

## Q1 2011 Earnings Call

### Company Participants

- Arthur Farne, Corporate Vice President & IR Officer

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the SulAmerica's First Quarter 2011 earnings conference call. Today with us we have Mr. Arthur Farne, Corporate Vice President and Investor Relations Officer, and Mr. Sergio Borriello, CFO.

We would like to inform you that this event is being recorded, and all participants will be in listen-only mode during the Company's presentation. After SulAmerica's remarks are completed, there will be a question and answer section. At that time, further instructions will be given. (Operator Instructions) There will be replay facility for this call for one week.

Today's live webcast, both audio and slide show, may be accessed through the Company's Investor Relations website at [www.sulamerica.com.br/ir](http://www.sulamerica.com.br/ir) by clicking on the banner, Webcast First Quarter 2011. The following presentation is also available to download on the webcast platform.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of SulAmerica's management, and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate 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 could also affect the future results of SulAmerica, and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Arthur Farne who will start the presentation. Mr. Farne, you may begin the conference.

#### Arthur Farne {BIO 1845065 <GO>}

Thank you. Good morning, everyone. Again I am pleased to be here today with my colleague Sergio Borriello to present improvements in our results for the First Quarter 2011.

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Before we begin the presentation, very quickly I would like to emphasize the figures that we are about to present are the results of meaningful initiatives that SulAmerica has been taking and implementing in all of our segments of which we could maybe highlight the commercial area restructuring so as to make it even more productive (through) distribution partnerships, acquisitions, among other actions we have taken in 2010 and 2011 to keep enforcing our growth.

Besides those initiatives, we are strengthening our relationship with clients and brokers and increasing our operating efficiency so as to have sustainable growth in our earnings. We see ourselves as the largest independent insurance company and have prepared for the good prospective we see taking place in 2011. We sustain and we always support best proper governance practices or sustainability policies in which case for instance we are for the second consecutive year the only insurance company to be part of the (ESI), the Sustainability Index for the Ibovespa Exchange as it is in evidence of our initiatives in this area. We have also been recognized among the best companies to work in Rio de Janeiro and the best companies, among the largest companies in Brazil, in addition to having received an award in innovation by the IBGC which is the Brazilian Governance Institute.

Beginning our presentation, we could just see here on slide two in which we highlight the main figures for the quarter, that premiums have grown by 23% in the quarter relative to First Quarter 2010, ending the quarter with BRL2.2 billion as a total.

In every case, we are always comparing recurring figures. Just quickly here, in the First Quarter 2010 we had the effect of those retroactive premiums we have been able to charge in individual health policies of some policyholders living in the state of (inaudible) dating back to 2005. So from now on, all the information that we do see, that we'll make here in this conversation, they refer to sustainable -- I mean recurring figures.

Well the performance in premiums reflects basically the behavior of our group health insurance portfolio as well as the health portfolio as a whole as well as the performance of our automobile area. Both areas which represent more than 80% of our revenues have performed greatly in our views.

In addition to that, I guess it's worth noting here the combined ratio has improved to 99.3% with an improvement of 1.4percentage points which means 140 bps as compared to First Quarter 2010. The results from our investment portfolio in the quarter was almost BRL140 million with a yield of 111.1% of the CDI. So way beyond the base rate in Brazil. And that was a good number.

Recurring net earnings in the quarter totaled BRL101.9 million, BRL102 million, which leads to an annualized return on equity of about 14.6%. As we move forward, slide 3, we have listed here some of the events that have taken place in the First Quarter 2011 and to the extent that they may have say benefitted or impacted our earnings in addition to those taking place in the beginning of April.

Well to begin with, we have signed a coinsurance agreement with Caixa Seguros for the automobile insurance line which actually begins July 1st and will last for at least five years.

So this is an example of our ability to develop new partnerships such as this one to increase our revenue base.

The second topic we highlighted here refers to the acquisition of Dental PLAN, a dental operator with operations based in the northeast and north of Brazil with which we are going to add 122,000 members to our dental portfolio which on a consolidated basis will now reach almost 400,000 members with this acquisition.

