

## Q1 2017 Earnings Call

### Company Participants

- Arthur Farne d'Amoed Neto, Vice Chairman of Board of Executive Officers and Executive Vice
- Eduardo Dal Ri, Unknown
- Gabriel Portella Fagundes Filho, CEO and Member of Board of Executive Officers
- Maurício Lopes, Unknown

### Other Participants

- Eduardo Nishio, Financial Sector Analyst
- Gabriel Gusan, Research Analyst
- Gustavo Mendes LÃ'bo, Analyst
- Gustavo Schroden, Associate
- Lucas Lopes, Equity Research Analyst
- Marcelo Cintra, Equity Analyst
- Thiago Kapulskis, Associate
- Unidentified Participant, Analyst

### Presentation

#### Operator

Good morning. Welcome to the conference call of the SulAmÃ©rica to discuss the earnings regarding the First Quarter 2017. Today, with us are Mr. Gabriel Portella, SulAmÃ©rica's President. And the company's VPs.

We would like to inform you that this event is being simultaneously webcast together with audio and slides and can be accessed on the company's Investor Relations website. [www.sulamerica.com/ri](http://www.sulamerica.com/ri). (Operator Instructions) SulAmÃ©rica's conference call is being recorded. And the audio is going to be available soon after its closing on the companies RI website.

Now we are going to turn the call to Mr. Gabriel Portella, SulAmÃ©rica's President, that will start the presentation. Please, Mr. Portella, you may go on.

#### Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

Good morning, everyone. It is a pleasure to be here gathered with all VP's of SulAmÃ©rica to talk about the earnings of the First Quarter 2017.

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We are here talking to our employees, officers, clients, providers and other stakeholders of the company. We've closed the quarter with net income of BRL 128.6 million, an important increase of 21.4% compared to the same period last year. These numbers reflect the consistency of our actions and the positive journey of company expansion. We continue to invest in developing people relating to our customers, brokers, providers and also investing in technology, for us to have constant improvement of our processes and, therefore, contribute to have efficiency and quality in our operations.

I would like to highlight some novelties in this quarter. We've reinforced the SulAmÃ©rica brand in our media launching the campaign (foreign language) with excellent returns. We also expanded the functionalities of company acts, especially the Garantia de Aluguel in capitalization and digital services in SulAmÃ©rica Health Act. Reimbursements can be requested by the insured directly using innovative technology.

Our operation in several segments and products enabled us to intensify cross-selling, extend the offers to insurance brokers and seize opportunities in the different markets in which we operate. Once again, positive results in most of our business lines offset the adverse time of (others) and enabled us to close the quarter with growth of approximately 10% in revenues.

We continue to sell in Dental and Health, expanding our areas of operation. We were very happy to show resumed growth in life insurance after a period of repositioning of our portfolio. We saw good performance of sale in Auto Compacto SulAmÃ©rica, our car insurance for those that want a more affordable insurance with essential coverage. We expanded our base of brokers by means of a network of real estate agents.

And our financial results grew by 11% compared to the same quarter last year. SulAmÃ©rica is at the start in 2017, quite well positioned, with revenues that are growing and keeping focus on profitability of underwriting and strict discipline of capital and cost. The majority of investments made in recent years enabled us to present the results that we have. But the continuity of investments and keeping an eye on global trends will enable us to capture opportunities to come when Brazil picks up its growth.

Now, I'm going to turn the word -- the floor to Arthur Farme, Vice President of Control and Investor Relations, to talk about the quarter's main indicators. Then we can have more time for Q&A. Thank you very much.

### **Arthur Farme d'Amoed Neto**

Thanks, Gabriel. Good morning, everyone, that are present in our conference call. I'm going to start the presentation on Slide two that highlights our consolidated revenues in the different lines in which we operate. Remember that the revenue, in some case, is not totally compared to public statistic data.

But before we go into each of the lines, it's important to remind you all of the environment that we had in the First Quarter. It was a quarter surrounded by a series of concerns that we already see some industrial indicators and economy indicators showing

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positivity, which somehow confirms that we are going into an economical recovery, which is our expectation. Of course, the level of employment is not at the levels that we would like. The estimates that are available still bring those levels being kept at a lower pace. But in the lines that reflect the contribution of people in our table, we see some kind of consolidation. SulAm rica has been able to grow even in an adverse market and a retracted market somehow. The house market has been going through a higher level of complexity, both in regulatory and operational terms. And that may explain this movement of consolidation that we can explore later on with (more detail).

