# Q1 2015 Earnings Call

## Company Participants

- Arthur Farme d'Amoed Neto, Chief Financial Officer and Investor Relations Officer
- Carlos Alberto Trindade, Vice President - Auto & Property
- Gabriel Portella Fagundes Filho, Chief Executive Officer
- Marcelo Mello, Vice President - Investments
- Mauricio Lopes, Vice President - Health & Dental
- Unidentified Speaker

## Other Participants

- Francisco Kops, Analyst
- Gabriel Lima, Analyst
- Gustavo, Analyst
- Gustavo Lobo, Analyst
- Unidentified Participant

## Presentation

### Operator

Good morning and thank you for standing by. Welcome to the Conference Call of Sul America to announce the earnings release of the First Quarter 2015. Today, with us we have Mr. Gabriel Portella, CEO of Sul America and the company's Vice President.

We would like to inform that this event is being recorded and all participants will be connected in listen-only mode during the company's presentation next. Then we are going to start the Q&A session, when further instructions will be provided.

(Operator Instructions) The audio of this conference call would be available right after the event on the Investor Relations website of the company. We are going to have a live webcast with audio and slide show that may be accessed at the company's Investor Relations website at www.sulamerica.com.br/ir, on the banner 1Q'15. The webcast presentation is also available for download on your webcast platform.

Before proceeding, we would like to say that forward-looking statements made during this conference call pertaining to Sul America's business prospect, financial and operational goals and targets are based on the information currently available. The forward-looking statements are not guarantee of performance. They involve risks and 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 performance of Sul America and may lead to results that will be materially different from those expressed in such forward-looking statement.

Now I would like to turn the conference over to Mr. Gabriel Portella, Sul America's CEO, who is going to start the presentation. Please Mr. Portella, you may start.



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

Good morning, everyone. Today, we are here to share with you the results of the first quarter of 2015. But before moving to the presentation, I would like to highlight a few points that I find important. First of all, we have had another period of strong growth in premiums, another period of solid operational performance, as a consequence, a net growth.

We had maintained commercial expansion, we continued our underwriting policy focusing on profitability and consistent asset management strategy and discipline in managing admin expenses. And these were some of the most relevant factors that have contributed for our result. Our dental and health operation remains very strong, driven by the increase in the number of members and corporate and SME plans and also initiatives to expand the share of the dental segment has already presented results this quarter.

The company is still benefiting from the investments that we made in structural initiatives in terms of management, in addition to the positive effect of price adjustments that we implemented in the second half of 2014. As a result, the loss ratio of the plan, once again dropped as compared to the previous year.

In this quarter, we reaffirmed our commitment with innovation in health management through a joint venture with the American company Healthways that holds 49% of Healthways operations in Brazil. We reinforced our active role in the development of encompassing product and solutions to promote health and well care. In this manner, we have created a new landmark in supplemental health, adding value to our customers with a potential of promoting structural benefits, not just for Sul America but for the market as a whole.



Motor segment is still undergoing continuous expansion of our insurance fees. The increase of average premiums and as correct underwriting policy improvement in claim management, deduction of robbery and theft were some of the events of this premium. In property and casualty, the highlight were the increase of massified insurance both corporates and business. In this manner, we have a smaller volume in marine insurance and our smaller share in the DPVAT hasn't had an impact in the quarter's results. In terms of personal accident, there a slight growth, driven by the repositioning of the company that we started in 2015.

In pension, in spite of the drop in contributions, our reserves has grown 11.8% in the quarter with a positive impact of the net profitability. We are still capturing the benefits of the integration of our savings bond operations, benefiting for the deep penetration of Sul America's network.

Now in terms of asset management, we have 21 billion assets under our management, a two-digit growth compared to last year, especially considering the positive flow to the portfolios of third-parties increasing our own assets and new products. And with regard to admin expenses, once again we have had a reduction in the rate as a result of our cost control discipline that had contributed to the positive results of the company, in short, another positive quarter.

Now I would like to turn the conference over to Arthur Farme, our CFO and IRO to give you more details about our operations. Please Arthur.

