

Q4 2011 Earnings Call

Company Participants

- Arthur Farne, EVP of Control & IR
- Carlos Alberto Trindade, VP of Auto and Property & Casualty
- Thomaz Menezes, CEO

Other Participants

- Carlos Macedo, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Sul America's Fourth Quarter 2011 earnings conference call. Today with us, we have Mr. Thomaz Menezes, CEO of the Company; Mr. Arthur Farne, Corporate Vice President and Investor Relations Officer; and other officers.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After Sul America's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given.

(Operator Instructions)

There will be a replay facility for this call for one week. Today's live webcast, both audio and slideshow, may be accessed through the Company's Investor Relations website at www.sulamerica.com.br/ir by clicking on the banner Webcast 4Q '11. 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 Sul America'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 Sul America and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Thomaz Menezes, Sul America's CEO, who will begin the presentation. Please, sir, you may now begin.

Thomaz Menezes {BIO 16674464 <GO>}

Thank you. Good morning, everyone. Good morning. It's a great pleasure that I'm here today with our CFO and Investors Relationship Vice President, Arthur Farne, and also with Carlos Alberto Trindade, our Vice President in charge of Auto and Property and Casualty among other directors of the Company to comment our results of the Fourth Quarter and also the results of the full-year 2011.

For those of you who have been following the Company's results in 2011, we are convinced that last year was a great year, which not only we overcame a few challenges but also we promoted a number of measures that allowed us to have a better and a stronger focus on our business.

We introduced more agility and transparency in our daily business. And we continued having the trust of the policy holders, the brokers and our partners. The financial results are a (live) proof that we are on the right track.

We believe that the insurance sector in Brazil is a very promising one and we want to be ahead of this industry. I'm confident in our position as the country's largest independent insurance company.

Given the fact that we are always looking into the future, we are investing in modernizing our systems and our operational process and expanding our presence throughout the country. Besides we are also investing in training of our team who support the growth that we expect for the years to come. In short, (strengthening) what I have been saying through 2011, the Company has achieved a significant milestone in the past years and a lot has been done.

But we are aware that we will continue to create value to our shareholders. After these few initial remarks I will now try to quickly cover the results of the Fourth Quarter and the results of the full-year 2011.

If we can move on to slide 2, we will begin the presentation where it shows Sul America main performance indicator in the Fourth Quarter and the full year of 2011. As I said before, we had an excellent year and we had also an excellent quarter where our profits in the Fourth Quarter was BRL218 million, which contributed to the Company's full year results of BRL448 million in profits.

The quarter results as shown in this slide was about 38% better than the Fourth Quarter of last year, 2010, and more than double the Third Quarter of the same year -- of last year's 2011. This led the Company to a total profit increase of 5% of 2010. In this presentation as well as in our press release both available, it's not only in the website but also distributed, we are highlighting the Company's performance on a recurring basis in line with our usual practice. The quarter shows the results of our right decision making and

the actions that we took last year also favored by the seasonal effects of our major portfolio, health and the auto segment.

In terms of total premium, as we show in the chart, we grew 17.1% in the last quarter reaching a total revenue of BRL9.4 billion in the year and in compared to 2010 results, 14.7%. In other words, I think it's worth mentioning that we produced over BRL1 billion in new premiums.

Anticipating the information that we will comment lately in the presentation, this good performance of the Company both in the quarter -- in the Fourth Quarter and in the year was due to the good performance of our two main business, health and the auto, which together accounts for more than 90% of our premium of our portfolio.

In health, we grew 19.4% only in the quarter reaching 18.8% in the year with a portfolio of more than 2.4 million lives insured. In the auto segment, our growth was also 6.9% in the Fourth Quarter with a total growth for the year of 7.3%, which we consider quite satisfactory especially if we were to take in consideration the economy behavior and the competitiveness of the market throughout the whole year. And it's important to mention that our insured fleet reached 1.5 million vehicles, which is an 8% growth over 2010.

Our combined ratio remains practically unchanged when we compare the Fourth Quarter of 2011 and the Fourth Quarter of 2010, and had a significant improvement of 5.9 points if we were to compare versus the Third Quarter of 2011. This certainly reflects the good performance of the Company in the quarter particularly in controlling and reducing the loss ratio of health and auto.