The reports of the analysts that follow the company basically highlight our positive results in health and they do show some concern in auto. These are portfolios that have very different cycles. Auto is an operation that has relatively short cycles and proof of that is when we take a look at the (numbers of SUSEP) in the First Quarter, in which we have an increase of 1.5% in revenues. We have closed the year of 2016 with a drop of 5.1%. So the way we interpret these 2 indicators is that the auto operation is recovering in terms of revenues. Despite the movement that we have in the whole auto segment, that has not so recovered as other segments have.

Public security reflected in the rates of (SUSEP) and frequency of SUSEP in some regions that we were positioned somehow explain the behavior of the claims ratio that we are showing. Again, because it is a typically shorter-cycle operation, we believe that the mechanisms that are possible for the company to reposition the portfolio are going to be used and, therefore, because the whole of the market is having the same impact that we have with regards to rates in theft, burglary will show in our positioning. And I believe that we are going to be somehow favored by interest rates on the other hand. At the highlight here is the growth of health, the main portfolio of the company, with increase of 11.5% compared to the First Quarter. But also an over 3% growth compared to the previous quarter. Data of auto minus 0.6% as compared to the 1.5% in SUSEP that has to do with the interest rates and taxes. But -- so that reflects our optimism with regard to auto from now on.

Another important lines are Other Property & Casualty and Life & Personal Accident. Life & Personal Accident is a portfolio that has been repositioned. We have an excellent reaction with almost 30% in the quarter, 7% above the previous quarter. So these 2 indicators show our positive vision on this portfolio.

Going to Slide #4. We are just skipping Slide #3 because the breakdown is basically what we have seen before, 90% of our revenues come from Auto and Life. In case of highlights, we had our revenues growing by 21%, which is something that we are very proud of. But there is another data that is very important. The First Quarter was basically marked by a negative seasonal impact on Health. And we have been able to balance the effects of the seasonality. And the stability that we see in our loss ratio already reflects those efforts. Another important aspect with regards to admin expenses is that, if one hand we're talking about the drop in interest rate, on the other hand, we see consequences in the change of inflation and exchange rates that will still reflect on our admin expenses. So any kind of contracts that are indexed in our expenses still have not reflected in a broader way the benefit of the drop of interest rates at a lower levels that we have seen before.

This is a general view of our consolidated numbers.

And now we are going to line-by-line with the whole of the group.

## Questions And Answers

### Operator

(Operator Instructions) Our first question comes from Mr. Thiago Kapulskis with BTG Pactual.

### Q - Thiago Kapulskis {BIO 19187926 <GO>}

I have 2 questions. The first one regards your dynamics in Health. We have seen an improvement in loss ratio for collective plans. And my question is how far can the loss ratio improve? I mean, we are seeing that the number is getting closer to vertical -- to (inaudible) vertical players. So what could we expect in terms of the loss ratio for Health? And what is the main driver lying behind it? Is it copayment? Is it the management (in Health) -- that you're doing with Healthways? So if you could give us some more color on that, I would appreciate. Second question, in regards the OI -- ROI. And we know that interest rates will be smaller this year. So the question here is that the operational improvement -- with regards to the operational improvement, can you offset the worst financial performance so that you can sustain the 15%? So how do you see this issue of profitability for the company?

### A - Maurício Lopes

Thiago, this is Maurício. Thank you for the question. Well apart from the guidance that we've not disclosed. And I can't tell you how far our loss ratio is going to go, what I can share with you are 2 things as answer (inaudible) in the beginning. We're really making a great effort in terms of managing our playings and our loss ratio. So there are many efforts implemented by our operations department to balance out our payment so that it affects less the (competition) of reserves of the company. So a more -- a healthier calendar of payments in terms of a more stable runoff for the company. So we are trying to homogenize it. And we have been trying to do it since 2015. So this is already the second year of these measures. With regards to the loss ratio, as a whole, that the actions that we implemented over the past few years, as you mentioned a few ones, such as, for example, Healthways in terms of Health. So this is related to 3 processes. (We deal with) coaching. So far, (complexed) and chronic patients. So there are 3 groups here. It's not just Healthways. We have a very large set of actions in terms of health management. And also claims management. And also in terms of underwriting management. They are maturing much faster than we thought they would. And this is giving us a chance of delivering better loss ratio. In terms of the claim that we are able to avoid on behalf of our customers, we see very optimistically the trend that we have been mentioning over the past few years. Obviously, nothing would work if we didn't have a very aware and careful underwriting we have. So we have been very diligent in keeping a break in our risk appetite. So that -- so as not to place a burden on the portfolio because of our judgments or having contracts that will not be trustable. So they're being very diligent in terms of seeking what we agreed in our strategy for having a more profitable portfolio. At the

same time, other areas in the company also seek greater profitability in our customer portfolios.

**Q - Thiago Kapulskis** {BIO 19187926 <GO>}

Just a minor follow-up for your answer. Obviously, you cannot disclose numbers. But can I imagine that the loss ratio level could get very much closer to that of vertical operators? Or do you think not, even considering all your initiatives?

**A - Gabriel Portella Fagundes Filho** {BIO 18012687 <GO>}

I think that we need to be careful in this discussion. Loss ratio, there's difference between -- this is the ratio between claims and premiums. Different companies operate differently. Of course, vertical have more have more admin expenses. And they should have a loss ratio regardless of the premiums and loss ratio. So we have loss ratio, we cannot disclose that, obviously. But they are not directly comparable. The cost structure is very different between the 2 operations. If you look just at the loss ratio, we are likely to compare things that are not the same fundamentally. And the cost structure all (have) carriers.

**A - Arthur Farne d'Amoed Neto**

Thiago, this is Arthur. Going back to your point on return, we are not going to give a guidance for the year. But you've touched points that we could work to -- work on to offset the smaller contribution of the financial performance, trying to offset the lower interest rate. Of course, we talked about admin expenses, which is something that we can manage. And the return that we expect will be reached in this way, not just because of financial return but also considering other avenues that are under our management.

**Operator**

Our next question comes from Gabriel Gusan from Bradesco.

**Q - Gabriel Gusan** {BIO 16184494 <GO>}

I have 2 question about Health. The first is about the quarter's loss ratio. Was there any calendar effect? You've mentioned a slightly negative effect. Is there anything in this quarter that (wouldn't) be a positive compensation because of this effect, Q4, Q1 and that we could call non-recurring? And also, I would like to understand what happened to individual plans. There was considerable worsening with smaller customers. Was there any specific effects there in the quarter with regards to that line?

**A - Maurício Lopes**

Gabriel, this is Maurício. Thank you for your question. With regards to the quarter, I think that part of the answer lies in the huge effort that we are making in terms of homogenizing everything. We are seeking stability. Yes. There may have been a calendar effect. Last year, we thought there was some anticipation of claims and there was something that was done ahead of time. End of the year is complex. It's difficult for every one provider (to include it). The calendar didn't help much in terms of the medical accounts. So yes, there may have been some effect. But more than a calendar effect,

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there's a major effort of our area of operations in terms of having a better claims payment schedule, providing more stability. As for individual plans, I think that you said the right thing that the portfolio is increasingly more volatile. It's -- we're reducing it very, very fast. The churn is greater than 7%, we didn't have it for a long time. It's 7.45% to be exact. And this is causing more volatility. So we might see good quarters and bad quarters in this portfolio more frequently. So this is subject to increasingly more complex modeling. But increasingly smaller. This is just a small fraction of our (numbers), who we had almost 190,000 lines now down to 174,000 lines. So there is a reduction. It is significant and we're going to see it more and more going the future.

#### **Q - Gabriel Gusan** {BIO 16184494 <GO>}

If you allow me one more question. I would like to have an overview of medical inflation rate this week. Last week, we had readjustments of -- below 30 lives of 9.2%, (slightly below life's share). But that was not true for the rest of the market. Other players had increases over 20%, quite above the market. So I would like to know what you're seeing in terms of medical inflation. Just wanted to have some color on that.

#### **A - Maurício Lopes**

This is Maurício once again. Well if you think of the composition of inflation, we kind of model it in 2 different ways. Generally, you'll have a model that has some kind of price index and it depends on the portfolio. And if you have a shorter period of time, a shorter lag, then you are going to see lower inflation rates. If it's a bit longer, we are going to see some inflation. So the impact of inflation rates, vis-à-vis the different portfolios may change. And the portfolio that you see more clearly, which is the portfolio below 29 lives, we had a lower readjustment that we had last year. We had a lower medical inflation here. As you can see, it's not homogeneous among all players. Each player has their own reality. But we did find a more controlled medical inflation in this portfolio. Possible if you took all the actions that we reported in the beginning of this call, Arthur, Gabriel and myself with regards to the loss ratio, with medical management, management of unit. So all of that have an impact, that can be transferred in some portfolios and lower in some portfolios. And thus, the portfolio (in terms of) small and medium companies have been reacting very positively to that. Okay. Thank you very much.

#### **Operator**

The next question comes from Marcelo Cintra from Goldman Sachs.

#### **Q - Marcelo Cintra** {BIO 16463628 <GO>}

I have some questions. The first was with regards to the competition. You see, loss ratio numbers of SulAmérica for this quarters. Are improvements in health -- last week, we had also a large player showing good performance level. So I would like to know how you see competition at this point in the health segment? Is it something that we should be worried about? Should we expect SulAmérica to continue performing well or even better than the industry? And in terms of repricing, once SulAmérica is outperforming the market, should we expect that in terms of prices, SulAmérica is going to have lower prices than the industry? Or are you going to continue to reprice your product in line with every other player?

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## A - Maurício Lopes

Marcelo, this is Maurício once again. Thanks for your question. This is not something that we try to comment on. I'm not going to give too many details. We have a very clear strategy about what we want to do. And I think that when Gabriel mentioned in beginning of the call that we are investing for a long time now, well this is true. This movement is not something that started now or last year. Since 2012, the company started a transformation process. We have been changing in different areas with health, dental product. And we are reaching different level of maturity in these portfolios. And therefore, we have a strategy and up prices for the next cycle that is very particular of our company. I don't know about the strategy of our other players. And I don't want to comment on that. But we know what we want to do in our company and we know that we can be consistent in the actions that we are engaging in. And I hope that in the next quarters, we are able to evidence that with what we have been doing is correct. As we have this quarter despite all the complex dynamics of the health market, not only in Brazil, in the whole of (inaudible). But in Brazil even worse because it's being affected by the economic crisis and stricter regulation.

## Q - Marcelo Cintra {BIO 16463628 <GO>}

Okay. Just a quick follow-up about your last comment about the economic crisis. Do you see a recovery internally? Do you see a pickup of demand? What was the month of April like, was it any better? How do you see this evolution inside the company?

## A - Maurício Lopes

Again, we do not give any disclosure data for April because we are closing the quarter. From the previous quarters, based on our numbers, we see a good level of (offsetting) losses because of the work of the commercial area and also after sale of areas that's having been finding ways to have relevant retentions of our customers, customers with complexity. The commercial department started to have different contracts with copay for instance, also have seen contracts for the clients to have a higher longevity with the company. So while there's creativity that sales and retention and post-sales departments have been doing, has come to a good result. Of course, the whole of the country wants the economy to pick up again. And for us not to discuss this topic on a day-to-day basis. But this is something for the next quarters to see.

## Operator

Our next question comes from Mr. Gustavo LÃ'bo from JPMorgan.

## Q - Gustavo Mendes LÃ'bo

I also have 2 questions. Number one, going back to the point of the result in health. Basically, I would like to understand what is the trend with regards to loss ratio? Because when we look at last year's numbers, we saw an improvement in loss ratios for health group. Then in Q4, it was worse. Then for the full year, it was stable. Now the year has started, we are seeing improvement in loss ratio in the First Quarter again. Is this a trend for improvement? Thinking of the full year '17, do you see a scenario of stability of improvement of (inaudible) Or -- and then I have a second question afterwards.

## A - Maurício Lopes

Gustavo, I would love to give you a guidance. Yes, my life would be simpler. But we are not allowed to do that. Unfortunately, we cannot do that. I think there is consistence in our work. That's all I can tell you.

## Q - Gustavo Mendes LÃ'bo

It's clear. Then the second question is about automobiles, the Auto Insurance. As Arthur mentioned, it has a short cycle. And we have seen some signs of improvement. So in terms of loss ratio, it sounds like it's being adjusted for -- sales are being adjusted for the whole industry. My question regards growth. Because part of the adjustment involves just your limiting -- doing it in more risky places. So how do you see the prospect of growth of the auto industry in the short term?

## A - Eduardo Dal Ri

Thank you, Gustavo, this is Eduardo. With regards to growth, we will naturally monitor the evolution of the recovery of the economy in Brazil, pay more attention to the automobile industry more specifically in terms of new license rates. So this is fundamental for the market to recover. When we talk about issued premiums, part of the recovery in premiums will come from the improvement in the economy and part will come from the adjustments that the market is made -- is making on average premiums. So there will be a combination of mix between economic recovery. And then we cannot tell when it's going to pick up. But as a reminder, in terms of recovery of car sales, we have the lowest drop. So we lost a significant share of the number of cars manufactured and also new license plates. So we have a hold in demand that is very significant. So in the midterm, we will see that recovering before anything else. And also. And I think this will help, before recovery of the economy, is the increase in prices that the market wants and needs to do as a whole in a block, everyone. So in the short term, you will be seeing, more significantly, the increase in average premiums and secondly, the growth in the industry.

## Operator

(Operator Instructions) Our next question comes from Mr. Gustavo Schroden from Bank of America Merrill Lynch.

## Q - Gustavo Schroden {BIO 18713982 <GO>}

I have 2 questions to ask. You mentioned in the beginning, the consolidation. How is the process of consolidation happening? And how does it interact with the numbers that we see, the number of members, especially in corporate and if we fully compare year-on-year, corporate has dropped by 6%. And in the member of numbers -- of members quarter-on-quarter in corporate, there's a trend towards stability. So what about the process of consolidation. And how does it interact with the stability. And sometimes, even a drop in the number of lines in health? And secondly, going back to the pricing issue, I agree because it's -- we can't really compare prices between companies because they have different structures, different strategies, different models. Now thinking specifically about SulAmÃ©rica, do you think we can repeat what happened over the past 3 or four years?



## A - Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

In terms of REIT pricing it is stable. It might drop 100 basis points and 150 basis points year-on-year. So we may expect another year of repricing that will be (inaudible) and sufficient to help that loss ratio.

## A - Maurício Lopes

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Gustavo, this is Maurício again, thank you. Well the issue of consolidation. And Arthur mentioned this slightly when he was talking. This is happening because of a whole set of demands that come from outside, most of them are exogenous to the operation of carriers. So considering that there is recession. And there are fewer customers, regulation is stronger. And (reserve composition), some carriers do not have it. If you do not have enough scale to keep your operation sustainable and investing in innovation, the world is slightly more complex. I remember -- I would like to remind you of the work that our area operations did with previous authorizations. In the past, we had general practitioner physicians. Today, we only have specialist physicians. So the person giving authorization for oncology is an oncologist, for orthopedics it's an orthopedist. Of course, not everyone will be able to have enough scale to have specialists giving authorization. And that makes our authorizations more specifically and more appropriate, both for members, for the carrier and for the requesting physicians, it's win-win-win. So I think consolidation is happening, it's here, it's happening in an organic way. Not all carriers are moving members. I think that there are more carriers winning members, we are not the only one. So the market has pockets of opportunities, living with the difficulties on the other side. I don't see that this will change. I think that the issue of regulation in the macroeconomic scenario will continue to affect carriers over the next cycles. With regards to pricing, we are seeing a drop in inflation. And if it continues and it is overall and there is a lag in many portfolios in terms of pricing, of course, this will be reflected in future pricing strategies. We do not yet know how this is going to happen. And when we have addressed the issue of pricing of 2 other portfolios, we are going to do it this month (within back) in the quarter. The only one that we have already finished is what has already been announced. That's all I can tell you right now. Thank you very much.

## Q - Gustavo Schroden {BIO 18713982 <GO>}

Just a follow-up of first question. So if I understood it correctly. If we were not having those migration or consolidation. So to speak, in your case. But also of other players, do you think that the behavior of the number of members would be worse than what we see here? So you have a drop year-on-year, we have stability quarter-on-quarter. Can i interpret this way?

## A - Maurício Lopes

Yes. Your interpretation makes sense. I think this is correct.

## Operator

Our next question comes from Lucas Lopes from Cr dit Suisse.