## Arthur Farme d'Amoed Neto

Thank you, Gabriel. So we are going to start the presentation on slide two with an overview of the company's consolidated revenue in the first quarter, which totaled 4.1 billion, as you can see on this table. So of these 4.1 billion, 3 billion comes from insurance. And as part of insurance, the highlights is the health and dental portfolio with almost 2.6 billion. So it's important to note that this is the main portfolio of the Group that has grown 20% comparing quarter-on-quarter and also what drove compared to the previous quarter, showing that we have started the year very well.

There's also positive impact with the growth in our motor portfolio with an increase of premium 10.4 increase year-on-year, anticipating a result of many measures that we implemented during 2014 and we are now (Technical Difficulty). In terms of other property and casualty, there was a reduction, which was casual, life and personal accidents, a small growth of 0.2%, but it's important that the main portfolios of the company retailed all of them with strong growth of two-digit in the first quarter of 2015. The summary of this we're going to see in details further ahead is insurance premiums growing 12.5% as you can see on the slide.

Pension have a negative number, but you can see that set off by a positive movement in portability, the growth in middle, that's a result of this, this segment of ASO, there was a growth to Asset Management. The rates are in line in the period and savings bonds went down too, and we're going to give you more color about these numbers further ahead.

So the consolidated income 63.3% and the same thing that happened in the same quarter last year and this is related to specific events related to the savings bond.

Now on slide number three or four, once again, you can see insurance premiums were 4 billion, admin expenses are better. So if we compare expenses and premiums then this is better and in our vision, in our financials for admin expenses, they also carry over expenses not related to insurance such as asset, savings bonds and other activities of the company. And this improvement has a double positive effect.

Here we are comparing numbers that cause an impact in insurance, but anyhow we have a positive result. The combined rate is better and the highlights is the growth of almost 14% also compared to last year. And the results are very good in this period. So all of this has led to a growth of almost 26% that Gabriel mentioned and the return of around 15%, 14.7% to be precise are very strong number and they are very much in line with our expectation.

Now going to portfolio that comprise the overall result, we start with dental and health on slide number 5 with a growth of 15.2%. The loss ratio is compared quarter-on-quarter in the first quarter of '14. There was an increase of almost (Technical Difficulty) compared to the fourth quarter, it's always greater, it's a result of the seasonality of this portfolio. This is what something that we expected, but the highlight is the drop with a comparable quarter, with the same effect in the gross margin as you can see on the left hand side bottom.

So we had a growth in the number of members of 1.5% comparing first quarter '15 and '14. So if we compare the first quarter with the first quarter, the growth is even greater 2.6 and it's also important that the corporate portfolio is still vigorous in terms of the growth of members and it's resuming growth -- the company is resuming growth in its dental portfolio and we may talk more about this in the Q&A session, but this is the result of a repositioning of our distribution strategy of our dental portfolio, when we are seeing or using there the opportunities of crop sales.

As Gabriel mentioned the partnership with Healthways, we have talked to you about this already. It's a partnership that we hope that over the next quarters or years, we will be able to believe deliver very good results to our health plans and we believe in that.

Moving on to the auto segment that performed very well this quarter, 10.4% growth in premium with an improvement in loss ratio of 3 point with a growth of insurance premiums and a decrease in loss ratio. And this is reflected in the gross margin and then in Insured Fleet growth of 7%. The company has capped an incoming more income and as a result of a better pricing model, reclassified as result is rather satisfactory in this quarter, especially because we're having a decrease in the sales, new cars, et cetera and the economic situation, so we are very happy with this result.

In terms of other property and casualty, slide number seven, we had a small decrease. There is a decrease an increase in loss ratio, which is specific. This was affected by one claim in the quarter, that -- this effect tends to dilute in the period, so it was one specific claim and it's not -- no major source of concern.

On life and personnel accident, slide number eight. There was a small increase in loss ratio, when comparing the quarter that happens because of reclassification of expenses and contingent fees associated are not associated to claims that doesn't have a great effect on the overall results of the portfolio. And there was a decrease in the gross margin and we have a portfolio that's basically linked to products that have lower risk.