Last year, when we look at the combined ratio, it stood at 99.6% almost 200 b points above 2010 but below 100 which is always our target. At this point, it's worth mentioning that the combined ratio of this year was strongly impacted by three key or three main factors. The first, decrease of the frequency of utilization in the health segment; second, the increase in the repair cost of the auto segment; and finally by the increase of the provision of the premium deficiency done in our life segment already commented on the previous quarter.

This slide also makes it clear that in addition to the good operating performance, we had a significant contribution from our financial results which were impressive -- a total of BRL658 million in the year with an average yield of 115.8% of the CDI in the last quarter and the annual results of 110.4% for the whole year.

With these initial comments, I would like to move on to slide three where in this slide we will highlight the main events of the Fourth Quarter among them the following. The first two bullets is related to the ratings. The Company has received the ratings from the S&P and Fitch. We improved from BB minus to BB in the S&P rating. And for the Fitch we maintained its ratings but revised our perspective to a positive one. And while we are talking about ratings, I want to mention that in our first debentures issue recently done or concluded the same rating agents attributed grades BB and BB plus respectively to Sul

America SA as the insurer -- issuer, sorry and the brAA, Brazil's national scales, and AA minus for the issuance itself.

In the same context, evaluating context, our main operating company, Sul America Companhia Nacional de Seguros, was rated by the S&P with a BBB minus which gave us the investment rate. We are extremely delighted by the recognition of this good financial conditions of the Company.

Moving on the bullets on the same slide, this quarter we opened five new C.A.S.A.s we opened in 2011. And we ended up the year with 35 units. For us the C.A.S.A. proposal -- the C.A.S.A. concept project has proven to be a very successful strategy and it adds value to our auto segment products. In November for the first time, we even held a public meeting in partnership with APIMEC in Sao Paulo -- in Sao Paulo in one of our C.A.S.A.s in Sao Paulo, which is the unit of Avenida dos Bandeirantes allowing not only our clients and brokers, but also the investors and mainly the investors and the analysts to have a better feeling of the concept and the operating model of our C.A.S.A.

We also launched in the last quarter the web platform which -- for pension which we called Pension Without Bla Bla Bla which was a significant launching for us in the quarter, introducing an innovative concept of offering the possibility of our clients and partners to look at pensions, which is done extremely throughout the web portal and has a great capability of educating and teaching our clients and partners about the benefits and the pension issue.

Also another significant investment of our Company was the migration or the transfer of our call center facilities in Rio to our own building done in December, which we can already see the results of the greater interaction of this area which is responsible not only for our customer relationships but also responsible for the relationships of all the different business units.

Regarding our corporate governance, we conquered important recognition such as the inclusion of our stock units in the ISE BM&FBovespa Sustainability Index for the third year, for the third year consecutive. And we are very honored in -- and we are also very honorable mention, we received an honorable mention in corporate governance from the ABRASCA Annual Report Award. Besides that, we have also received an award by the APIMEC in Minas Gerais, the state of Minas, for the best public meeting held in 2011.

To close this slide, I would like to highlight the good results achieved in our first debentures issues where we raised BRL500 million with a rate of CDI plus 1.15% a year. This was the first issuance of a debenture made by a Brazilian insurer bringing a new industry and a new option for investors and fund managers that would like to operate in this market.

We now turn to slide four to quickly show our premiums in each segment as well as the mix of our product portfolios by the end of 2011. On the left side we see an increase, as I mentioned before, of 14.7% of our total premiums. I am -- as I have mentioned before, on

the right side we show our product portfolio mix by segments which has had no significant or relevant changes from past quarter.

I would like to ask now for Arthur, our CFO, to lead us through the rest of the presentation.

Arthur Farne {BIO 1845065 <GO>}

Right Thomaz. As we explore in more details our business segments, slide five deals with our health and dental operations and I guess the price to be highlighted here, we ended the quarter with premiums totaling BRL1.7 billion, with Group health being responsible for about 80% of the total growing 27% over Fourth Quarter 2010.