## **Q - Lucas Lopes** {BIO 18956724 <GO>}

I also have 2 questions. The first, I would like to go back to homogeneity of (claims) along the year. I would like to know if and how the change in the payment calendar of providers will affect a lower loss ratio in the whole of the year. And my second is about health and auto. In addition to increasing prices, is there any other strategy the company has pursued to (slightly) improve the loss ratio of your products, be it in terms of geographic diversification, or even the launch of new products to incentivize products that have different coverages? What are you doing with those regards?

## **A - Eduardo Dal Ri**

Lucas, I'm going to start with Auto just to give Maurício some time to breathe. This is Eduardo speaking. And yes, your question is quite correct and quite timely. Price is the backbone of everything, of course. We have had challenges in the last 1.5 years in the auto portfolio, especially because of the whole of the Brazilian scenario. But also in some capitals, particularly. With that, SulAmérica has started to react and change some of its initiatives. For instance, we've created a new product that is a product that is very fixed to a period of crisis. This is call Auto Compact. It is a product that has all the essentials of insurance. But it has a better price and we are incentivizing the product in certain areas. It's not a product for everyone. But it's a product with a better cost-effectiveness, while still keeping the profitability that we expect. We have been working very hard in terms of costs and operations. We have been working at different (trends), optimizing processes in terms of admin expenses and also working with regulators. We are working on our process every day. I'd like to mention that we have a part supply project that is being very successful and growing on. Also, we have a process to reveal closed claims. So that is to try and learn from past claims and try to be more efficient every cycle. And we have been efficient -- more and more efficient in every cycle. And because of the current period we are going through, we are very much focused on frauds. We really raised the bar, we are being more demanding with regards to that. We are looking into different capitals that are being affected by theft and somehow, we are repositioning ourselves in regions that have a bit more stability. I would say, the (inaudible) of facts in Brazil. And basically, we decelerated a bit in Rio De Janeiro, in the city of Rio De Janeiro and are going to different regions that have lower premiums but have a higher stability of portfolio, which for us, meets our objective a bit better.

## **A - Maurício Lopes**

Okay, this is Maurício now, Lucas. You have 2 issues on the table here. Well first is homogeneity and the other is the dynamics of the loss ratio of the whole (year) comparing year-on-year in your question. In terms of homogeneity, you're talking about a great effort in terms of our payment calendar. We want our payment calendar to be more homogeneous throughout the year. So this week, you are going to advance one day. And you are going to delay two days the other months. With that, we kind of are going to balance our payment schedule. Of course, we have no guidance. But I think that in your question, you kind of approach 3 factors: so how we are going to define prices and readjust and extend prices, we have some indicators. But some are to come out; the maturity of action for us to contain our claims. So that is claim management; and sales dynamic, product mix and regions. All that is going to lead to the loss ratio of the year. We are just in the First Quarter. Even if we wanted to give you guidance, we do not have the whole of the year. There's still much to happen. In the month of June, July, specifically, we

have very important times. This is when we are going to decide the readjustments of major clients. So I think that in the release of the next quarter, we are going to be at a better time to see what the year is going to look like because we are going to have factors like retention and price that will already be defined. But right now, I think it's too early for us to think of the whole of the year because we still have too many variables.

## Operator

Our next question comes from Mr. Eduardo Nishio Banco Plural.

### Q - Eduardo Nishio {BIO 15333200 <GO>}

First, in regards to health. In terms of stabilization of the loss ratio, could you explain how do you manage the payment schedule? And is this the only thing you are doing for having a smaller or a smoother loss ratio? In terms of negotiations of contract, are they still being done, mainly in the middle of the year, or do you have negotiations with your customers all along the year? With regards to auto, could you give us an idea of the trend in terms of robbery and theft? And do you see -- in the First Quarter, do you still see a relevant worsening? And could you break down by state: Rio, with a very severe problems, also Minas (inaudible). And lastly, São Paulo, the largest market for automobile in Brazil, how do you see these trends? Could you give us some color for the year? If you couldn't give it for the year, at least for the First Quarter, how do you see the evolution of robbery and theft in the country?