As for pension, our bill contributions have decreased a bit on the right side of the slide number nine, it shows the growth in reserves, which is reserved of the positive movement of portability. This positive movement causes the performance and brings out of the fund to which it has to do with the performance of the fund in which the funds are invested.

On slide number 10, savings bonds, this drop of almost 60% in terms of collection for savings bond, we have stopped selling some popular products that has a very high income although a small contribution to the bottom line. Reserves have dropped a bit also by 19% and operating income has a drop of 41%. Of course, in the savings bond operation, it was mostly financial operation, we should look at the contribution -- financial contribution to the reserves, which makes the contribution of savings bond quite positive for the Group as a whole. So we're growing in products that really produce reserve, incentive products and lease insurance.

With that, now for asset management, I would pass the floor to Marcelo Mello, the VP of the area.

## Marcelo Mello {BIO 21963995 <GO>}

Good morning, everyone. In terms of asset management, it's worth mentioning our growth, not only in our own proprietary portfolio as well as third-party portfolio, which is due to a very important performance in fixed income. This was a very challenging period for the industry and we're able to grow above the industry. On asset allocation pie chart, it's worth to find out that we were able to keep our asset allocation pretty much unchanged. So all the multi-market funds and equity funds that have higher added-value, we're able to keep and that was due to a well -- to a successful strategy in recent years of launching products that have a maturity -- longer maturity days.

Of course, that renders operation more stable. It's also worth highlighting that if we compare the pie chart with the industry's pie chart, the industry have been investing a lot in multy-strategy and equity fund. And so we compare to the -- we compare well with the industry.

I would like to highlight some funds that were made during the quarter, especially credit funds index to CDI and IPCA trying to capture the investors of high income investor's and corporate investor's demand. So the channels are being well managed, we have a positive track record of the products and capturing this demand that we believe will continue in the following months.

Now, I'll pass the floor to Arthur again.



## Arthur Farme d'Amoed Neto

In slide number 12, general administrative expenses, we had a decrease 0.7%, we have grown by 12.5, and this improvement in operation quality is reflected when we talk about proprietary expenses on the right side of the slide with a decrease of 0.5% -- 0.5 point in the rate -- in the ratio. This is especially important because the company continue with important investments to reclassify its technology infrastructure as well as operation structures and that reflects on the operating ratios.

We have reported this quarter already the volume of operations of the company is growing with quality given the investments we have been making, especially in IT to improve operation. So this improvement in G&A ratio is the result of a very strong qualitative efforts on management of resources.

The combined and operating ratios, on the next slide. We have ended the quarter with a small drop when compared to the 2014, 2 percentage points year of improvement.

On slide 14 investments portfolio. It illustrates, how the investment portfolio was allocated during this period. On the left, we see the part of pension that's non-regulated is highly allocated in both fixed investments Selic and CDI with a portfolio of about 17% on assets linked to inflation and a small 7.2 in fixed income and other asset 0.7%. In terms of quality of investment note assets are on government securities, 21% or 20% of the portfolio on private securities. All of them are high quality insurers, in line with our policy.

Now that ends our description part. And then we're going back for the Q&A session. Thank you.

# Questions And Answers

## Operator

We are now going to start our Q&A session. (Operator Instructions) Gustavo from the Bank of America. Please proceed, Mr. Gustavo.

## Q - Gustavo {BIO 17162944 <GO>}

Good morning, everyone and thank you for the opportunity. I have two questions to ask. The first one regards, price adjustments. We will start discussing (Technical Difficulty) What have you been saying about (inaudible) what about your conversations, what have you felt from other players. What is the feeling based on the informantion you already have and can we expect the same level of adjustments as we saw in the past two years?

Especially based on the inflation level, that we've been seeing. So if you could share with us, what you already have and what are the prospects for this year's adjustments in your health portfolio. And then I have a second question to ask.