Just a note here, we paid BRL292 million in dividends on April 11 -- 18, I'm sorry, following the approval by the AGM. And in what it respects dividends, it has been approved that the Company will pay quarterly dividends from this quarter on. So the board has approved that SulAmerica pays quarterly dividends of BRL0.036 per unit which is BRL0.012 per share beginning this quarter. That's about BRL10 million per quarter and that's in evidence of the fact that we have a strong confidence that the Company will be able to deliver its results this year.

The next point refers to our share-based compensation plan. We have improved our compensation for managers by adding a new plan according to which members will be able to convert part of their cash bonuses into shares of the Company with a corresponding matching by the Company. That's meant to strengthen, enforce or even more an alignment of objectives between the Company and the managers of the Company. So we have had an enrollment of about 90% in this plan which was obviously a very high rate for the first year of adoption.

The next point we're bringing here refers to our Investor Day that has taken place in New York beginning of April, mid April, with SulAmerica managers, all the heads of the business units being able to discuss and share their views on our portfolios with investors, sell-side and buy-side analysts in addition to us having the presence of two of our board members also delivering their presentations and sharing their views for SulAmerica.

We have increased the number of our Centros Automotivos de Super Atendimento, or our CASAs, a structure through which we deliver services to our automobile policy holders. So we have now more than 30 of those units and we've got plans to increase that even further this year, to the extent that they add to our retention rate and also to add to the control of costs and consequently to reduction of losses in those cases which are handled through those units.

Moving on in the presentation to slide 4, again we refer here to our premiums growing 23% to BRL2.2 billion. On the right side, health representing 64% of our revenues. Automobile coming next with 23%, so both lines representing 88%, 87% of our revenues. As we continue the presentation, we're going to now talk about our health unit of which premiums have grown by 27.4% in this quarter compared to First Quarter last year. Revenues reaching BRL1.4 billion.

Group health (inaudible), which is our focus in the segment, has jumped 27.8% in premiums and that is a consequence of new members coming to this policy and also the price increases that we have been able to apply to existing contracts in this segment. I

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I guess it's worth mentioning here also the fact that SME, the SME segment which is part of the group segment, has posted a very solid growth in the quarter again which for us is an evidence of the huge potential that we have in this line.

On the right side of the slide we see the loss ratio at 80.1%, slightly below the loss ratio we had for First Quarter 2010 and that figure reflects also some seasonal factors relating to (frequency of utilization) in this line in addition to adjustments in the IBNR reserve that we can discuss in more detail further on.

Member portfolio, in the bottom right of the slide shows 2.1 million total with group businesses representing more than 88% of our membership in those lines.

Now as we move to slide five we are going to address the automobile line. Sorry, slide 6. Slide six which refers to the automobile line and accounting for 23% of our revenues. Auto policies increased -- auto premiums increased to BRL515 million in this quarter with a 23% increase over First Quarter 2010 and that has to do with the increases we have had in the number of policies issued in this quarter in addition to the fact that we've been able to increase prices according to our underwriting policy.

As we compare SulAmerica to market, based on industry data for the first two months of 2011 we see that the market has grown by 9.3% while SulAmerica has posted 25.8% for the first two months of the year. So gaining some market share with 10.5% at the end of the quarter, ranking third in terms of premiums.

The loss ratio was 62%, better than it had been in the First Quarter of 2010 and in line with our expectations for full year 2011. As we move now to slide 7, we're going to address the results of our other P&C lines which together represent 5.4% of our revenues. And we ended the quarter with something like BRL120 million in premiums, a slight decrease as compared to First Quarter 2010 which is a consequence of the fact that we have repositioned ourselves in this segment favoring retail lines as opposed to lines that could be largely dependent on reinsurance coverages.

