

## Q3 2013 Earnings Call

### Company Participants

- Arthur Farne dAmoed Neto, Executive Vice President of Control and Investor Relations
- Gabriel Portella Fagundes Filho, Chief Executive Officer
- Mauricio Lopes, Vice President of Health and Dentistry

### Other Participants

- Domingos Falavin, Equity Research Analyst
- Eduardo Nishi, Analyst
- Francisco Kop, Sell Side Equity Analyst
- Gustavo Lobo, Analyst
- Jorg Friedemann, Analyst
- Raphael Biderman, Analyst

### Presentation

#### Operator

Good morning and thank you for waiting. Welcome to Sul America's Conference Call to discuss the results of the Third Quarter of 2013. Today with us we have Mr. Gabriel Portella Fagundes Filho, CEO of the company.

We would like to inform you that this event is being recorded and all participation are in listen-only mode during the company's presentation. After Sul America' remarks, we will have a question-and-answer session when further instructions will be given. (Operator Instructions) There will be a replay facility for this call for one week. Today's live webcast with audio and slide will be accessed at the company's investor relations website at [www.sulamerica.com.br/ir](http://www.sulamerica.com.br/ir), by clicking on the banner 'Webcast 3Q13'. The presentation is also available for download on the webcast platform. Before proceeding, we would like to mention that forward-looking statements that might be made during this call relating to the business outlooks of Sul America, projection, and financial and operational targets are beliefs and assumptions on the part of the company's management as well as information currently available.

Forward looking statements are not guarantees of performance, involves risk, uncertainties and assumptions, as they refer to future events and therefore they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may also affect the future performance of Sul America leading to results that differ materially from those expressed in such forward-looking statements.

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

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

Good morning, everyone. And thank you for participating in this call during which we will be presenting our Third Quarter of 2013 Results and also the year-to-date results and in the presence of all the Vice Presidents of the company. Initially, I would like to highlight a few points that in our opinion are relevant.

General growth of our revenues by 15% in the year in which economy presented great volatility keeping excellent growth in the SME, Dental and MET Insurance segment in spite of the increasing competition and result in wavy our responsible underwriting policy. Improvement in loss ratio also in the main segment.

In Health, we believe that in the current market scenario delivering improvement in loss ratio in the metric is small one, can be considered as a great result and also the strategy started in 2012 has allowed us to reap positive fruit and we've also have had here the launch of Smartphone app and the increase in the discount network for parking lots now with 39 shopping centers towards Brazil, the type we target which is a new innovative concept of going to shopping mall which has been compromising our services and guarantee in high level of extent for the product of our clients.

Capitalization was integrated generating a positive contribution to the results of the quarter and with excellent growth perspectives for the next periods. The number of policy holders has been increasing both in Auto and in Health and also Dental, and I would like to highlight the variation of over 200,000 policy holders from one year to the other and at fleet that exceeds 1.5 million vehicles insured.

Administrative costs are under control, although slightly impacted by integration of SulaCap and recognized as one of the best in our sector in what can be compared.

We have grouped and highlight for the first time ever the other SMEs of change beyond the insurance premium-line items without having an influence on our indicators, all related to insurance premium, thus showing the trend and the potential of our long-time line characteristic in which 25% of our growth of revenue, in order to be 25 from 33 for the management fee revenue.

This really ensures, this sound projection of performance of (inaudible) year, reveals the month-on-month effect of the SME transaction from 2012 to 2015. Some of the licenses have result of 117 million, 10% higher than 2012 contributing mostly to an improvement in our operating results showing the strength of our multi-line connectivity wealth of some of the growth for each one of the areas giving a contribution to a balanced and unparallel growth as generating conclusive and positive expectation due to the edging, amounting, that is raised.

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Now, I would like to give the floor to Arthur Farne dAmoed Neto, Control and Investor Relations, Executive Vice President, to talk each level, for each one of our operations. And as usual, we will be opening for questions.