## A - Mauricio Lopes {BIO 21675846 <GO>}

Gustavo this is Mauricio. Well, we started thinking about reprising the portfolio about three years ago. So it was slightly faster or more accelerated as of two years ago. We are getting to the time of designing new prices, we are still designing it, we don't have any definitive target, because different portfolios are going through different times of corporate, SME, dental. So different set of portfolio is going through a different timing.

What I can tell you now is that, yes, we want to re-price our products. We feel that there is still some room to take in part of the reprising that is necessary, as we -- and in recent years, we noted that it was necessary to adjust those prices because of the medical inflation.

At the same time, we are having increasingly more intense claim management action. So if we have claim management, when you rapidly implement them as we did in the past two years and restructure health management structures or measures during the future and this was that we are doing through that we have been doing over the past three years.

## Q - Gustavo {BIO 17162944 <GO>}

Well, it is very clear now. When you look to your peers, do you think there is a joint movement of other players in the same direction? I won't say that magical inflation is putting pressure on all player. So in my understanding, it would facilitate further satisfactory adjustments that is -- how do you see the market?

## A - Mauricio Lopes {BIO 21675846 <GO>}

Well this is Mauricio again. Joint movement, no. Different portfolios have different dynamics, composition, geographies and everything. And each portfolio will behave according to its unique feature. And I think that our peers are the same, so we are going to reprice our portfolio, just as our peer will do. And they have differences too between their different portfolio. So we may have some similarity with the macro conditions that affect all players in the same way. For example, the size of the hospital network and other phenomena that has taken place over the past few years in these markets scenario effects are similar for all place.

But different players respond differently, considering their growth are becoming more profitable and their needs to grow. Second question regards motor segment with a positive highlights this quarter, both in terms of growth of premiums and especially in terms of the loss ratio. So you accelerated the growth in premiums in the past month, 10% year-on-year and an increase in the -- also an improvement in the motor loss ratio. How sustainable are these numbers? This favorable environment for motor insurance for long time. Do you think it's a cycle, do you think it's here to stay in 2015, so what can we expect from the motor segment, should we expect good performance along the year.

So could you discuss this a little bit more with us, please?

## A - Carlos Alberto Trindade {BIO 17004390 <GO>}

Hi, Gustavo, this is Trindade. First I would like to say that when you look at markets this year. So if you compare the first month when -- the carnival shift from one month to the other. So you should notice the combined numbers for the entire quarter, so that you'll have a clear notion of our development, because of this differences in calendar in terms of work days, will have an effect in our numbers. Any how we have had a good performance both in terms of growth and in loss ratio. As every amount of the work that we have been doing for a while since last year, we have greater discipline, pricing and the writing. And we've been keeping this discipline in the company.

Furthermore, we have also managed to increase our fleet, very much based on the combined efforts of pricing strategies that yes, we are managing to drive up with actions that are getting faster to the front-end. We're not going to go into too much detail about these actions and in this manner, we have expanded our distribution capacity or it eventually leads to an increase in our insurance from last year and till this there are all the imports that are related to labor cost and so on and so forth. And this had been affecting the price. So the work was natural alignment we had good competitiveness.

And I would attribute the growth to the expansion in our distribution capacity and actions that are getting faster to the front line.

You asked me, is it sustainable along the year. Well, we see a drop in the sales of new cars, but at the same time an increase in business with second hand cars and maybe one company is focusing more on one segment or on the other and then this might provide better results. But I think that, we are going to grow, we are having almost 3 million cars being licensed every year, this is a significant growth. And that volume will continue, if it's not 3 million, it's 290 [ph]. Apart from the movement we have with used cars. So, I see that this profit will continue. Of course, it's not like we had in the past of 18%, 20% growth, but yes, with the market is going to keep its performance as it's been so far and there may be some changes in the business volume.

## Q - Gustavo {BIO 17162944 <GO>}

It's the last comment. How much, what's percentage of your fleet, new cars and second hand cars, could you tell me?

## A - Carlos Alberto Trindade {BIO 17004390 <GO>}

We don't talk about this data, because there is a relation -- when you break down the portfolio, what it car, what is trucks and this is confidential data, because of competition. But I may say that in terms of new cars, this has not -- the issue with new cars has not affected us so significantly.

## Q - Gustavo {BIO 17162944 <GO>}

Okay, thank you.

## A - Carlos Alberto Trindade {BIO 17004390 <GO>}

Well, when you say, new cars you have popular new cars, more affordable ones as well as luxury cars. And they affect differently the different companies.

## Q - Gustavo {BIO 17162944 <GO>}

Okay. That was very clear. Thank you.

## Operator

Next question comes from Gabriel Lima from Banco Bradesco. Gabriel, you may proceed.

## Q - Gabriel Lima {BIO 16224058 <GO>}

Good morning, everyone. I have two questions. First, I would like to ask your health -- to read their health from, what these effects, how much is due to calendar effect as well as to your own initiative. And the second question is about the sales savings bond. I think there is a cross -- do you have a prospect when the return of the sales will return to normal?

## A - Mauricio Lopes {BIO 21675846 <GO>}

This is Mauricio talking. As for the calendar effect, there has been no calendar effect. There was a standard quarter, nothing worth mentioning regarding potential sale of claims from one quarter to the other. Now I would let Andre [ph] answer the savings bond part of the question.

## A - Unidentified Speaker

Good morning, Gabriel. This is Andre. The company is re-evaluating the possibility of going back to operating in the popular segment and the low-end segment of the market. This is a topic that we are studying here internally.

## Q - Gabriel Lima {BIO 16224058 <GO>}

Okay, thank you.

## Operator

Next question from Gustavo Lobo from BTG Pactual. Mr. Gustavo?

## Q - Gustavo Lobo {BIO 18719996 <GO>}

Good morning, everyone. I had two questions. First a follow-up on the question by Gustavo about the auto segment. We see that interest rates are going up, cap have done down. The performance of the segment has been quite favorable in the first quarter of the year. But I believe this is -- will more or less be valid for most players in the auto insurance market. My question is competition continues -- are you comfortable with competition. The fact that other players are reducing prices and reducing -- because of loss ratios is higher or reducing prices since loss ratio will decrease, because staff have decreased when compared to last year, quite a lot. So how do you analyze this competition issue in auto insurance?



## A - Carlos Alberto Trindade {BIO 17004390 <GO>}

Gustavo, this is Trindade speaking. Competition in this segment has already existed, it's quite clear. It's a retail segment. What we have noticed differently from other interpretations that I have seen is that prices have not decreased, quite the opposite. The market has adjusted prices. Although, theft has decreased when compared to the first quarter of 2014, the ratios are still higher than the best times we had in that scenario. And most of the companies are still suffering with the price movement from last year and that causes prices to go up a bit and theft in re-addition auto for example is growing. And although, it's better in Sao Paulo, in other areas of the country that the performance doesn't necessarily -- is not necessarily the same.

I do not see any movement in terms of the fact that well, as we used to say, interest rates are going up, prices will go down, this doesn't seem like to be the behavior in this market anymore. I think the market is doing its calculations very well. We know that going after the interest rates movements leads you to have more allotted capital, we increased the cost. So this is -- we don't see any trend of lowering prices due to those reasons.

## Q - Gustavo Lobo {BIO 18719996 <GO>}

Okay. Thank you, that's clear. My second question. I know you had an excellent performance in the first quarter. But my question is, the more, the best way you are looking at SG&A in Sul America, if you compare to the inflation or compare it to premium, because that's the company grows it must increase its administrative expenses. My question is, because you have grown in insurance, Arthur mentioned that, there to compare expenses of non-insurance product with the premiums increased.

So we had a SG&A ratio lost in this period or decreased. Is there still room for improvement in IVA or as of now it seems that this level will remain steady for the next quarters?

## A - Arthur Farme d'Amoed Neto

This is Arthur, answering your question, again. Thank you very much. Well, part of the expenses represents some -- present some type of indexing. So due to the company's contracts, they have some indexing and inflation would be a good share of that. What I wanted to say that we'd been making investments with them just -- we've been reporting CapEx in our structure and many other things, in software to improve the quality of the operation. And this is already having a reflex in better operation results, lower loss ratio. So the challenge of lowering this relative expense ratio -- expense revenue ratio is a consequence of the company's intention to improve the quality of these operation. I can't tell you what this has in its bottom, we don't -- we want to believe it is not. But, yes, we have been improving just a lot in recent years, it went from 10 down to 8.5.