As we look at earned premiums, earned premiums have decreased 4% only, so the retention of the Company was in line with our policy for this line. As a result of the change in our policy towards this segment, we have had an improvement in our loss ratio of 20 basis points, that's compared to First Quarter 2010 which is actually what has driven the change in our underwriting policy in this segment.

Slide eight refers to life and personal accidents which together would account for 7.2% of our total premiums, the segment growing 21% in premiums to end the quarter at BRL160 million. I guess here we could call attention to the fact that VGBL, so the defined contribution, (inaudible) defined contribution, has increased 87.5% as compared to 1Q 2010. And in every case here, both in personal lines and in VGBL, the increasing premium is a consequence of the fact that we have been able to expand our distribution channels through partnerships with some airline companies in addition to strengthening our relationship with the broker base selling these products. We have ended the quarter with 2.4 million members in this portfolio.

Now on slide 9, continuing with the presentation, we see information related to pension and VGBL again. Here with pension contributions increasing 17% in the quarter to BRL48 million. Whereas reserves have reached almost BRL3 billion, increasing 24.6% as compared to the balances that we had in the First Quarter of 2010. So again, an evidence of the fact that we have been achieving good results in those two lines as well in terms of building reserves.

Now moving onto slide 10, here we see the main figures for our assets under management operation. So (inaudible), the vehicle we use in this area, has closed the quarter with more than BRL17 billion in assets under management most of which are coming from third party investors which on the right side you see are coming from basically institutional, the institutional segment. And a growing I'd say contribution from the private clients and external distribution.

In terms of asset allocation, the funds are pretty much concentrated in fixed income and multi-strategy funds with equities currently representing 2.7%. We have indicated in the past that this area has been the object of further expansion in terms of the products that we offer our clients with, so estimate the revenue stream from fees, the contribution from fees from this activity to increase even further given its strong potential we see in this area.

Now on slide 11, G&A has increased to 12.6% in absolute terms, but relative to premiums we have seen an improvement in our efficiency ratio to 8.7% of retained premiums. So down 320 bps over the First Quarter 2010. This is as we have been mentioning in the past, a consequence of the fact we have been implementing a program that deals with improvements in our operating efficiency. In addition to counting on the revenue coming from the agreement that we have with (Bacuda Brasil) to (weather) backoffice services to (inaudible).

Now we're going to count with something very similar to that in the case of (inaudible) just picking up in the Second Quarter, in the second half I mean, of this year.

Next slide, just a picture of our combined ratio for both quarters, an improvement that we have already referred to in the past, in the past slides, in the previous slides. So down to 99.3% with still further room to improve alongside the year.

Now on slide 13, this refers to the way we have been managing our investment portfolio. The upper side of the slide, BRL4.9 billion referring to reserves not linked to pension or VGBL, so that's the amount of invested assets we have with discretionary policy that we follow, discretionary policy based on ALM. Then on the right side is the allocation of those assets, we're pretty much concentrated in fixed income and some corporate bonds and CDs. That is the different side of the slide so the BRL4.9 billion have had a yield of 111.1% of the CDI. In the total portfolio, about BRL7.9 billion including life and pension yielded 103% of the CDI.

As we move now to slide 14, just again our net income for the period totaling BRL102 million growing 19.4% on a recurring basis, that is excluding from the First Quarter 2010

those non-recurring events which have affected our results. And on the right side of the slide our return on equity reaching 14.6% on an annualized basis.

To sum up, the next slide basically shows the performance of the units of the Company, outperforming the average Ibovespa Index and showing also an improvement in terms of the liquidity of the (inaudible) units.

With that, I will conclude this part of the presentation, and will be available here to take your questions with my colleagues as well. Thank you.

## Questions And Answers

### Operator

(Operator Instructions) Having no questions, this concludes our question and answer session. I would like to turn the conference back over to Mr. Arthur Farme for any closing remarks.

### A - Arthur Farme {BIO 1845065 <GO>}

On behalf of the Company and my colleague, Sergio Borriello, I'd like to thank those attending and say that we here are available to take any questions you may have in the future. Thank you very much.

### Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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