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

Thank you, Gabriel. Now we start with slide number two. This is a new slide that we show in this presentation. I'm sure what has already been talked about, the contributions by all the businesses that we have in the company. So, you have this table, you see Health growing almost 15% or to 24%, P&C, Life and Personal Accident; Laenio and we will be talking about it. 3,200 million increment in this quarter and in this quarter for the first time ever we have exceeded in one single month R\$1 billion in premium issued and 14.8% shows how right our underwriting policy is. Now, I would like to talk about that contribution of debt payment and asset management in spite of a very volatile market, over 21% in terms of management fee and performance fee and capitalization and new business incorporated this quarter for the first time ever in all the months for the quarter with the group, that's C&D collection here. In total, almost R\$4 billion in total revenues including all the operations with 14% average as you can see in the last line of the table.

Now slide number three. In the traditional investment, we highlight 15% new insurance premium growth, financial results better than last year that sequentially grew and extra subscription of almost 62% with a 6% drop which is natural decline of the interest rate environment that is state in all these market net income in comparison with the same period last year, you can see that, many operations just have been launches of administrative expensive as you can see here is 39% already impacted by the merger of SulaCap. This is a ratio that is improving comparing to the second quarter, and a slight increase on year-on-year basis. So you can see that this is a very good result.

The combined ratio that reflect the results of our operations, as you can see on the slide, weaker in the quarter lower than 99, confirming that the results were produced essentially within the operation, return 14% with a small variation, vis-a-vis for this year and portfolio composition showing Health was almost 80% of payments and here we have all the insurance premiums that offers the 26%. So, you can see that the company focused on these two portfolio.

On slide number four, we see the details of the Health and Dental operations. As you can see 15% increase in this quarter, very close to the number that we see for the year, 14.1, where the insurance grew for Dental and Health 6.2 billion. As you can see in the upper slide, loss ratio, I would like to draw your attention, for the behavior over the three quarters already reported here, we see not only a lower volatility as we said in the previous quarter, but we also see a reduction, a sequential reduction which starts the year.

We have slightly less than 82 when we closed the quarter, not only with a positive result of our queuing of actions implemented by the company in terms of management of Health, loss ratio, but also the beginning of a, say, a cycle that is positively impacted by seasonal effect. It's important to say that the year-to-date last year, there is a positive trend, the margin increases, due to the behavior of loss ratio. No change in our fee and marketing

policies and 1.2% increase in the portfolio, 2.7 million total, for all the portfolios that make up the Health area.

It's important to stress that the company already has about 620 members in Dental than five years. We had about 70, 75. So, it's a very major growth during this period for the company after the IPO in which we have included or merged an asset three years ago and even more than that we grew capital into synergies and opportunities for our client base.

Now, I would like to go to also on the next slide, slide number five, where we see as we said before a very vigorous growth, 24%, increase, in the quarter and year-to-date and the figures were confirmed by Sul America this week and the company continues to grow market share, once the shares for the market, and we see that we grew more in the Auto portfolio. We are growing based on a positive feedback that was started in 2012, when we invested in the strengthening of our underwriting policies, loss ratio in Auto maintained at adequate level of 60%, and an expensive drop when we compared the year-to-date results. As you can see on the slide, comparing the nine months of 2013 and 2012 and followed by a strenuous growth increment, as I said, the gross margin in line with the behavior of loss ratio and in this case, our marketing strategy and the fleet growing, as you can see on the lower right almost 6% growth in the nine months at the very positive scenario in terms of growth of premiums and the growth in the fleet improvement in the margin and drop in loss ratio.

Property and Casualty, which is a portfolio that is not so expensive in our total mix yet. On the other hand, the company has total capacity to operate at a tradition 0.7% growth improvement for the nine months. So, there was slight loss on quarter comparison and be it improvement on loss ratio, this portfolio does not represent quite a lot in our quarterly behaviors. The cycles are longer, and they should be looked at under desired factors when we compare.

