# Q3 2015 Earnings Call

## Company Participants

- Arthur Farme, Vice President of Control and Investor Relations
- Eduardo Dal Ri, Vice President of Auto and Other Property & Casualty
- Gabriel Portella, Chief Executive Officer
- Mauricio Lopes, Vice President of Health and Denta

## Other Participants

- Carlos Macedo, Analyst
- Francisco Kops, Analyst
- Gabriel Gusan, Analyst
- Gustavo Lobo, Analyst
- Gustavo Schroden, Analyst

## Presentation

### Operator

Good morning and thank you for standing by. Welcome to the Conference Call of Sul America to announce the results about the Third Quarter of 2015. Today here with us we have Mr. Gabriel Portella, CEO of Sul America and the company's VP. This conference call is being recorded and all the participants will be connected in listen-only mode during the company's presentation.

Then we're going to start the question-and-answer session when additional instructions will be provided. (Operator Instructions) The audio of this conference call will be available right after its end in the Investor Relations website of the company. We're also having a live webcast with the audio and slides that can also be accessed in the Investor Relations website of the company at the address www.sulamerica.com.br/ri on the banner Conference Call 3Q '15. The presentation will also be available for download in the webcast platform. Before proceeding, we would like to clarify that statements made during this conference call relative to Sul America's business prospects, operational and financial projections and goals, our belief and assumptions of the company and they are based on information currently available.

Forward-looking statements are not guarantee of performance. They involve risks, 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 operational factors may affect the future performance of Sul America and may lead it to results that are materially different from those expressed in such forward-looking statements.

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

## Gabriel Portella {BIO 18012687 <GO>}

Good morning, everyone. I am here with Sul America's Vice President to announce the results of the third quarter of 2015. And I would like to highlight a few points regarding relevance.

We continue to present positive results for another quarter, thereby confirming our constant development, the use of business opportunities, and also our focus on profitability. The operational performance combined with a good allocation of investments and our disciplined cost and expenses have made it possible for the company to reach the significant mark of R$204 million net income in the quarter and R$429 million year-to-date with a growth of about 70% in a two [ph] period.

In health and dental, we have kept our path of growth in the year. The number of new sales is compensating the negative movement in affinity plans as a result of the recession in our economy. Retention has remained high and the cycle of price adjustments necessary for the balance of our contract, goes on as planned. The actions that have been implemented in claims management, in addition to the investments in health management contribute to cost control and to improve loss ratio.

In automobiles, we also have a growth both in premiums and in insured fleet, which you had already been seen in previous periods. Loss ratio is falling as a result of the continuing improvement of our underwriting strategy that is increasingly more precise and rapid, and also with the benefit of the many claim management initiatives.

In property and casualty, we have a significant improvement in the gross margin and the recent negotiations we had with Pan Seguros and our agreement with insurance company AXA both in face of approval by the authorities will make it possible for us to place full focus under the insurance portfolios of mass insurance. In terms of personal accidents and life, the quarter already reflects improvements in profitability driven by initiatives of repositioning with the highlight of improvement of our individual portfolio, improvement of distribution structure, customer prospecting improvement of operational processes. In private pension, we have exceeded 5 billion reserves as a result of the excellent performance of our funds which have more and more attracted portabilities favoring the company.

In SulAmerica Investimentos, our asset manager, we have recorded a growth of assets under our management in spite of the highly volatile scenario. In terms of savings bonds, we have adopted a new commercial position, expanding the offer of business solutions for our customers, we have developed a new concept for the product of rent guarantee insurance with an innovative communication strategy and a package of digital tools.

The results of this quarter confirm that Sul America is well positioned to make the most of the opportunities through the synergies of our multiline model that claims management and underwriting actions in addition to commercial expansion without losing focus on profitability.

Now, I turn the conference over to Arthur Farme, VP of Control, Investor Relations to comment with more detail the financial performance of each one of our operations. After that, as usual we'll be available to hear your comments and questions. Thank you very much.



## Arthur Farme {BIO 1845065 <GO>}

Thank you, Gabriel. Good morning everyone attending our conference call. We are going to start this presentation on slide number two with a snapshot of the company's consolidated numbers, comparing quarter-on-quarter and also with the period of nine months. With the highlight of insurance premiums, that is in excess of R$4,100 million and with a good growth comparing quarter-on-quarter. Still on the same line, the company until September has produced R$11,443 million premiums. And when we look at the growth, we see that it has come mainly from the behavior of our Health & Dental portfolio that has grown 15% in the quarter.

And in that segment of automobiles that has been grown at a rate of almost 24% from 16.5% in nine months, if you compare nine months and nine months. These are our two main portfolios. They account for more than 90% of our revenues and they have had a significant growth in revenues in a period that we are comparing here. In terms of contribution from revenue from other activities, we get to a total of R$4,600 million and R$13 billion of revenue in the first nine months of the year as you can see on the table with a 4.8% growth in the quarter.

Now on slide number three, I am briefly going to address, again these I mentioned before. If we look at the first nine months of the year ending September 2015, our Health accounting for 62% of our revenues; and automobile going from 18% to 20.4%. So, all these add up to almost 83% of the company's revenues coming from the activities of health and motor insurance with the premiums accounting for 88% of this group.

Now on slide four, you can see a snapshot of the company's insurance activities. Once again starting insurance premiums, as I mentioned, this 16.9% [ph] growth, and we have started to see something which I find relevant and has been mentioned in the report that we announced. The improvement in the consolidated loss ratio in that period would have a point of improvement in the comparison quarter-on-quarter. And we have 1.3 points comparing the first nine months this year to that of first nine months last year, thereby reflecting a consolidated improvement in our main operational expense.

On the next slide, the results are highlighted because the company has been able to improve continuously its operational efficiency as measured by SG&A. We closed the quarter with 8.3% in terms of general and admin expenses, better than the same quarter last year. And also considering the first nine months, we had a significant improvement too. So we have been able to keep this growth of premiums and activities as a whole, and at the same time, we have been able to improve efficiency. The combined ratio was also better in the two comparison with an even more significant improvement, where if we compare the nine months with a drop of 1.5 percentage points.

In terms of investment income as in other quarter we have had a significant growth, thinking of the quarter we are mentioning in our growth of 27% with R$225 million in terms of financial results. And in the first nine months almost R$600 million coming from investment income.

So this is also a consequence of everything we mentioned in the opening of our conference call, leading to R$204 million in terms of net income in this quarter, 70% improvement quarter-on-quarter, but also this number R$430 million in nine months, again with an improvement of almost 70%. These two numbers leads to a profitability of 17.7%, well above the same profitability that we produced in the same quarter last year.

Now moving to the next slide, where you can see the highlights of Health & Dental portfolio. This is slide number five. As you see, insurance premiums have retained a significant growth rate. If we look to the bottom right, this is also related to an increment in the portfolio. So we closed the period with 2,800,000 members in all these portfolios concluding Dental & Health, both. And then in terms of loss ratio, we have had a significant improvement in the nine months going to 82.3%. And as a consequence, gross margin having the same behavior as loss ratio as any operation regarding our commissioning policy, and this is also reflected an improvement in the gross margin of health and this is the performance that we had.

On the next slide, number six, where you can see our auto portfolio which once again has presented a result which in our opinion is very positive with a significant growth of 16.5% in the first nine months, a 23.8% in the third quarter. And this along with a growth of the items, the number of insured -- the number of vehicles insured, if compare the two periods, the increase is 9.3% with more than 1 million cars insured. Loss ratio has also improved significantly dropping 6 points comparing the first nine months of the year, thereby showing how -- you could see in the press release, the quality of our underwriting. But above all, this is related to our capacity of control of expenses, claims management and also dedicated operational structure. All operations, both health and auto, they have been able to perform in the way you were seeing. This is a combination of effects. So, right pricing in our portfolios of the company with the quality in the management of our main business lines.

So both in auto and loss ratio, what we can see is the result of a successful strategy both in terms of pricing and in terms of cost management. And I really make a point of highlighting this because our operation with more than R$500 million of margin show a very good consolidated margins, thereby showing that the numbers of the year are based on the quality of the operation of our two main portfolios.

Now let's move to Property and Casualty, there has been a decrease of 1.7% and a growth quarter-on-quarter. The portfolio has some volatility and those who have been with us from longer have seen this. Loss ratio is stable, at least in the nine months. In this case, it's preferable to look at the nine months rather than the quarter, because given the scale and nature of our Property and Casualty, there may be volatility. So the nine-month figure reflects a greater stability. On the right hand corner at the bottom, you see the portfolio. We have 20% in marine, massified insurance, we have packages for condominiums, residences, and small trade, 31%; property insurance 21% and other portfolios 27%.

Now I'll move to slide eight. Let's talk about Life and Personal Accidents. Again, this is the portfolio that has been in a growth of 2.7% in nine months. And in the quarter, we -- in the nine months, we had a small increase in loss ratio. Because, although this is a very positive figure for this portfolio, as you can see at the bottom, we have a portfolio composed essentially by Group Life with some individual insurance and individual is benefiting from the launch of new product opportunities that company is able to tap very successfully. We can go back to this portfolio in the Q&A session, if needed. But we are well positioned here, according to our evaluation in this portfolio as well.

In Private Pension now on slide number nine; in pension the highlight is the growth of the PBGL component. On the total revenues, we had a decrease in 16% [ph], 9% of the -- 7% in nine months and 9% in the quarter. But the company has more than 5 billion in reserves in pension, which is the result of the attractiveness of underlying funds of this portfolio that were the subject of net positive portability given the fact that the performance of these funds is highly sustainable. So with the positive combination of growth in revenues from PGBL plus the attractiveness of the net portability -- positive net portability to these funds.

In Savings Bond, we are talking about the actions the company has been implementing to adopt new strategies for distribution, new communication strategies, developing new tools to improve our online relationship with brokers and the main distribution channels for this product. And we expect to see this operation performing even better. But at the end of the quarter, we had about R$630 million in reserves which help in the contribution of savings bond's reserves in our consolidated figures.

Now moving to slide 11, which depicts our position in asset management. The main highlight here is the growth of 4.5% in the assets under management. The company has ended the quarter managing R$29 billion with a growth of 16% in proprietary assets and the 0.2% -- 2.3% decrease in third-party funds. That has been also a diversification of products allowing this activity as shown at the bottom, given that this activity has an important participation on our consolidated results.

Administrative expenses and general in slide 12, to comment on what something I had already said in the beginning of our conversation, we had an absolute growth that could not be any different, giving that part of the expenses are in depth, but the behavior relating to premiums shows that drop in the beginning of some 8.9% to 8.5% of premiums in nine months or 8.3% in the three-month period. Remembering that the expenses we have in this block also include expenses from other activities, and the basis for comparison is only income from insurance. So, this ratio is penalized in a way because it doesn't include insurance expenses. But -- so it makes it only better, when you look at that decrease in general and administrative expense.

And slide number 13 is the combined and operating ratio. Just to summarize these two, a 100.5% in nine months or 100.2% in the quarter. The company is well balanced in its operations as shown by the combined ratio.

On slide 14, we have the detailed investment portfolio. On the upper part of the slide, we have the ex-pension assets, therefore assets that contribute to form the financial results of the company and the consolidated income of the company. It's important to highlight the IPCA. We had a bit slower than -- less than we had before and 6.3% in other investments. Equities is relatively low because of our profile for our partners and the studies of LM do not recommend anything different.

We are pleased with this positioning. Of course, we are always assisted with our in-house team, and the opportunities to maximize the portfolio, because as we highlighted it in the press release or in the earnings release, we had a very good result, better than the previous month or the same month in the previous year.

This slide ends this part of the presentation and we'll come back soon for the Q&A session. Thank you.

## Questions And Answers

### Operator

Ladies and gentlemen, we'll now start the question-and-answer session. (Operator Instructions) Our first question comes from Gabriel Gusan from Bradesco.

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

Good morning. The question is about claims in health. We've seen a very good quarter other line doing well. I would like to understand a bit more about the dynamic given that the market is suffering. We see a decrease in the number of members. Is this the relative pricing that's causing this improvement or maybe higher price adjustments? Or is there anything with unimed paulistana, maybe you're getting the members from them, if you could explain please.

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

Thank you. This is Mauricio speaking, I'm sorry. The market has been very well consolidated in terms of price in the last two or three years and we are now with the very robust and sustainable pricing policies, and we are working with that.

Of course, there is some turbulence from other companies in the market, but we knew that this consolidation movement was going on and only intensified lately.

We -- in a consolidation moment, the company that's better positioned in terms of regional access, access to the network and pricing will benefit from that.

This market is now getting more and more consolidated and now you can get members from other carriers that are in difficulty, moving to carriers that are doing well. Some parts of the market are benefited from that and get the benefits of that, while other parts suffer.

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

Okay. Thank you.

## Operator

Our next question comes from Gustavo Schroden from Bank of America.

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

Good morning, everyone. Thank you for the opportunity. I have a question that's a bit broader about the company. The company has 30 million in recurring profit, but there is one item that it's an effective rate which is lower. If we make some calculations, let's say, approximately of what you could have an effective rate considering the increase in social contribution, maybe this figure would be closer to 550 million approximately. And this would be lower than consensus.

So my question is, in your view, the market consensus, do you think that the market is overestimating the improvement that the company has and overestimating the potential earnings of the company or do you think, it's feasible for the company to continue to deliver figures in line with what the market expects from now on?

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

Good morning, Gustavo. This is Arthur speaking. Your question is good, but at the same time, it refers to something that's reasonably complex. The quarter has some positive effects of the tax adjustments. But also reflects the expenses from the month of September in -- and this higher rate was enforced in September 1st.

So we cannot talk about trend, but it is a fact that the company will be exposed to a higher tax rate. And that requires from all industries affected by such increase in tax rate. All industries will have to review their operation and as much as possible according to the market in which each one operates to make the necessary adjustments to the pricing policies, taking into account this new taxing system.

I don't know if I have answered your question, otherwise I'll ask you to be more specific.

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

Well, you have partially answered that. But the question is also, we understand the model, we know that everybody now is paying the higher tax rates. But the market understood that there could be a higher of 13 [ph] coming from the operating line. So to offset this increase in the rate, tax rate from now on, the combined ratios could be lower than the 100 in 2016 for us to continue to see a strong growth in there. That's what I wanted to discuss further. Do you think, it's possible to have an improvement to have a combined below 100%, to try to offset this increase in the tax rate that will come from now on? Is there still room to improve operating lines to maintain the growth trend of earnings as we saw in the consensus? This is what I meant.

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

Well, when you think if it -- whether it's possible, the answer must have a time horizon. The market cannot expect the company to have a very acute impact in the beginning to reprice -- to adjust its prices to offset that or to be waiting for the expenses to hit that. I mean, we know about the increase in social contribution, we note that there is a need to reflect that in our promises. But we know that this will be included in the price adjustment cycles in the next quarters. Remember that, we always have policy being renewed and according to cost behaviors and new taxes, we are paying attention to these changes and making the necessary adjustments. So within this point of view, still is there any thought in the company or maybe trying to look for a new that model. That could decrease the pressure of the tax burden. Are you doing any studies regarding that?

This is an interesting theme [ph] that has been mentioned market agency and even for healthy public debate, obviously, we have been looking at that ever since we heard of the -- increasing rates and issues [ph] might be slightly more complex than it looks -- for us. So, the -- some tax aspect that may be have a municipal granularity and we would have a different type of exposure and the conclusion is you might not be as obvious as it might sound it first.

What we can assure you is that the company -- careful in assessing all the issues and we would not -- not mobilized portfolios for any structure unless we weren't really sure about the benefits and if we justify the movement in the mid-term and long term.

And you should be reminded that this increase has a date that has been scheduled. So all our actions and decisions need to take into account that fact and dates too.

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

So within this point of view, still is there any thought in the company or maybe trying to look for a new business model that could decrease this pressure of the tax burden. Are you doing any studies regarding that?

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

This is an interesting theme that has been mentioned by some market agents. And even for healthy public debate, obviously, was been looking at this ever since we heard of the lower increasing rates and the issue might be slightly more complex than it looks at first. So, that are some tax aspects that may be have a municipal granularity and we would have a different type of exposure. And the conclusion is might not be as obvious as it might sound at first.

What we can assure you is that the company is careful in assessing all the issues and we would not mobilize portfolios for any structure unless we weren't really sure about the benefits, and if they justify the movement in the mid-term and long term. And you should be reminded that this increase has a date that has been scheduled. So all our actions and decisions need to take into account that fact and the dates too.

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

Thank you very much for your answer.

## Operator

Our next question comes from Mr. Carlos Macedo from Goldman Sachs.

## Q - Carlos Macedo {BIO 15158925 <GO>}

Good morning, Gabriel, Arthur. Well, my first question is -- it's about the cycle. If it's -- you have had a good correlation between economic growth in your Group portfolio, now that are manufactured and especially the efforts you've been making to reduce frequencies to avoid use in the past few quarters had been very helpful. Looking to the future, do you think that most of your efforts have already had the results? So should we expect this to mitigate the effect of the economic scenario in loss ratios? So, the second question there was an increase in loss ratio and individual portfolio. Is it recurring? What happened? How should we understand the loss ratio for the individual portfolio?

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

Hi, Macedo. This is Mauricio answering your question. Well, for the Group portfolio, the macro numbers of the country speak from themselves as we cannot see very well what is understanding. But our portfolio is very resilient for many different factors. Remember for the Group portfolio, we have companies or corporate insurance, affinity groups, SMEs. So the way we have structured this portfolio, it has provided to us the possibility of migrating from one side to the other with the customers within the whole portfolio.

This is one of the main things. As to whether the growth of the portfolio is sustainable. I think, that you should be reminded that this year we have more options of (inaudible), refund, network and the whole dynamics of the commercial area in regions, new markets, new niches. This is providing us a mix that has kept our dynamics to a way different from that dynamics of the country. And the numbers speak for themselves. The 70% growth in the portfolio as compared to last year clearly shows that. I think that the maintenance of those portfolio also grows through the work we've been doing in operations.

So, the claims, contention mechanisms both in terms of health or claims management, they are maturing well. Obviously, claims management matures much faster than negotiations with the network, medical packages. So we have the same level of packages as in the same years we did that. We are having quite interesting package design or bundles of services as compared to our profit that is much more structuring and even though with its more complex, we have a set of processes that have made it more dynamic also in hospitals, direct procurements. This has been growing fast. On the side of health management. We are expediting that. There is an acceleration, health management have times for delivery and return for the operation. There are different (technical difficulty) customer depressed action that there is a work [ph] being done in the back office. So whenever we negotiate adjustments, via [ph] wants to keep the contract internally. What we find is the cognition that there is good work being done, they did benefits to customers at the end of the process, either in a process adjustment or in terms of benefit.

So in spite of the macroeconomic scenario that is not entirely favorable, I think that the project that we have in claims management help the new portfolio and as we said before, the situation of some marketplace that has driven the portfolio to grow. With regards to your second question, loss ratio individual plans -- the -- effects here.

One effect is that there is a number of relevant adjustments that we implemented in -- from the accounting standpoint that leads to a higher number of claims in individual portfolio. And we consider this in this number. The second is, there is a large number of projects working on this portfolio. At that some point in time, those projects will provide results. So historically, this portfolio does not concern us because it was something very specific. It was more like a one-off increase in this quarter.

This is within plan as we had expected. And in the whole project, there is an accounting adjustments that is going -- that is being done in the operation as a whole, that will have an effect on this portfolio too.

## Q - Carlos Macedo {BIO 15158925 <GO>}

Now going back to the first question in Group. The previous trend and I remember you mentioned in this before is that, the objective, once you define contract prices on the average, it is about 80%. We have seen 78, 79. Do you consider 80 or do you think, you will be able to have more favorable pricing?

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

Each portfolio in each contract have their dynamic -- their own dynamics. So in the operational gross margin, that needs to be generated. Bigger contracts have a higher loss ratio and the smaller contracts have higher expenses, higher cost, so you need lower loss ratios. The combination of the mix is what we expect for the gross margin, so we can say whether it's 80 or 75 or something pre-defined.

What is important to say is that, now for some years or notably in the past two years, we have changed significantly our pricing models. In the past, our pricing was simpler with few risk factors. Today, we have a much more scapular [ph] pricing with many more variables within our pricing model. And this makes it possible for us to be more assertive in terms of what we expect for each one of the contracts that we sign. And the synergy that we have attained in terms of the different business unit and the commercial area in terms of the objectives of pricing has been very good. And the commercial area has been able to show very clearly for our sale area, what our contract, drivers and the right factors to be considered when we price them.

And now this, it started in a few regions and now it's almost all over Brazil. It's been almost one year.

## Q - Carlos Macedo {BIO 15158925 <GO>}

Thank you.

## Operator

Our next question comes from Mr. Kops from Banco Safra.

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

Good morning, everyone. I have two questions. The first question to Mauricio about moral hazards. In the past whenever unemployment goes up, loss ratios goes up too. The frequency is likely to increase, and this is the trend. And when you had it towards a very bad economic cycle with a probable very strong increase in unemployment next year. So how far your adjustments conceded an increase in frequency next year. But the idea is to try to understand how much is Sul America protected or not against higher frequencies next year? And then I have a second question.

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

Hi, Francisco. There are two things going on in the dynamics of adjustment of group contracts. When we have the first strong crisis in '08, we had a very strong increase in frequencies because of the model of our structure and technology health carriers had back then. From then on, it's been a few years, we have learned a lot both from the side of the carriers and the contracting parties, and in terms of members too. Because back then, they didn't understand that there was a model to stay in the plan that was going to be slightly longer considering the benefits of the law from two years to ten years. We have been going to crisis for two or three quarters depending on how you look at it. Yes, we have found stronger frequencies and it was strong in a past. And the companies have changed some of the contract terms or the way they dismiss employees. On the front of the carrier, we have also learnt a lot.

We have a worked model that can provide the service that members need and also with a slightly more protection at crisis time. So these two factors together should stabilize the use of plans at least in the last two quarters. The timing on when you think the crisis started, we have not found a mismatch of frequency that's very different from what we found in previous periods.

Now in the future, we don't know. We can't predict the future, our macro dynamics. What we can say is that, we're controlling a much more and the carriers that have more tools, -- networks, the second medical opinion, the medical counts. So all of these processes provide more rational use. So this trend of using a procedure are that higher for a complexity. That shouldn't exist, that prevails much less than in the past. Because the market has more technology now available.

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

Okay. I understand. So actually, just to confirm, if I understood, in this price adjustment, you're taking much into account a projection of medical inflation than actually including its increasing frequency. Is that it?

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

Well, the medical inflation has been stable lately. We haven't observed a growth of it when compared to previous periods. As well, since the dynamic of price adjustment is based on the best medical inflation and projections for the future, and the basis of the price has not changed. I cannot see such a big change from now on that is very different from the past. So at least for the next quarter, we expect the same pace we had in the previous and without major changes.

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

Okay. A second question, very quick to Arthur specific about income. This increase in the tax expenses was well explained, that was due to higher paying on interest on equity for the subsidiaries. But my question is, if you look at the fast [ph], a major payment of interest on equity of subsidiaries was under the fourth quarter. So this year, do you think that the fourth quarter will come strong or the -- advanced expenses from the fourth quarter to the third quarter.

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

Well, it's hard to talk about the fourth quarter now. You've highlighted something because, something that happened in the last quarter didn't cause the same impact because the volume of interest on equity we have paid at this quarter was higher than we have them in the third quarter of 2014. What we will pay in the fourth quarter depends on the company's performance and whether there is room to pay interest on equity on the operating units, as well as the holding company.

I can't really give you any more detail than that. Of course, we are always looking at that as a tool that can be used in management.

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

Okay. So it's really connected to the interest on equity payment of the company?

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

Yes. So the impact you saw in the company is a consequence of the statement of interest on equity by the subsidiary companies. That was it, no other behavior. Marginally speaking, maybe part of this increase results from the improvement in operations, remembering that the basis of PIS and COFINS tax is in general terms, premium less losses. So as we had a small increase in margin, consequently there is a higher taxable basis for those direct taxes.

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

Perfect. Thank you, Arthur.

## Operator

Our next question comes from Gustavo Lobo, BTG.

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

Good morning. I have two questions, Arthur. First about the auto segment. You've done very well in the quarter, not so much in loss ratio because most customers also delivered an improvement in loss ratio. But also, you had a growth in premiums. Has there been any change in your strategy in the quarter to explain that? Or you just breathing or getting the benefits from previous strategies? And then I have another question. Thank you.

## A - Eduardo Dal Ri

This is Eduardo speaking, Gustavo. Yes, you're right, because in your question, you already gave some of the answer. The maturing process because we have implemented a series of items and improvements in pricing. And I would mention here, the search for new niches both in terms of regions and vehicles and tax rates, or tariff rates which means that we are exploring things that we see that the broker asks for a close, but didn't close the deal with us. So now we're dealing with those items and we are closing more deals.

Since February, we have started that and you have noticed that in the last three quarters, we are growing in production and this result is now maturing. Each month, we have one additional action that as a consequence improved the third quarter result with an improvement of 23% or year-to-date 16% which is good when compared to the market.

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

Okay. Thank you. That's very clear. And the second question is a bit more general regarding 2016. It is very clear for everyone that 2015 will be -- has been a fantastic year for Sul America in terms of income. And now thinking about the future with a continuous growth of the company in terms of top line and increase in reserves which will benefit, the investment income as well.

The question we have is about the loss ratio. So you see a lot of room for continuous improvement based on this strong basis of 2015 for next year. And then the second point of my question, will these improvement be enough to offset the increase in tax rate that you will have next year which is something unavoidable?

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

Gustavo, this is Gabriel speaking. I think you just did our budget for 2016. And I'm very happy because all the price that you mentioned are exactly what we have discussed -- what we discussed on a daily basis. We always look to the future. Insurance companies are by definition companies that look towards the future. And of course the scenario has changed and has been changing lately a lot.

Of course we are on top of that, so in each line of business, in each operation and then in terms of costs, investment or acting on loss ratios or increasing sales, we are acting and pricing that in order to be able to keep this development trend and growth trend improved profitability that we have been delivering in the last years.

This figures of this quarter is not only about this quarter, it's the result of a series of actions that have been implemented in many years. So when you look towards the future, it's a challenging scenario. It remains challenging, even more challenging, but it's not that, we are not ready for that. And we are paying attention so that we'd be able to keep our path of growth. This is our target, this is our goal and everything you've said, offsetting of taxes, improved loss ratios, high interest rate, heavier load, everything is being taken into account, so that we can sustain our performance.



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

Okay. Thank you very much.

## Operator

Since there are no further question, I'll now pass the floor back to Mr. Gabriel Portella for his final remarks.

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

Well, it's been nine months of intense work in many accomplishments, and once again, I would really like to thank the engagement of all our employees, the trust, dedication and contribution of brokers with our business partners, many business partners and all other stakeholders, so that we've reached another -- we had another excellent quarter. Thank you all for your participation and have a nice day.

## Operator

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