Last year the health segment reached the -- last year that is 2011, we totaled revenues of BRL6.2 billion in premiums, up 18% from 2010. We think that this result -- we achieved this result to the increase in the number of members in our portfolio as a whole which grew 19% as well as price adjustments we have been able to apply to our policies.

Moving to health segments highlights, I may like to point out the small and medium sized corporations, which is one of the Company's focuses. I think we have been increasing our presence in this segment which now has about 270,000 members increasing 37% in premiums compared to 2010. This has proved to be a very attractive niche within the Group health segment.

Another segment that is present -- that has presented very interesting potential is the dental segment. Our membership has grown very, let's say, solidly in the year 2011, 94% compared to the previous year including both organic growth and the incorporation of Dental Plan, an asset we have acquired back in 2010; we had announced an acquisition which has been approved in 2011. This added 140,000 members to our dental portfolio. We have plans to continue investing in the expansion of our dental operations and thus further enhance our portfolio which has closed the year with about 450,000 members.

In the loss ratio, I think it's worth mentioning here the decrease of about 660 basis points in Q4 compared to Q3 both in 2011. We ended the year with 79.8% for the full year, which is 220 basis points below -- sorry, above the full year figures for 2010. This was mainly due to an increase in the frequency of utilization and also some increase we have noticed in cost of raw materials and medicine.

Moving on to slide six now, here we address briefly our auto segments where (this highly) competitive scenario for automobile was -- in 2011 was somewhat different from the one we have noticed in 2010. I guess some macroeconomic factors such as interest rates and credit for prior purchases have added to this environment in addition to some issues related to the industry itself. So 2011 demanded from us and the industry a higher priority in decisions towards increasing our recovering profitability in the portfolio, not necessarily on top line growth.

FINAL

Bloomberg Transcript

FINAL

We saw premiums growing at around 7%, you'll see 6.9% for Q4 over Q4 2010 and 7.3% for full-year 2011 compared to 2010, which is way below the growth rates we have proposed for the year 2010. Our portfolio, however, has increased 1.5 million vehicles, an increase of 8% in the year.

In the same slide the chart on the upper right hand side of the slide shows our loss ratio with each quarter in 2011. And here I guess you may notice the sizable improvement the Company has posted in its loss ratio in Q4 especially compared to Q3 to close the year at 64.1%, 370 bps above full year figures for 2010.

Continuing this presentation, slide seven addresses our other Property and Casualty lines. This is a segment which by nature has a very depressed price composition as you can see in the chart to the lower right side of the slide. Our portfolio has a greater weight in massified or mass distribution, mass sales insurance lines such as cargo, homeowners comprehensive, condominiums, small businesses (inaudible) liability which together represented slightly less than 60% of our revenues in this segment in 2011.

Premiums have had a significant growth of 33% quarter over quarter reaching almost BRL500 million for the full-year 2011, 7% up from 2010. Loss ratio has improved 900 bps quarter on quarter with an improvement also as you compare Q4 to Q3 2011. Full year figures have closed at 54.3% with an evidence of the fact that our -- the improvement we have had in our risk, our underwriting policies, and now our risk appetite directed to this business. Our gross margin has increased in line with the behavior of the performance of the loss ratio basically.

Slide eight adds some comments on our life and pension business. Here slide life and personal accident in which case we have premiums growing by 8% on a full-year basis to reach almost BRL500 million as a total. Loss ratio has been 64% for the full year, a figure which is also a consequence of the fact that the Company has increased its provision for premium insufficiency commented especially in Q2 and Q3 before. We ended the year with a total of 2.3 million members in the life and personal accident portfolios.

Slide nine addressing now our pension and VGBL, the unit linked kind of product that we have with accumulation components, we are first -- we have had a total contribution revenue of BRL100 million in Q4, down 30% on Q4 2010 with an improvement of about 8% on a full-year basis to close the year at almost BRL500 million. Our reserves in life and pensions have totaled BRL3.2 billion, out of which the VGBL, the life with accumulation components one has increased 26% from 2010.