### A - Eduardo Dal Ri

Eduardo, this is Eduardo. I'm going to start answering you by auto. Over the past two years, we have been seeing a very strong increase in robbery and theft. Rio de Janeiro is the one that is suffering the most, more than 60%. We haven't suffered so much in São Paulo, in spite of the increase. When we say robberies and thefts increased 3% and 4% in São Paulo, it sounds like a joke as compared to Rio de Janeiro. So there is an increase. But because of public policies that have been implemented in different states. And have been growing in large cities in the states that you've mentioned, such as Porto Alegre and Belo Horizonte and Recife and Salvador. There has been an increase in robbery and theft in many capitals. The trend -- and we believe that robbery and theft will go along with the recovery of the economy. So as the economy improves, there is improvement in robbery and theft. So no market works with that hypothesis yet because as we price the year, the following year, I cannot afford to put -- to include in the price the recovery of theft and robbery. Much to the contrary we are reflecting the worsening in the First Quarter compared to last year. And of course, as compared to 2015, it's a quite severe issue, this issue of robbery and theft. We have never seen such a sharp increase in robbery and theft. And the market as a whole. And especially SulAmérica, we're looking at the trend without yet interjecting any improvement. This doesn't mean we are pessimistic, much to the opposite. When we look at the reality and we price it. And if the market manages to price it, the loss ratio may naturally go back to the target that we had. So we are not seeing improvement, even though, it may come -- it's a very high level because it's too high and we have not seen this in recent years and -- but we are not yet working with the scenario of improvement.

(technical difficulty)

Now talking still about the calendar effect. I'm going to take 2 minutes of your time to

explain to you the modeling of the calendar because I feel it's not very clear yet. The way we work. And different operators have different ways, is we have a quarterly payment schedule that is sent to all providers. And this payment schedule defines windows for them to send medical bills to the carrier. So from the -- since they've asked. And so once we receive the (fact) sheets of bills, they are processed and sent for payment according to the schedule. About two years ago, the actuarians of the company, in a major work, trying to model how we could do 2 things at the same time to sort the days within the 335 days that we have in a year, the holidays, weekends and everything, long or short months and this and that. Then, the second thing is that for each one of those days, what are the competencies that are developed? For example, March 25th, which is a -- and it's Tuesday. It has 75 competencies open inside it. And for the 75, it has working days, non-working days, strong and weak days, some days that are strong or weak. So this modeling is very complex, it's very long. And has been evolving very fast over the past two years. That's why we have been able to provide improvement in homogenizing our payment schedule. It's not just about saying which day is on one side or in the other. So telling what is within that day, specific. Sometimes, 1 week has nine days of receiving. But are nine days of weak competencies. They're not relevant. Therefore, even though it's a 9-day-week which is not normal, it has a lower flow. Conversely, you may have a week of four days with very strong days. So days after a holiday, or in weekdays when they COPDs and lots of admissions to emergency rooms. But they're complex days, there are strong days. So this mathematics is providing a greater homogeneity to the payment schedule. Yes. It is complex to explain, I apologize for the long and difficult explanation. But it's also difficult to model. Okay?

### **Q - Unidentified Participant**

So this is not related to renegotiating prices with your customers, right?

### **A - Maurício Lopes**

The good result of the company, the combination of 3 great things: underwriting claims, management and health management. So there is -- there are many areas working together, negotiation with provider, then with a team, authorizations, audits, contracting, renegotiations, customer retention. So the good performance of the company is the result of those joint work. But we have also the calendar effect.

### **Q - Unidentified Participant**

Also, this is not related to the date when you renegotiate your contracts with customers, right?

### **A - Maurício Lopes**

No. It's not related to that. I cannot give you details whether there's 1, 2 or 3 points of loss ratio, more or less, in a quarter because of renegotiation. This is the combination of many different aspects. Thank you very much.

## Operator

(Operator Instructions) Since there are no further questions, we are going to turn the call back to Mr. Portella for his final remarks.

### A - Gabriel Portella Fagundes Filho {BIO 18012687 <GO>}

I would like to thank the dedication of our more than 5,000 employees that helped us to start this year in such a positive manner. It's also important to thank the support we have been receiving from more than 30,000 independent insurance brokers, business partners. Without them, we would never be able to reach such results. So thank you very much for attending the call. Thanks for your questions. And we wish you a good day.

## Operator

SulAmÃ©rica's conference call is now closed. Thank you. And have a good day.

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