MZIQ. At this address you will find a banner saying "Conference Call" that will lead you to the platform of the presentation. Questions may be asked also on the webcast platform by clicking on the icon "Ask the Speaker". Questions can be sent at any point in the conference call and they will be answered live during this conference call.

Before proceeding, we would like to clarify that forward-looking statements made during this conference call relative to the business prospects of Porto Seguro financial and operating projections and goals are beliefs and assumptions of Porto Seguro's management, and they are based on information currently available to the Company. Forward-looking statements cannot guarantee future performance because they involve risks, uncertainties and assumptions because they refer to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors may also affect the future results 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.

Fábio Luchetti:

Hello, good morning to everyone. I thank you for attending our conference call to release the results of the 3Q17. Starting on slide number three, here are the main highlights.

Starting on the performance of insurance industry, the market has grown 6% in the 9M17, and the premium has reached R\$65 billion. In spite of the economic crisis, the numbers are positives. In the auto insurance segment, we are suffering some pressure, even though some peers are already adjusting their prices. Premiums have increased by 7% in the quarter.

The good news is that the Automobile industry is growing and the sale of cars had grown 8% until September. In Porto Seguro, auto's premiums have evolved at the same time as loss ratio has gone down. On the other hand, the fleet was impacted by a higher pressure on the competitive environment.

In other segments, several products have grown more than 10%, thereby contributing to our strategy of diversification. Credit Card and Property products already have a representative share in our numbers, and we are going to give you more details further ahead in our presentation.

Also in the quarter, we have sold the stocks of IRB, the total amount net of taxes was R\$126 million. We want to focus on businesses where we have more active share. Our stake at IRB was very small, 2% only.

Finalizing, our discipline on recovering margins is working. Price adjustments have favored profitability in spite of strong pressure from the competition. Both the operational and the financial performances were better, and the recurring net income was 5% higher in the year, thereby reverting the falling trend of the past quarter.

Now, Marcelo Picanço is going to continue the presentation with more details of the operation. Thank you.

Marcelo Picanço:

Good morning everyone. In fact, this has been a quarter where revenue was slightly below our historical leverage. We have grown 5% overall in Revenue, and the expansion in Insurance and Pension was 2%, and Financial Business was 9%, and Services 13%.

Basically, the main issue related to the growth here, to these levels, is related to a competitive environment in Automobile insurance, which is better than it was before the 1Q and 2Q, but, also, we already see indications of some pressure on growth.

As we talked in other conference calls, the recovery of margins would lead, at first, to a reduction of our growth, so we were kind of expecting this. The question is for how much longer we are going to have pressure in the competitive environment, also regarding crisis from other competitors.

If we focus on insurance, on page six, we will see that products are growing, apart from Auto, especially in Health, Dental and Life. It is important to say, the combined ratio has been the smallest in the past few years, it was only not important to recovery margins, but also to prepare the portfolio with dropping interest rates.

It is important to emphasize where the financial performance is quite relevant, we are preparing the prices of our portfolios already looking at an environment with smaller interest rate, which we are expecting in 2018. The average of CDI will be approximately half of what we had in 2016, two years before we had the double.

So, we will be talking about the allocation of the portfolio which may offset this drop. So, just looking at the reference rate, we had a drop of practically 50%. Therefore, the expansion of the combined ratio is very important not just right now, but also thinking on the next year.

And the profitability of the insurance operations, the year-to-date numbers is in line with last year, around 12% of our ROAE. And this quarter, which is usually better than the average, we also were at a similar level as last year, with 13.3%.

As we usually do in our conference calls, I would like to show you a bit more of all the history about some evolutions, so that we may look better how we are evolving, not just quarter on quarter, but some other regards.

Initially, I would like to talk about Properties and Casualty insurance. In five years, it has gained a larger share in our Company. It has had a growth of 15% in the market, the loss ratio is under control, and we have higher margins than we usually have in other types of insurance such as, for example, Auto insurance, where the margin is smaller so, this is important.