The half year we see an improvement here and the same if we compare the nine months. The portfolio is reasonably diversified, vis-a-vis the nature of the risks that we cover but the mass insurance segment represents one-fourth and with its strong performance in revenues this quarter because of many reason like electronic, relation with our brokerage and others and that further expands this business.

Slide number seven, Life and Personal Accident. We see an advocate growth on a quarter-on-quarter and nine months. This stems from decision made by the company in terms of not renewing line but does not delivery the expected profitability, the profitability expected by the company and improvement in the loss ratio quarter-on-quarter are also in the comparison year-on-year shows that this is right decision that was focused on the improvement of our margins. For the nine months, we see an increase in loss ratio, but here we already see a positive reaction also achieved because of new structure, new pricing in this segments and also new products launched.

Slide number eight, some data of our pension operation. You see little bit growth for the 9 months and this industry was negatively affected by the volatility of the portfolio. This

will stabilize again, and the market absorbs this new behavior with longer term portfolio, longer maturity portfolios, and we have a structure that is ready to tap into the favorable weeks, so to say. In our reserves, we achieved contribution or migration, which is not reflected here, possibility, that's what I mean. Be it under profitability of the portfolio, we closed the period with almost R\$4 billion in reserves in all the portfolio that make up this private pension set, area.

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Slide number nine shows our capitalization figures. You see on the top, on the left collection that we had already mentioned at the beginning of the presentation, almost 24% growth, 21% year-on-year comparison and here we are comparing per forma at the date of 2012 as a fact it was not still consolidated that Sul America Capitalization reserves, R\$650 million already consolidated and the net results of the operation with the contribution of (inaudible) a drop that was explained by adjustments for consultancy made and in comparison with the third quarter, a drop of 10% for the same reason, but it will be changed as of Q4 and the assets are already aligned with our fastest agenda, policy for the evaluation of contingencies.

On slide number ten, we talk about our Asset Management operation. This is an operation that has a very good performance. As we said before, we are going to increase the revenues that are generated in the performance fees and management fees, 17.6 is the figure that we show here as it is this under management in third party and in total assets 25 has been under other assets, and the management of which 9.1 corresponds to the portfolio of the company and the difference issued due to adjustments that are made to, first of all, the half billion, the basics was the generation of revenues that shows on the lower part of the slide, 11.6, in total, in revenues from asset management with the small contribution for performance fees as well. And this product is very sensitive mainly to equity following the movement of the stock exchange this year.

Now talking about slide eleven. Our administrative expenses in actual terms, 20% increase and the same in the nine months, and this 20, basically by the integration of Sula Cap to our figures already as of this period. The index that shows operating efficiency, as you can see the nine months, it has a slight increase in the quarterly comparison because of the integration of Sula Cap, combined ratio which is shown on slide number twelve. I had already mentioned at the beginning of our talk that it was lower than 99, 98.8 to be precise, and this drop was brought about the drop in loss ratio. And here you see the contribution, the financial contribution closing the quarter with 94.5, on page number thirteen.

The upper part of the slide, which is in the assets that are not relating to Life and Pension operations, 5.6 billion for the period, without major changes in the strategy adopted, the strategy that is based on our AEM [ph] policies and most of the assets into this should be queued for impact with our inflation as you can see here, allocations strongly focused on Government Securities because growth at small cause 20%, Private Securities both CDBs, debentures and other implements in the market of private issues. With this, I close my part of the presentation. And we will be available to you to answer your questions that you might have.

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

Thank you, Arthur. Thank you all very much for your attention, and I would like now to open for questions.

## **Questions And Answers**

### **Operator**

Now, we will start the question-and-answer period. (Operator Instructions) Please stand by while we wait for questions. Our first question comes from Mr. Jorg Friedemann from Merrill Lynch. You may proceed.

### **Q - Jorg Friedemann** {BIO 15405752 <GO>}

Thank you for the opportunity and good morning, everyone. Gabriel, Arthur, congratulations for the results obtained. I have two questions. One is more strategic and the other one is more focused on the quarterly results starting by this strategy. If possibly, could you please talk about the outlet that you have for the health product in Q4 and beyond Q4?

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

As we have a touchdown scenario, which is a little bit uncertain, a little bit turbulent here in Brazil.

### **Q - Jorg Friedemann** {BIO 15405752 <GO>}

And I don't see that this has been impacting your private, maybe the group product that represent almost 60% of your portfolio. So, maybe you could tell us how interest rates and the slight increase in unemployment that we can see now whether this impact you are sharing or not, I think this would be rather interesting and maybe you could tell us if there is any concentration in the third or the fourth quarter in terms of the re-pricing strategy for specific product.

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

I think it would be very interesting so that we could see beyond the specific seasonality of Q4 a potential growth premiums that could materialize for the next few quarters.

### **Q - Jorg Friedemann** {BIO 15405752 <GO>}

And afterwards I will ask my other question. Thank you.

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

Thank you, Jorg. I will give the floor to Mauricio Lopes, who is the Health and Dental VP.

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

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I would love to answer your question, but I would really like him answer. I would love to do it myself. Well, maybe strategically although the economy has been showing you these signs, we do not find and adverse climate yet. We continue to have a positive move in our portfolios and some corporate portfolios. They are either stable slightly negative but we do not perceive yet any major impact in terms of our Health benefits, no, this is not happening. The potential still exists in a potentially volatile environment for cross-selling our products.

**Q - Jorg Friedemann** {BIO 15405752 <GO>}

So, if you have an adjustment proposal and if on the other hand you wish to carry out some special renegotiation, Dental appears very intensively in renegotiation and it ultimately generated benefits to Sul America?

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

To answer your question, no volatility is not impacting us, not yet, and adjustments have been offset by cross-sell mainly in the Dental portfolio. As far as pricing is concerned, over the last 12 months, we see in major root pricing movement not only through America but all of the players in the market and in our corporate and SME and Dental portfolios, this is happening in all our portfolios and for Q4. This shouldn't change, I think, we should re-price intensively and the cycle starts very strongly as of Q3 in July, and it should be intensified over the few next quarters and closing the cycle as always by the end of Q4, 2014.

**Q - Jorg Friedemann** {BIO 15405752 <GO>}

Okay. But in terms of figures in the two aspects that you mentioned, retention continued to be around 90% as we had seen until Q2 and also re-pricing 13%, 14%, is it still valid for the products that are having re-pricing especially the group insurance?

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

Retention continues to be very high. And I think the time for the quality of the products than the perception that the client has of our brand and also because the market as a whole separate last year at the beginning of this year an increase in loss ratio that impacted everybody and everybody became more gracious. And the client, of course, the client can change the product and when he looks and sees the competitive environment, the client sees an environment in which the upside for an exchange is not really worthwhile because there could be a conflict in terms of benefits that the client desires. So, we see no change whatsoever in terms of decreasing our retention. It is quite the opposite. We believe it will be kept at this level or even higher.

**Q - Jorg Friedemann** {BIO 15405752 <GO>}

Without talking about loss ratio?

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

Yeah. This is around 13 and 14, as I said, it may vary according to the portfolio, but the trend is to have it at these levels and we do not see a downward trend in this figure at all.

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**Q - Jorg Friedemann** {BIO 15405752 <GO>}

And my second question has to do with results. I need some submission, please, about the reversals in the big issue of contingencies provision. Maybe you could tell us if the decision has already been made by the higher court of justice could you appeal and what is the amount?

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

I believe, it should be between R\$25 million to R\$30 million, but maybe you could extend on this. We have reversed part of the provision that we had that was associate to this claim. We are still waiting some decisions and this figure was R\$35 million in the quarter.

**Q - Jorg Friedemann** {BIO 15405752 <GO>}

And what is the part that you have reversed yet?