We have been putting capacity, so to speak simplifying the answer. Yes, there is a component of indexation, no matter, you said -- we have negotiations with our suppliers. But the trade-off between growth and the necessary investments is being reflected here. The other point you mentioned is that the companies combined, who would be gathering if we excluded admin expenses of insurance, those non-insurance and we can highlight that at this moment in the consolidated vision.

What we know is, yes, in terms of savings bonds, asset management, pension denominator is not reflected in this ratio, they have a negative effect on the comparison.

So the historical series is homogeneously affected. So this could not explain some specific type of movement. This is clear, maybe this is a one-off event, just in terms of the savings bond. But after that everything is comparable. Mr. Gustavo, (inaudible) for the savings bonds. It's not going to affect our combined numbers with insurance. It's a financial activity, it is after the insurance margin in our structured sector. So we need to have a managerial vision of the expenses specific for savings bond.

Anyhow, whatever way you look at it, we have been maintaining significant gains in operational efficiency. This is the message, we want to convey. Whether this ratio can get even better we believe, yes, it can get better. But the company wants to keep the same investment levels, we've been having. And we've been having also positive reflected in our EBITDA.

## Q - Gustavo Lobo {BIO 18719996 <GO>}

Thank you.

## Operator

Next question is from Mr. Francisco from Banco Safra. Please, Mr. Francisco.

## Q - Francisco Kops {BIO 17215088 <GO>}

Good morning, everyone. I have two questions. One for Mauricio and the other one for Arthur. Mauricio, could you share with us about the macro scenario. And what I've noticed is in spite of the strong price adjustments, you have a good evolution in a number of members. With rising unemployment rate, not so many vacancies opening recently or a slowdown in employment, do you expect the reduction in the number of members, our net effect in Sul America's portfolio. Could you share more with us about that? Thank you.

## A - Mauricio Lopes {BIO 21675846 <GO>}

This is Mauricio, again. Thank you for the question. We cannot yet see this movement in our portfolio. The reminder, the so-called slowdown of working of employment, maybe they will have a delayed effect in benefit, because people who are entitled to stay in the health plan longer even after they are fired and so on and so forth, they have package of benefit. So once they are fired, that can be negotiated, they can stay in the portfolio for a longer period. So we cannot yet feedback as -- with a relevant impact. Watch to the opposite, our portfolio has been growing both in terms of new sales and the portfolio has been keeping at the same levels relevantly.

But most importantly regardless of that movement is to see what we are doing in home as our homework to improve. First of all, we have a portfolio that has been built in all segments. So even though, we might have a reduction in Group policies we have a good portfolio in affinity Groups and also with SME with very high rate, because they are very additional portfolio. So we can take in those -- come out from one of those group portfolios may join Sul America back against through those SME. Sometimes they had a risk repayment and go to post payment.

So the customers remain in the house, they only change places. The other thing we've been working very much is in retention and underwriting since 2013. Sul America has structured a very robust sales for the retention of small businesses. We have been working intensely since 2013 and 14, so we have managed to increase retention in our retail portfolio with longer-term strategies looking at the numbers with a great accuracy. In order to retain, and in terms of sales, same thing applies. In 2013, 2014 Sul America changed gravely our underwriting rules. So we started attracting new types of lives and we are denying other that we used to accept in a fact. So the fact that there is no -- but there is an employment, but we don't see the effect, but the other, new underwriting policy, the retention policies and a lower claim per capita claim prices, makeup and provide gains to our portfolio, yes, we may have a longer, more sustainability in our portfolio more than we see in a competition. So far the time being, we are not worried about that and it's not yet as relevant as we've been seeing in other industries.

## Q - Francisco Kops {BIO 17215088 <GO>}

So following up on you answer. The fact that Sul America has a large scale when compared to the competition might give you a competitive advantage when managing the portfolio, right?

## A - Mauricio Lopes {BIO 21675846 <GO>}

You mean, regarding the network of service providers?

## Q - Francisco Kops {BIO 17215088 <GO>}

Yeah, since you have a greatest scale, you can dilute fixed cost and fluctuations. So you don't have to re-adjust prices as much as smaller plans?

## A - Mauricio Lopes {BIO 21675846 <GO>}

Yes, that makes sense. Scale is relevant in health worldwide, of course, it's the same here. But this fact of bargaining power, it's that. Our size allow us to continue to invest in services. So we give a perception of higher advanced of customers. For example of the previous update, five years ago, the area of operations of Sul America was doing a previous authorization of procedures with GPs, today it's no longer like this, only the oncologists can authorize previously. In orthobiotics, we must be the person that works in that area. So it's more specific, we are investing a lot in that. So it provides a better control of expenses.

## Q - Francisco Kops {BIO 17215088 <GO>}

And in terms of a follow-up on the next question about G&A. I know you are a bit conservative in your answers and I understand that. But the decrease in EBITDA was quite large, but we had a difference in prices, in health but doesn't necessary imply, difference in structure, so big. So I believe this operational gain will continue while you keep on doing strong price adjustments. Could you think that the IVA would be smaller and smaller from now on?

## A - Arthur Farme d'Amoed Neto

I wish you are right. But, yeah, I think so. Part of the investments, we're making aim to increase this leverage, based on the fact it will have capacity of producing more with the same structure. What has happened recently is that, if we think about the strategy for 10 years, a few years ago, the company has a 7 billion income. Now we have more in recurring, 15 million in recurring income. So -- and the structure has remained pretty stable, so we are able to earn market share, improve the portfolios, the diversification in terms of sources of reserves, contributions from health, from pension, from savings bond and investment in the qualification of our infrastructure has given us this result.

So I won't give you this impression that the company is trying to be conservative in its venture. On the contrary, at the same time, I cannot assure you that we'll continue to have gains at the same magnitude, as we had, we're working for that, we're investing for that. But again, it's not just about keeping up with inflation in terms of prices, because we are reducing expenses and we're also amortizing investments for making, for example in IT infrastructure and structures in general, which require it's in consulting services. So everything is reflected on the indicators.

## Q - Francisco Kops {BIO 17215088 <GO>}

Okay, thank you, Arthur.

## Operator

Our next question comes from Mr. Fernando Leitao [ph]. Please Mr. Fernando.

## Q - Unidentified Participant

Gentlemen, good morning. Thank you for the conference call and you have already answered my first question. It was about unemployment and how far that could affect your portfolio. The second question and I apologize, because I am relatively new in this industry. I would like to understand the accounting mechanics of your technical wizards, so when the regulator asks you through their parameters, that you increased your technical reserves, where do you take that money from? Thank you.

## A - Arthur Farme d'Amoed Neto

Fernando, this is Arthur. No one is new in this market, no way. So all of the markets that has a very complex nature and your question is most welcome. And this is just seem that may be would deserve a special call to our Investor Relations and we could give you details about -- the technical details that lead to this. But retailers are part of the revenue that the company receives fund. So we defer those revenues and this has a reflex of the company did not, when using the jargon that the company earned. So in terms of, the reserves are constituted based on the purchase of asset, based on the company's earnings that they keep in the form of technical provision.

And in insurance, they are required to an addition for technical provisions related to reserve. There are also solvency in margins that are additional reserves that the regulated both in health and in property and casualty required. I think that we could better illustrate this, if we could talk to you with more time to give you more detailed answer.

## Q - Unidentified Participant

Okay, thank you.

## Operator

Since there are no further questions. I'll give the floor again -- I'll pass the floor to Mr. Gabriel Portella for his final remarks.

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

Thank you very much for attending the call. I would like to thank all our employees, the brokers, our business partner, our stakeholders of Sul America for your contribution and input for us to attain this wonderful quarter again. Thank you very much and have a good day.

## Operator

The conference call for the earnings release of Sul America has now ended. Thank you very much and have a good day.