Our sales force, with our insurance brokers and business partners, we have an important relationship, to diversify and looking at the long term and see it gaining more relevance in a total mix of our insurance portfolio, it is not just a matter of growth, but also a matter of expanding margin.

On the other hand, on page eight, when we look at the historical performance of Auto insurance, which is quite important right now, and when we look in a long term, you can see that in year-to-date numbers, 2017 and a little bit in 2016, we improved our position as compared to the average loss ratio of the market, which has been quite high over this period.

This is relevant to us because we believe that with the delay will be a little bit, more or less, we will need to see a movement in our peers and competitors of price adjustment because the loss ratio is quite severe for most of the market.

So, the composition in time may vary, some will do it sooner or later, but looking in the mid-term, the loss ratio will not be at the current level. The loss ratio is likely to drop in the market as a whole.

On slide nine, it confirms that in spite of the evolution of 6% in year for the whole industry, a slight decrease of loss ratio of 0.2 p.p., which is very small as compared to the levels that we see in the market as a whole. This demonstrates that the competition still fears and that the movement of price adjustment, as compared to the Selic expected drop, may have affected part of the market, but not all of it.

So, looking further into the future, we believe that there will be more price adjustments in part of our peers that have not yet adjusted their prices.

On slide ten, conversely, we have seen that the current situation is slight better. If we look in a short term, at least it was at the beginning of the year. So, we have the differences here, quarter on quarter, in margins as the financial market usually reported, that has been an improvement where loss ratio was increasing in the 1Q, and then it was the same in the 3Q. In this quarter, not in year-to-date numbers, still carrying over the problems of higher loss ratio in the beginning, we have a drop of 2.7%.

This means that in the market where we have a portfolio, more recent movements might not be reflected here, but are in the global performance of the Company, they make us more optimistic in terms of the financial margin.

There was a significant reduction of 2.7% in loss ratio, and an expansion in premiums, which has been the highest in the year for the market, looking just on the quarter, it

was 7.3%. This will help in the margin. In the margin, the market is improving as a whole, and in the combined ratio, as well as in our portfolio, but our portfolio still needs further adjustments.

The revenue of financial services and businesses have grown 10%, especially driven by the credit card, which is still growing significantly in terms of our revenue and other financial businesses. In contrast, we have had additional expenses with businesses that are still maturing, such as Conecta and telecommunication, which have had an impact reducing the net income in the quarter when we compared to the last year. We have still some issues to resolve in other business plans that we are working on.

So, zooming into the credit card, on page 12, which is important, revenue has grown over the past five years. Also, looking at the historical performance, 19% a year, this is CAGR, and the number of customer has more than doubled in spite of every strict approach working in our customer base. We are a relationship financial agency, we want to work with customers that we already know, and this helps keeping our default rates below the market average by to 2 p.p.

However, the resolution of the Central Bank, changing the rotation credit the revenue, which is a significant revenue for everyone working with credit card in Brazil, and also encouraging the higher use of payments of invoices in installments has led our revenue in 9M17 versus 9M16 not to expand as much as our historical leverage, but it still expanded.

So, it is positive, in our business, in a year where we have heard many reports of our competitors working on a reduction of nominal revenues.

So, I think is it important to highlight this. In spite of the resolution of the Brazilian Central Bank, so far we have not yet had a reduction of year-to-date revenues total of our businesses, this is related to many actions we have implemented in terms of having a better calibration of credit limits, expanding our basis, seeking other types of revenue, including services and everything else.

The evolution, as I have said, over the customer base, in the long term, continues with more than 2 million cards already and we also have a level of relationship that is the third largest of all Brazilian banks, behind only Citibank and Diners, because they have a very specific demography, speaking about monthly average expenditure.