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

It's more or less the same size as this one.

**Q - Jorg Friedemann** {BIO 15405752 <GO>}

Thank you.

**Operator**

Our next question comes from Mr. Raphael Biderman from Bradesco.

**Q - Raphael Biderman** {BIO 1529743 <GO>}

Good morning, every one. My first question is to Mauricio. It has to do with Health. Talking about the growth delivered in the quarter and talking specifically about growth, 16% growth year-on-year but as you said, the adjustments are mid-teens and we know that it could be about 15%, so we are talking about an adjustment that was close to the increase in premiers and the growth in your membership of about 4%. So apparently the new clients or the new policy holders are coming onboard with the lower tickets, does it have to do with your strategy and the second question has to do with Dental, 25% increase in membership and 17% in premium, and I would like to understand whether this is a different mix of clients or what lies behind growth.

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

What we see is a change in the mix in some points. Both cost wise and the clients that are small. What we see here in the change in players is an adjustment in loss ratio but relevant in the cleanup of the portfolio of over 40,000 lives that happened in those of the portfolios and mainly the corporate ones some company's addition, companies we have already cleaned up recently.

So, there is a change in the nature, change in the mix, and looking at the package as a whole, this could mean as increase in prices, the explanation is the change in the mix.

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Three, four months ago, we had a new product P&C subscribed for companies that we worked with and a more flexible contracting mode together with the Dental product that is being contracted together. And for these products that are more sensitive, we have a conversion rate of 30% in Dental. So, this has been driving the two portfolios and changes the mix slightly into the profitable product, 16% more than the basic product in the Dental.

There are two movements that should be shared. Some large contracts that bring lower prices than the retail contract. So, part of what you saw in this comparison that you mentioned, the increase in the number of members and the prices comes from these live contracts, but also the change in pricing with a lower ticket but it has a higher stability and the commercialization followed is more simple and entrepreneurs have been finding in this product an important benefit without increasing cost exceptionally because this also aggravates loss ratio. So, this is the price composition that you see and in a more detailed account, we could go into details, but these are the general explanation.

**Q - Raphael Biderman** {BIO 1529743 <GO>}

I have one additional question about capitalization. When we talk about the results of capitalization, we have 11 million and you highlight that in the administrative costs you have 20 million administrative expenses that higher because of Sula Cap, so what about the financial result? We need a better visibility about the results of Sula Cap?

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

There are other things asserts only Sula Cap and in terms of CapEx, et cetera, the result of capitalization is here in a balance sheet line. In this quarter, I would like to remind you that you have Sula Cap and when we say, the revenue, it's a net contribution by SulaCap. It will have the variation in the level of the future, financial result has an impact. As financial impact it is not the line item of financial results, and the other line under capitalization. This will be an abstract. Shared services as administrative expenses allocated can bring about some distortion...

**Q - Raphael Biderman** {BIO 1529743 <GO>}

When we see administrative expenses and we see the impact of Sula Cap, you are talking about the 11 million in personnel and how...?

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

I would answer, 20 million.

**Q - Raphael Biderman** {BIO 1529743 <GO>}

Are these 20 million related to Sula Cap alone or they have other things?

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

There are other things, not only Sula Cap but companies has major project portfolio and this year this escalated higher than in the previous years according to results that we have

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been maintaining and for instance I could mention IT and system, but in the investment plan of the company, there are other items that are included there.

## Operator

Our next question comes from Mr. Francisco Kops from Safra Bank. You may proceed.

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

Good morning, Gabriel, Arthur, Mauricio. Thank you for the opportunity and congratulations for the results. With a strong adjustment in stock retention relating Health still, I congratulate you for that. My question is more generally about profitability.

Of course, you have a high seasonality in terms of quarters and we are only 15.5, 14, so looking ahead, what do you believe would be a sustainable ROE for Sul America and if there is an improvement in over what you see today and where could it come from some products that could bring an improvement or maybe Health or new business or Life and Pension or and maybe an increase in your leverage? Afterwards I will ask my second question.

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

Thank you for your remarks and for your question. We believe that as we reflect our current portfolio correctly, the operations are improving. Health shows improvement coming from some pressure regarding loss ratio and as the capitalization operations may bring a more expensive contribution to our results, end of next year, we will have 12 months already of capitalization under the umbrella of the group and I would like to draw your attention to the increasing importance of the management fees and performance fee almost R\$25 million as I said before, of assets under management and these assets are built or positioned which are the more diversified portfolio and maybe Mauricio could some more color about that but all this were the improvement in the operations and the outlook for a higher contribution to the financial results with the increase in the average rates. All this points to an improvement in the ROE. The profitability of the company will improve because of all these factors that I have touched upon briefly.

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

Thank you very much, Athur. And my second question has to do with Health. It's a follow-up on the previous questions about health. I'm talking about loss ratio. We know that this sector has some problems regarding the supply side, by that I mean hospitals and doctors, physicians. So for Sul America and for other insurance companies in the market such as Vida, of course, do you think that will be only change there? Do you believe the companies themselves could somehow concentrate more in the losses or more co-sharing or co-participation, is there an alternative for this problem of high-loss ratio?

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

Mauricio, here. Thank you for the question. I think the diagnosis is more or less stable. The market will go towards earlier model at some point in time and we assure that this will

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happen. What we will have to need then in the last few years as we continue to believe in, is that there are two trend that should be shared with a final client and with a beneficiary.

One is a risk management part, that is to, say, have a very well engaged networks or to, say, very well thought tables and a very streamlined operation, very good structure, and this box which is core of the health operations in any health operator, any health insurance company, this is the fact that we have been working on and what we call health management will gain space or will win in this market as we are able to bring technology. And so the beneficiaries that there is a more participated task, either this could be well structured and sustainable and with relevant IT to be shared in a balanced fashion and we have already been talking about this, about these health program. We have exceed 30,000 lives this year and we bought the two from Health and global assessment that is the tool, that is the word, benchmark that evaluates risk for entrance in the portfolio that we have signed a contract recently with them in order we want to have a more massified operation without bringing an additional burden to the operations.

And we trying to bring this structure to Brazilian entrepreneur, who don't have this very well structured view in this, technology is not very well defined here in Brazil, and this is why we are trying to bring something from abroad in order to have a quick delivery to the market and we believe in this and we believe this will be one important mechanism having a core operation, best in class, which is loss management working more and more with our risk partners and bringing this with the more and more intensive health management that can be shared with those with the bill on the other side. And so, I answered your question with this two points. We are about to see a stronger change.

**Q - Francisco Kop** {BIO 17215088 <GO>}

Thank you.

**Operator**

Eduardo Nishi from Bank of Brasil Plural. You may proceed.

**Q - Eduardo Nishi** {BIO 15333200 <GO>}

morning, everyone. Good morning, Gabriel, Mauricio. Thank you for the opportunity. I have two questions, one has to be with Health and the other one with Auto. In Health, following up on the previous question, I would like you to mention the initiative that we have taken in order to control cost ratio and the outlook for next year in terms of loss ratio whether you will be able to bring it lower than the 60% that you have had in the last few years, and whether the initiative will be able to bring down this figure.

And my second question has to do with Arthur. What is your view about the competitive environment, competitive rate will become more and more aggressive or do you believe that the benign cycle could be extended a little bit further and wide?

**A - Arthur Farne dAmoed Neto** {BIO 1845065 <GO>}

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Mauricio will cover afterwards. Thank you for the question. We have been investing quite a lot of efforts in these two blocks that we have already mentioned and I wouldn't be able to tell you all the product that we have with Health management and risk management, they have about, each one, 7 or 8 projects. So, there is a big option now being shared, systems under change in the network, payment system and work related to more core Health management, more centralized in order to have distribution among our many partners, change in the payment format. And we have been doing this quite a lot.

Second, the premium, with the second via (inaudible) hospital over times and other hospitals. There are many improvement that we are trying to achieve. And I think it would be more productive if we could continue this stock afterwards and we could give you more details afterwards because if you add everything, I think it would be 17 or 18 actions on both sides. And the problem that we have in this process is the following as we have to rush because we have cost pressure in the market as a whole, the teams are very much committed looking inside in looking to Health Management as our commercial area. Is separate, we can continue to have speed without getting in the way of the commercial area. So we are looking inside that we are not really going to through the field, we are trying to deliver better solution in order to deliver a better loss ratio in the short and the medium run.

Commercial, just so it is not all only through Health but also to all the other area that I would like to invite you to have a more detailed conversation. And now I pass the floor to Mauricio.

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

Good morning. Let's talk about Auto, your question about the price cycle. If I see whether the cycle will continue for a longer time or whether it will be impacted by the increase in interest rates. The increase in the interest rate is always a positive component for this business. However, by itself, it cannot solve the issue of profitability of the portfolio that is impacted by other factors as well more specifically in this period that we are talking about end of 2013 and 2014, there are many aspects that affect this view. Since the movement that we saw 2013 regarding the processing of the PMG, generating an acceleration of premiums earned in 2013 that will end as of February 2014. Therefore in the sense that was very limited to 2013 and 2014 the company that followed this fact, basically those were not in the IFRS to confirm themselves with the process as of February, and this is an additional point of concern to the market.

We have a major possibility of a return of the ITI as of January, the end of the incentives for the sale of vehicles. And I think we should draw your attention to the fact that the return of the ITI tax does not affect future sales. It affects the portfolio as of January.

So, not being concerned with this now could bring about a major mistake in our prices. So this is what the role plays in terms of keeping this longer cycles and also we have a frequency of test in some regions.

And the impact is more immediate. It was more an aspect that brings concern to the market and the market has been discussing actions with the Department of Public Safety

and the public powers in general in order to try to control this increasing theft. And also inflation that brings about pressure on labor cost and also auto parts that are important components of the overall loss ratio. So all those leads us to a market scenario that tends to maintain the current situations of concern to bring loss ratio to adequate levels and in case this takes control this will be a value destruction that the market would be doing, and I do not believe this would happen.

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**Q - Eduardo Nishi** {BIO 15333200 <GO>}

So, you believe that 2014 will still be favorable regarding competition?

**A - Arthur Farne dAmoed Neto** {BIO 1845065 <GO>}

Yes. I believe that 2014 regarding the three or four aspects that I touched upon, I think, we would have the first half and possibly the second half of 2014 still quite stable, maybe with some kind of movement by the end of next year but we will have to better understand the scenario when it comes and how all the factors come into play during the pricing, but I'm rather bullish and we believe that until the second half of next year, we will not see major changes in this scenario.

**Q - Eduardo Nishi** {BIO 15333200 <GO>}

Going back to Mauricio. Thank you very much for the opportunity and certainly I would like to talk to you again about these points. I would like to know how many percentage points with these initiatives you're seeking and what's the timeframe for this?

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

We do not good closure this, but what we can tell you is that the return on investment will be very positive. So I talked about investment, and we have investments of course that are limited but by just having all this approved which is good return higher than we expected I cannot disclose precise figures, but they are very profitable for the insurance company besides bringing a very good quality of service to be beneficiaries. Thank you.

**Operator**

Gustavo Lobo from BTG Pactual.

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

When we look at individual Health plans loss ratio, we see that this peak was in the second quarter last year and the second quarter of this year it was more or less than to the first quarter and now there was a major increase in the plans. Was this increase in Q3 due to some specific claim or was it something that slided from from Q2 to Q3 and what do you expect from now on, because I would like to know how much it could improved in Q4 the cost ratio for individual Health plan. So, I would like to have an idea of the improvement that could be acheived in this area?