Slide 10 portrays our asset management operations in which case we have ended the year with a total of about BRL20 billion in assets under management, growing 12% over 2010. Out of this total, BRL8.4 billion represented assets belonging to the proprietary portfolio and about BRL11.3 billion from third parties. We were able to expand our operations especially coming from third parties due to the increase of the products and the improvement in our private portfolio especially by the launching of new equity based with equity strategy funds.

Bloomberg Transcript

Slide 11, this addresses our G&A. You see on the left side that though we have had an increase in absolute terms of about 9% year on year, on the right side you see that the Company has had an improvement of about 30 bps in its ratio to retained premiums. So we also -- again this year 2011, we were able to deliver a better efficiency in handling our G&A.

The next slide, slide 12, refers to the behaviors, to the evolution of our combined ratio which Thomaz has already mentioned referred to in the beginning of the presentation. So closing the year at 99.6%, below 100%, in line with our targets with a huge improvement as you compare Q4 to Q3 this year.

Slide 13 details -- provides you with some details in our investment strategies. The upper side of the slide shows BRL4.8 billion of our assets that are not linked to life and pensions. On the left side you see the major strategies that we've been following as a consequence of the Company adopting a ALM approach in managing its portfolio.

And the right side allocation -- the allocation of that portfolio which pretty much points to fixed income government securities, portfolio of about 23% in corporate credit and some 2% belonging to equity or equity based funds. The lower part of the slide adds up also the life and pension portfolios with the BRL1.1 billion as we mentioned before.

Slide 14 sums up the net income for the year. So BRL218 million in the quarter, almost 38% up from Q4 2010 for -- to reach a full year of BRL448, 5% up from 2010. The return for the full year on an adjusted basis was 15% whereas for the quarter it was almost 33%.

With this, we conclude this part of the presentation and are open to your questions. Thank you.

Questions And Answers

Operator

(Operator Instructions) Carlos Macedo, Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Congratulations on very solid results. I have a couple of questions. The first one is if you can give us some color, some guidance on what to expect for the loss ratios of your businesses going forward. There were significant improvements across the board in health and auto. I was just wondering if some of those levels are sustainable or if we could see a -- basically a reversion to the mean for some of those lines particularly health, Group health in the next two or three quarters.

And the second question is with respect to the financial income that you were able to post in the quarter, 116% of the CDI is a very robust rate. Your competitors were not able to reach that rate as the trading desks and the banks were all -- had poor quarters in

FINAL

trading. I was just wondering if you could give us some color in that and how recurring should we expect those financial revenues to be. Thank you.

A - Arthur Farme {BIO 1845065 <GO>}

Thank you, Macedo. Thank you for your questions and the comments on our results. I guess to your first question, yes, we do forecast some improvements in both health and auto maybe for different reasons. But in health I think it's fair to say that at this point in time that we may consider an improvement of at least 100 bps on a full-year basis as we compare 2012 to full-year figures for 2011.

In automobile and again for different reasons, I guess improvements could reach 200 bps. So something around 62%; 63% is doable in 2012 especially as we take into consideration the fact that some of the macroeconomic conditions would favor a more disciplined approach in 2012 as compared to what happened especially in first half of 2011.

Q - Carlos Macedo {BIO 15158925 <GO>}

Just a follow up. These improvements, would they be mostly on the price side, the cost side or the frequency side?

A - Arthur Farme {BIO 1845065 <GO>}

I guess it was the way we may take advantage of the fact that Trindade, the head of our automobile operations, is here. He can maybe add some color to this point.

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

Hi, Macedo. Talking a little bit about the auto business, we will be facing and we are now facing a positive price cycle in the industry. I understand that the whole industry could capture the effect of the inflation that we had in our costs during 2011 maybe a little bit late than necessary but I guess at this point in time all the companies have the understanding that perhaps labor costs and parts, repair part costs raised very intensively last year. And so prices have been adjusted to cover that.

We had some deviation in frequency for debts in Sao Paulo and also the industry addressed that too and we did that ourselves too. And the --- so there is a positive cycle. We are investing (in) controlling the costs of our services and products -- how can I say that, the products in (spoken in foreign language).