Now, talking about our financial investment, this has been a quarter of recovery of our results above the CDI, our internal benchmark we also consider exposure to stock, but we have had a 3% profitability, which is quite interesting, high relating to CDI in the past two years, and it is very much related to our portfolio of shares and what we have in treasury.

Our allocation has not changed significantly. There has been a small reduction of our inflation index bonds, and we still have a long term strategy with allocation raging at about 3% in equity. In terms of insurance companies, I think this is one of the highest that we know of.

Lastly, on slide 14, our recurring net earnings has expanded by 27% and, in the year, R\$651 million, 5% growth in the 9M17, it has been 13.6 % in the year and 16.1 in the

quarter. If we consider the sale of IRB shares and, also, the anticipation to the 2Q of interest on equity.

So, right now, I would like to open for questions and answers.

Philip Semple, Rosas Participações:

Good morning. With regards of your dividend and interest on equity, will there be any additional decisions this year and next year or has it already been defined and this is a final decision and nothing will change this year?

Marcelo Picanço:

Good morning. We have not approved any decisions of extraordinary dividend payout this year, but we are working at a range of payout of 35% to 40% for next year. So, it is not extraordinary, but it is an expansion as compared to what we have been doing over the past few years, compared to the percentage of payout as dividends.

Marcio (via webcast):

Please, talk about the increase in expenses, especially commercial expenses.

Marcelo Picanço:

This expansion in other businesses has a dynamic where sales do not come at the same time as revenues. So, we take commissions upfront and then the revenue comes along the time.

So, sometimes when we expand business or because we needed to make any adjustments to increase the sales of something with the brokers, these expenses have grown, in fact.

Pedro Gonzaga, Pacific Investimentos (via webcast):

Two questions, actually. One, seeing why you have a smaller rate of income tax in the quarter and the other one is about how you see a property in the banking channels.

Celso Damadi:

Thank you for the question. The effect is income tax rate, you know our corporate structure, 27 companies, one of them is Porto SA Holding. It was this company that sold IRB, because it held the stock on IRB. So, we had a tax loss in the year and a deferred income tax from the past.

As we realize, part of the profit this year, we could revert part of the provision we had for the past. So, we had a tax gain this year in this operation because we sold IRB share.

Fábio Luchetti:

The revenue from property insurance in the banking channel, we have been working hard, together with the bank, our aim is to improve more and more the quality of sales

and everything to have a portfolio with a smaller turnover, and now we are also working in order to improve the operation through this digital channel.

We believe we are going to have a more positive scenario, making better use of the digital channel in the bank.

Gustavo Oliveira, SSA Investimentos:

Good morning, everyone. Congratulations on your performance. Could you give us an explanation about Conecta? You had a 24% growth and even so there was an operational loss. Thank you.

Marcelo Picanço:

Conecta, there is an expansion, but, at the same time, we have also had some additional expenses in terms of operations, technology, customer service and, also, the company itself.

So, in fact, we needed to do that to keep our strategic positioning in terms of quality in a sustainable way and this is still being solved, looking into the future, with more expansion in revenues and a better cost structure.

Gustavo Oliveira:

Do you know when this operation will become profitable for the Company?

Marcelo Picanço:

In fact, there has been some variation as compared to what was expected, and this is a new fact, this is innovative initiative in Brazil, so we need to adapt the business model. It is an innovative business model in Brazil.

We believe we will be able to get to that equilibrium, but there is still some learning in terms of our sales channel by people who have never seen this type of business and this market is fiercely competitive because now there has been stabilization in the number of lines, so there is a price war in the market.

So, there are many movements being made here. We are working very hard to make this business breakeven in one year and a half, two years.

Operator:

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

Fabio Luchetti:

I would like to thank, once again, everyone, for the questions, contributions, the interest in our Company and I would like to reinforce that if you still have any questions, please feel free to get in touch with our investor relations and department and in our website: www.portoseguro.com.br. Thank you very much.

Operator:

The conference call of Porto Seguro has now ended. We thank you for your participation and we wish you a good day.

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