**A - Arthur Farne dAmoed Neto** {BIO 1845065 <GO>}

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Thank you, Gustavo. We have not been selling individual plans since 2004 or 2005. What we see, placing this into context is that this is a simple portfolio, some adjustments which is controlled by the government and we have 1.04 variation higher than the normal index 10.17, 0.04 for the remaining of, or for the other portfolios. As a market, this is slightly more projected, but there is a slight delay.

So, there is always a delay and we may find some variation and in the portfolio that may be driven by this delay as I said before but it could be the effect of two other factors, one, this portfolio which will give you a figure to illustrate. We have launched practically one-fourth of this portfolio in the last four years gradually in 2009.

At the same time, this year we have all those 280,000 beneficiaries and we are talking about 215,000. It would be relevant as we take actions because it is more and more surfaced and more and more improved. So we can place more ammunition to work on some things that were more difficult in the past and we will continue to do so.

We imagine that in medium and the long run we will be able to bring about a more ongoing stability to the loss ratio. This difference between quarters, well this is a natural trend in four, five years with the process and same percentage and we have 120,000, 130,000 line. This should become more and more volatile and the only way to finish volatility is through the change in the market, how we will be able to share our cost, and have a more channeled network and this is a review that we are doing in our training department. Maybe it has to do with the situation that are not really with a structure. And the medium and the long structures should bring about more and more results to a portfolio that become smaller and more smaller in the same period whereas this portfolio decreases 24%, 25% SME, portfolio increases 102%. So, we are looking at something that is gradually shrinking.

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

Thank you.

**Operator**

Mr. Domingos Falavina from JP Morgan.

**Q - Domingos Falavin** {BIO 16313407 <GO>}

Good morning. Thank you for the opportunity. My question has to do with the pervious question after Gustavo. It has to do with the seasonality in Q3. Do you believe that this non-improvement in Q3 could bring about a higher loss ratio for 2014, vis-a-vis 2013?

**A - Arthur Farme dAmoed Neto** {BIO 1845065 <GO>}

Thank you for question. Looking ahead, we cannot really foresee the future very precisely, but I can give you some figures or some guidance. Sul America is participation get data through this institution for surveys. If you take the historical series, it went from 16% and this was very well below that and we see the decrease in the portfolio for the next few periods, and this will be seen more through the future but anyway in a downward trend

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you don't have to do with the quarters, we saw a movement that has nothing to do with these structuring, it has to do with these situations. And as the portfolio decreases, it becomes more and more volatile. So, we can expect volatility there over time.

**Q - Domingos Falavin** {BIO 16313407 <GO>}

When you see it is not related to the structure, but it has to do with this situation, what exactly do you mean by that?

**A - Arthur Farme dAmoed Neto** {BIO 1845065 <GO>}

This portfolio is concentrated in Rio Sabado [ph], the Nabuco, and Saint Paulo. We see variations in the network and medical cost in this region and this year we also had a change in medical remuneration with the adjustment of medical fees for individual plans. So, it all has to do with a more effective cost management for this portfolio having all the players aligned in a more efficient manner and this is what I mean. If this will continue, I cannot tell you, this is why I tell you that it is not related to restructure.

**Q - Domingos Falavin** {BIO 16313407 <GO>}

What kind of estimates do you have for medical cost, looking at the composition of your medical costs you have new services that will have to be included and covered, so what kind of impact do you expect from these now mandatory inclusions.

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

Well, it could would be enforced as of next year, and we do not know exactly but we have to carry. We are doing our homework to have a distribution mechanism and loss ratio control that can comply with the law and that can also protect the company and the agency itself mentioned this.<sup>9</sup>

**Operator**

As there are no more questions. I would like to give the floor back to the company. Mr. Portella?

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

Thank you very much for your participation, for the questions. And as always, we will be available to you to clarify any doubts that you might have. Thank you very much and have a good day.

**Operator**

Sul America's Conference Call is closed. We thank you for your participation and wish you a very good day.

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