Q - Carlos Macedo {BIO 15158925 <GO>}

Components?

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

Components, yes. And so I understand that we will have a very good year 2012. On the other hand we particularly have been investing in pricing methodology since 2008 and '09 and particularly this year we have been able to put in place a new quotation system

Bloomberg Transcript

that is fully online, almost 100% online we used both attributes online and offline in our system.

But with this new system we are able to capture all the knowledge that we developed along the last three years and put this knowledge for pricing on a day-by-day basis in the hands of the broker in a very particular individual price strategy that we have. So I understand this will benefit our loss ratio too.

And we have seen that the sales have been in good shape even though all these movements are happening in the market. And especially those companies that were working with the combined ratio over 100% during the last two years to gain market share with the drop of the interest rates, all these companies had to raise their premiums and these also changes the competition in the market.

So we have a new scenario and I think we are very well positioned for that too.

A - Arthur Farme {BIO 1845065 <GO>}

Thomaz, I don't know if you have any other comments on the points that Trindade has just made.

Q - Carlos Macedo {BIO 15158925 <GO>}

No. That was perfect. Just one maybe follow-up on that. The average premium per vehicle on the Fourth Quarter declined quarter on quarter after increasing the third. Is the market -- is the environment still more positive for pricing despite that? I mean is that something geographic that happened or mix or what led to that decline in the written premium per vehicle?

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

In our specific portfolio, there is a movement in the mix. We have a very significant portfolio of (motors) and the motor insurance we have been growing much faster than the auto in itself. The production and sales of motors in Brazil is really very heated and we are benefiting from a knowledge that we are the leaders in the market.

So that changes the whole view of the average premium in our portfolio. So this is one important movement and also interest we have been adjusting prices a little bit more intensively and this changes the mixes too. So basically we are being able to raise the average premium per segment of our business and even in motor with the significant growth we are increasing a little bit but the average premium for motors is much smaller than the other segments of the portfolio.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you. That's good. So the second question.

A - Arthur Farme {BIO 1845065 <GO>}

I might come back to your points on the portfolio -- that is the portfolio performance?

Q - Carlos Macedo {BIO 15158925 <GO>}

Yes.

A - Arthur Farme {BIO 1845065 <GO>}

So what --- as you maybe noticed in our slide 13 for the presentation, we have -- I don't call it a conservative but we are --- we give a priority to the ALM here in the Company. So in this sense with this kind of profile that we have, it's fair to say that we should deliver something between (102 and 105) of the CDI on a sustainable basis.

I guess the positives for price could come if we -- as we did in 2011 see some room for arbitrage in the fixed rate securities as compared to (floors), or else if offers from high grading investors in the corporate segment would be attractive for us.

So those are maybe two drivers for an increase in our yield in 2012. So if those do not happen, I guess we should be delivering something between, as I mentioned, 102 and 105 of the CDI.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay perfect. Thank you, Arthur. Thank you, all.

A - Arthur Farme {BIO 1845065 <GO>}

Thank you, Macedo.

Operator

(Operator Instructions) Excuse me, since there are no further questions, I would like to invite Mr. Menezes to proceed with his closing statements. Please sir, go ahead.

A - Thomaz Menezes {BIO 16674464 <GO>}

Thank you. I just wanted to thank for the opportunity to present our results for the quarter and for the year. Once again as we said, 2011 was a good year for us and I wanted also to reaffirm our commitment always trying to improve our corporate governance and the relationship we have with the investors, our clients, and our brokers.

I think we invested a lot last year. We had a great focus on people and building up the team and having the right team at the right place. I am conscious that we need to continue to invest in technology to make sure that we improve the efficiency of our Company. We need to continue to invest in our brand, in our physical presence and I am convinced that despite and very conscious about the challenges that we have in 2012 with our brands, with our national presence, with our portfolio through the brokers, and the partnerships that we have, we will deliver an important year in 2012. So I thank you everyone for the opportunity.

Operator

Thank you. That does conclude the Sul America's audio conference for today. Thank you very much for your participation and have a good afternoon.

FINAL

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript