

Q3 2012 Earnings Call

Company Participants

- Arthur Farne, VP
- Gabriel Portella, VP
- Machiez Javla, VP
- Thomaz Menezes, CEO
- Unidentified Company Representative, Unknown

Other Participants

- Anhiki Caudata, Analyst
- Francisco Cot, Analyst
- Gustavo Schroden, Analyst
- Marcelo Henriques, Analyst
- Mariana Taddeo, Analyst
- Rafael Frade, Analyst
- Thiago Mendes, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the SulAmerica Conference Call to announce the earnings release of the Third Quarter of 2012. Today with us we have Mr. Thomaz Menezes, CEO of the Company, Mr. Arthur Farne, Vice President of Control and Investor Relations, Mr. Gabriel Portella, VP of Health, Mr. Renato Terje [ph] Vice President of Life and Pensions. And Mr. Machiez Javla [ph], Commercial Vice President.

We would like to inform that this conference call is being recorded and all participants are connected in listen-only mode during the Company's presentation. Next we are going to ask the Q&A session when further instructions will be provided. (Operator Instructions) Replay facility of this conference call will be available for one week right after its end.

We are also going to have a live webcast with both audio and slideshow that can be accessed in the Company's Investor Relations website at www.SulAmerica.com.br/ir and then in the banner webcast, Third Quarter 2012. The presentation will also be available for download in the webcast platform.

Before proceeding, I would like to say that any forward-looking statements made during this conference call are based on SulAmerica's beliefs and assumptions, operational and

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financial goals and targets are based on beliefs and assumptions of the Company's management and on information currently available. These 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 not happen. Investors should understand that general economic conditions, industry conditions. And other operational factors may affect the future performance of SulAmerica and may lead to results that are materially different from those expressed in such forward-looking statements.

Now, I would like to turn it over to Mr. Thomaz Menezes, CEO of SulAmerica, who's going to start a presentation. Please, Mr. Menezes, you may start.

Thomaz Menezes {BIO 16674464 <GO>}

Good morning, everyone. And thank you for your attendance. As said before, today I have here Arthur Farne, our Control and IR VP, Mr. Gabriel Portella, Health & Dental VP, Mr. Trindade, VP of Auto. And Machiez Javla, Commercial VP to announce the results of the Third Quarter of 2012.

If you can look at the slide two; on slide two you can see a dashboard with the main highlights of the quarter and the first nine months of the year. Once again, we had a growth in all business lines of the Company. The growth in premiums was coincidentally 12.2% quarter against quarter. And also comparing the first nine months of last year.

Health & Dental care are still growing. And the highlights of this segment are the SME [ph] which grew strongly. The loss ratio in the segment has already showed signs of -- that it is going down, which shows the impact of a positive cycle of price adjustment that we started this quarter. And also the prices of new sales.

In Auto and Property & Casualty, our strategy of seeking profitability in the segments through better underwriting and cost control has started to show the results with a drop in loss ratio in the quarter. In spite of a lower SELIC rate, the financial result was in line with our forecast, with a drop, as compared to the Third Quarter of 2011. But with a significant increase as compared to the Second Quarter of this year because of the good performance of our equity portfolio.

The performance of Pension and VGBL portfolio was into the 16% [ph] of the CDI in the quarter and 110% in the year-to-date period. Net income had an increase compared to the Third Quarter of 2011. And stability in the year. In the lower part of the table you can see that our total loss ratio has had a slight drop quarter on quarter.

And a worsening of 1.4percentage points in the comparison of the first nine months. Administrative expenses have improved, a significant improvement in the quarter with a combined ratio of 99% in the quarter. And then 101.5% in the accumulated of the year including the comparison of last year.

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To summarize, we are still optimistic with a market projection for the last quarter of this year and for next year. And we should continue to grow with profitability in premiums, controlling loss ratio and costs.

Now, I would like to turn it over to Arthur Farne, for him to comment the results with more detail. And then we're all going to be available to answer your questions. Thank you.
Arthur?

Arthur Farne {BIO 1845065 <GO>}

We are here today with a member of the Board. And for the first time, in a greater effort to improve communications, today's conference is being broadcast to our branches. And we are disclosing this information not only to investors. But to our team who is responsible also for announcing our results.

On slide three, we are going to talk about Health and Dental insurance. On the left hand side, we see that there was a growth quarter on quarter of 18.4% and 19% year-to-date. This is very good growth given the inflation in the period. And this growth is supported by the maintenance of the level of employment.

And there were also adjustments in prices in different segments, in the portfolio that are part of this segment but also in the number of new life [ph] in this period, despite the improvement of -- there was this small drop. But we have reviewed the portfolio to improve profitability.

And the loss ratio, which you can see here, to the right, at the top, has had a drop of 5.5percentage points as compared to the previous quarter, we had closed with 88.2. There's also a drop compared to the Third Quarter of 2011. But already showing a trend that reflects not only the positive effects of seasonality which contributes for the portfolio in the second half of the year. But also the adjustments that we applied and we started as of July in the portfolio of individual insurance.

In the nine months loss ratio closed at 84%, slightly above the first nine months of 2011. And here at the right, at the bottom, I would like to highlight our growth in SME of 32% of our members in the Third Quarter, against Third Quarter. And also a growth of 17.9%, which represents 20%. And we have had a good performance not just because of inorganic growth. But also because of organic growth based on initiatives of the portfolio.

Now, on to slide number 4, in automobile, we closed the period with BRL605 million auto insured. There was an increase in profitability and there was also an increase in loss ratio compared to the Second Quarter and the Third Quarter of 2011. You can saw an average growth. Here we've been growing 5% on the same basis, 10% above (inaudible) is 9%. But that is in agreement with the strategy of the Company, of focusing on the reduction of the loss ratio.

The insured fleet, as I said before, there's a slight drop as compared to the previous quarter and also in the first nine months -- also compared to the first nine months of 2011

because of underwriting issue.

On the next slide you can see Property & Casualty, all different lines of Property & Casualty. We have had a growth of 15.1% quarter on quarter, comparing to year. And then portfolio of mass insurance and transportation that had undergone a revision and now it has had a significant growth contributing positively.

There was also an impact of the margins. And we improved loss ratio in the Third Quarter of 2012 as compared to 2011. And it can affect it by contingencies. And in the first nine months with a drop of almost 9 points in the segment, which you can see at the right, at the bottom. And there is a quite diversified portfolio, many different portfolios.

And then on slide number 6 you can see the Life and the people, individual insurance with a premium of BRL800 million in the first nine months. And 5.8% comparing the Third Quarter of 2012 to the Third Quarter of 2011. And we have had 7percentage points as compared to the previous quarter. And as the general guidelines, there has been an improvement in margins in all our portfolios.

And then you can see a portfolio that is very influenced by growth insurance. And also the credit life insurance, is also represented here. And at the last you can see the growth of the margins of the VGBL and PGBL of 8.5%. And reserves compared to VGBL had -- represented a higher growth as compared to the balance of the first nine months of 2011.

In terms of investments, the assets in the First Quarter were BRL22 billion of which about 60% were related to assets of third parties, more specifically the portfolio that had had the most expressive growth, as you can see on the slide at the left, own portfolio, with our own funds, was 7.6%.

And make -- (inaudible) 700. On the right, you can see the allocation of assets of investors with an increase of the diversification of shares and multi-markets, a multi-strategy which justified increase in a share of this option in our bottom-line.

On slide number 9, you can see admin expenses. And here, I think it's worthwhile, if you look at the slide, the chart on the left, you can see BRL234 million of expenses as compared to BRL210 million. And BRL210 million, we had the revenue of BRL16 million.

And the recovery of expenses because of some actions that we implemented in our agreement with Banco do Brasil. So we had BRL5 million reduction. So the efforts the Company has made so as to keep its admin expenses under control is translated -- if we compare these numbers, if we compare it to the revenue.

And then you saw that in the quarter, in the right you can see 8.5% in the Third Quarter of 2012, is better than a 9.1% in the Third Quarter of 2011. And there was a slight drop, as I highlighted, despite the increasing admin expenses because there is a smaller ratio when we compare expenses to the revenue.

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On slide number 10, you can see the combined ratio of 101.5% in the first nine months of 2012. And there was a drop in loss ratio, as applied to contribution of the improvement of commercial conditions in auto. And also because of admin expenses of the three main components that have contributed to this drop on the first nine months of this year.

On slide number 11, you can see the behavior of our financial income. And I would like to highlight (inaudible) of 111% of the CDI, the first nine months. And the same months is 115% in the quarter, EUR406 million are related to financial results, with a drop in absolute numbers. If we compare the number we had in the First Quarter of 2011 but this drop is explained by gains that we have had in the (inaudible) position in that quarter in August, we have that. And also because of a drop of 2percentage points in the period.

So in spite of these two facts, we have had a result which is satisfactory and which contributed to our yield. I would like to highlight the component of variable income. In the First Quarter we have R\$60 million in shares closing the quarter, worth slightly more than a R\$110 million in shares, which together with private credit bonds or corporate -- in that position in ITCA contributed to the results that we find very good.

And this was the last slide of this part of the presentation. Now we are going to start our Q&A session. And we will be available to answer your question. Thank you.

Questions And Answers

Operator

We will now begin the q-and-a session. (Operator Instruction) Thiago Mendes, Merrill Lynch.

Q - Thiago Mendes {BIO 16718106 <GO>}

Good morning, to all. Good morning, Arthur, Thomaz, I have two questions. The first one is you have had a strong recovery in the Health segment with the growth in premium and lower loss ratios because of adjustment in the prices of your portfolios. But when we compare with the Third Quarter of 2011, especially with regard to the loss ratio, the results this year have been similar.

So how sustainable is that recovery? In the Second Quarter of next year, will the operational results go back to the same levels as this year. What has changed relative to the last cycle and what is going to happen in the Second Quarter of next year? What measures are in place? What are the contracts that you are not renewing anymore? This is the first part of my question.

My second question has to do with a growth in the number of members in Dental and Health insurance. There was a drop in this quarter. I know that part of this had to do with because we've cleaned up the portfolio. But is there an effect also of slower economic recovery and greater competitiveness. What do you expect going forward in terms of growing this space?

A - Gabriel Portella {BIO 18012687 <GO>}

Good morning, Thiago, this is Gabriel Portella speaking. I am going to take your questions as they were received. First one has to do with the growth. This quarter relative to the previous quarter, it remained basically flat.

In the First Quarter of last year there was an adjustment in process contract, in reinsurance. And this year that did not happen. It's very much in line with what we have seen in the market, when we look at this path of ANS, the Brazilian regulatory health agency, there is an increase in the same proportion, that we saw in data in the first semester.

According to ANS, it was expected for us to see a reduction. There is a seasonality. But there are also series of measures that we have been taking. First thing, to increase prices. And this is being -- this is reflecting our estimate in terms of the variation of frequency and average cost.

And then secondly actions are not seen yet. But actions that we have been taking to control utilization and cost. So this quarter is -- we are seeing the expectations. The outlook is positive, the trend is positive and the reduction of the previous quarter had to do with seasonality. And also because of the measure that we didn't take in the Second Quarter. We are only seeing the result these measures in this quarter. And we will move forward with that.

Relative to the Third Quarter of the next year, it is too far away. We don't know how the market will behave. One of the strong indicators that we now have, regarding the trends is the frequency indicator and this indicator presents signs of stabilization and even a slight decrease. So I think the trend for the future is good.

Q - Thiago Mendes {BIO 16718106 <GO>}

So the strategy, your strategy is to continue to adjust the prices as you did in the Third Quarter, right?

A - Gabriel Portella {BIO 18012687 <GO>}

This will reflect what we see in terms of the future, right, what we envisage for the future. We have to correct the past. And in this quarter we would -- we did better because the correction in the previous period when we started a new period, we had to regret [ph] the balance. And for the future we are looking at a more stable loss ratio.

And your second question had to do with cancellation. This has to do with our policies, the natural consequence of our policy was that there were some disagreements and some clients left and we had a reduction in the portfolio. This has been offset by significant and improving volume of new sales at a higher level than last year in the same period.

So we have better risk now with better prices which reflect the new scenario. And some companies which did not accept our adjustments, they left the portfolio. So the scenario,

the outlook is good. It is always concerning in the area of health. But there is good stabilization now.

Q - Thiago Mendes {BIO 16718106 <GO>}

Thank you.

Operator

Francisco Cot [ph] from Banco Fator.

Q - Francisco Cot {BIO 1398441 <GO>}

Good morning, to all. Thank you, very much for the call. My question has to do with the previous question. But I would like you to focus on price adjustment. You did this in Health and the Auto segment as well. But the big difference was that the total growth which was 18% in Health, was 4% in the Auto business.

So what is the difficulty increasing prices in both sectors and the major differences between them? The numbers seem to show that the adjustments in the Health business was better accepted by the market than in the Auto business.

A - Gabriel Portella {BIO 18012687 <GO>}

Thank you, very much Francisco for your question. The dynamics are different for both industries, the size of the adjustments in Health are higher right away. They respond faster because also of the way we account for the portfolio. But in the Auto segment, the effect of the new adjustments are perceived in time.

So there is a small increase in premiums that we see now. This has been developing as of the end of the First Quarter. And we will see the effect in Q3 and Q4. It also positions the Company much better for 2013. This has two additional dynamics. And the responses of the market are different.

Q - Francisco Cot {BIO 1398441 <GO>}

This is clear. But what I would like to know is the market has been accepting the increase in prices. And it also has to do with the competition in the industry.

A - Thomaz Menezes {BIO 16674464 <GO>}

So there is a great difference between Auto and Health regarding your position to increase prices. This is Thomaz speaking. Just adding to what Arthur has said, in Health and also Life, the Company has been working in the Health segment to do new sales.

It had been working without brokers networks for health insurance and for the SME insurance, building on the demand that there is, because we have now more jobs and the business community now is more aware of health insurance as a tool to attract and retain personnel. So we have been building throughout Brazil on this opportunity.

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Also our commercial area has been very active in working with the brokers. And they have been doing an excellent job in terms of building on this opportunity. Today a very expressive part of our SME health insurance comes from brokers who are now working with health insurance. And we have been opening new channels and new fronts to distribute our health products.

The Pension ratio is good. And given the time that we have been operating in the health industry, I think we have been reaping the fruit of the good job that they have been doing. In the Auto industry, I mean it's a lot more competitive; there are new entrants in the market with pricing policies that are very competitive.

And I think that in the future that will have an impact on the results of their portfolios. We decided to grow more modestly. And it was led by (inaudible) focused more on profitability. And this trend should remain for the next few quarters.

Q - Francisco Cot {BIO 1398441 <GO>}

Thank you, very much, Thomaz. Thank you, Arthur.

Operator

[Anhiki Caudata, Markez Bank].

Q - Anhiki Caudata

Good morning, to all. Thank you, very much for the call. I have one more question related to your Health business line. What about the number of claims in the group segment? 80% is historically high.

And looking at the variation of medical expenses, the 75% year on year, despite the adjustment in price which you started in July, year on year there was an increase by 35% and the number of members, we can infer that there is an issue with frequency and inflation in the medical expenses. Why we have this level of inflation, the price readjustments will be -- would not be sufficient to -- because of the margin.

So I would try to understand what is happening to the margin, what has really driven this increasing frequency, this increasing medical expenses. This would allow me to understand what would allow you to reverse to the mean from more normal situation.

A - Gabriel Portella {BIO 18012687 <GO>}

The Health cycle is very well defined. We have the anniversary day. And of course tax profitability is not an assurance of future profitability as it is in the investment community. In the previous quarter, there was nothing in terms of fundamental that were not included in our focus.

We wanted the trend to go back to normal. And we wanted to limit the bad result of this year, just a bad quarter which has not been so good because of the reasons that we

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explained. The trend is positive. The trend is towards improvement.

We have to think about two situations. First the sales in those business lines where the loss ratio is better, like the SME. Dental also has better loss ratio and better profitability. And then the profile of the group policies, we have different levels of sales and commercializations in the portfolio. So when we look at this set of factors, the trend is towards improving margins, companies that were hurting our margin leaving the portfolio because they don't accept the price readjustments.

Though, when I look forward, I think the outlook is positive at a level that is balanced, with an improvement in loss ratio, better profile, better tariff that are more adapted to the average cost and the frequency. Growth in the dental market, in the SME markets to the detriment of those policies which are not profitable enough. Have I answered your question?

Q - Anhiki Caudata

The price adjustment is an important component to recover the margin. But can we focus some more on cost? This increase year on year comes from medical inflation. Do you think this has peaked already? How much comes from this and how much comes from frequency of utilization? And are you going to be able to control that going forward?

A - Gabriel Portella {BIO 18012687 <GO>}

Frequency in the last periods increased very strongly. And the trend is downwards. As regards frequency of utilization, this varies depending on the segment and depending on the maturity of the portfolio.

But the trend is downwards. Another point that impacts our growth in a series of 12 months, in the definition of (inaudible) is the increase that we gave to the physicians in terms of fees for visits in the second semester and in the Third Quarter of this year. We are not -- we don't have a forecast relative to further increases to medical fees.

So these are two very good indicators. And they are positive towards stabilization and reduction in frequency. And if the average cost doesn't vary as it did in the last few months, I mean, this means that our projection is more trustworthy.

Additionally, we have other measures to control cost and to control materials to renegotiate packages and different other things that we don't see from outside but that we are making. These measures allow us to put pressure downwards on the cost curve.

Q - Anhiki Caudata

It's clear now. Thank you.

Operator

Rafael Frade, Bradesco.

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Q - Rafael Frade {BIO 16621076 <GO>}

Good morning, everyone. I would like to talk about the competition scenario in health. Apparently, this last period, there has been a quite competitive scenario with many other carriers being more aggressive in terms of pricing and also medical inflation. And at least from what we find in the papers everyone is better behaved in terms of adjustments and competition, maybe showing that we are going to have a next growth cycle that is good.

Do you agree with what I am saying? And what do you see, how do you see, for example, the acquisition of a mill by United and the fact that other international players could be entering the market. Does that reflect an increase in competition. And how are you preparing yourself for that?

Just an additional question about dental care, you had been growing considerably in the segment and then you are practically stable in the quarter with a slight reduction. And you also said that there was a smaller number of members because some members would not pay a higher premium but is -- in dental care, the premiums have even decreased if you compare quarter on quarter. So what happened, what are the factors?

A - Thomaz Menezes {BIO 16674464 <GO>}

Firstly, I am going to answer your last two questions and then I will turn you over to Gabriel to talk about them. First about this thing of the new player in the market. We see that in a positive way. This demonstrates the opportunity in this industry. No one would make such a bulky investment. And that they saw opportunities to improve and to have a return.

So this is just a confirmation that our strategy and the spread [ph] in our portfolio is very good because SulAmerica has a good share in this industry for many years. So this demonstrates the opportunity we have in this segment. And only motivates us and makes us work even harder and faster to enjoy the good moment in this industry.

As to our Dental portfolio, we are completing the cycle of integration of our acquisition of dental plan. It was very positive for many different reasons. Not just because we went to some regions where we weren't so present before. But how management and people who joined our teams have made us have a much better structure and better prepared units for that segment.

The slightly smaller growth in the average ticket. And if you look in operations even though the average ticket is slightly smaller than we have been having so far. And maybe some operations even mass insurance that we didn't really implement them in the time we were expecting.

But we are confident that our growth strategy in terms of organic growth for dental insurance with a good value proposition is fundamental for an optimal balance of our health portfolio as a whole. Now I would like Gabriel to talk about health, answering your first question.

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A - Gabriel Portella {BIO 18012687 <GO>}

Well, undoubtedly the market is more competitive if we compare to 2009 and the adjustments that are taking place not so often. And the market is more disciplined in 2010 and 2011. And in 2012 it is slightly more competitive. A proof of that is that we had an adjustment and some of these companies went out to the market, even though we still have a level that is superior to last year.

So competitiveness is not a big deal or something that we could say that may hurt our future growth. And maybe slightly more competitiveness in SME and where we are very successful. We have been having good growth rates in this area.

So what is also important is our relationship with a network of brokers, the fact that we operate through brokers in many different segments has led us to bring into the House and Dental market brokers that were already selling auto and home insurance and life insurance. And now they are also --- we are bringing them into selling Health and Dental insurance. So we have good product acceptance.

Our integration of Dental insurance, we launched a new product line with better result in more growth. And if I could complement, if we compare year on year, in terms of new sales in number of members, we have grown at double digits in almost all our business lines. So definitely I think that SulAmerica is enjoying a good moment in industry with our physical presence. And our proximity with brokers with our -- all our health products.

Q - Rafael Frade {BIO 16621076 <GO>}

Just a follow up about your distribution channel. You said that brokers that didn't use to sell Health and Dental to start selling the type of insurance. I would like to mention in this process, the profile of brokers. So are you training those brokers? And because of that you have some exclusive relationship.

A - Gabriel Portella {BIO 18012687 <GO>}

Well, I am going to ask Machiez, our Commercial VP, who has been conducting excellent work with our partner brokers and he will answer your question.

A - Machiez Javla

Good morning, Rafael. Good morning everyone. Well, in fact we've been managing through our commercial activity to have a very intense contact with brokers for the distribution of Health; this is the advantage of SulAmerica being a multi-liner. And having a broad line of contacts and relationship with brokers. Moreover, we also grew regionally, not just in Sao Paulo and Rio. But in all regions of the country, especially in the Northeast.

A - Unidentified Company Representative

I think this is work that is being very well conducted by Machiez and his team. And in terms of proximity to brokers, I think that the Company has never before been so present and so close to brokers in many different regions. And this certainly has contributed to our good results.

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Small and medium-sized brokers, they have contact with small and medium businesses. So this contact and competitiveness and the quality of the portfolio of our business health has led us to advance. And in the beginning of the call -- there was a need of small and medium businessmen to help good health benefits for the tranquility of their (inaudible).

Operator

Marcelo Henriques, BTG Pactual.

Q - Marcelo Henriques {BIO 17385475 <GO>}

Good morning. I have some questions. The first one is a follow-up on the Health line, just to understand what has been said so far. And correct me if I'm wrong, please. So the price readjustments now was much more of a driver to recover the margins that have been lost in the past than to a price policy that includes medical inflation and an increase in frequency for the next 12 years. Is my understanding correct?

A - Gabriel Portella {BIO 18012687 <GO>}

Actually, for each segment we have a different history. For the Health segment, it reflects past trends and future trends. So when we establish the level of price for the balance of the contract in the anniversary of the contract, we take into account both things. So for the future scenario, we take into account the indicators that we have in the market. In the other segments, the rationale is the same. But we also want to reflect the future scenario.

When we look at the level of costs and frequency that we expect for next year, this is also reflected in the adjustment base. And also in the establishment of new cost. We review costs every six months to capture the new levels of cost, what we see going forward. So it's both things, past and future, frequency and average cost, no doubt about that.

And just specifically about group insurance, there was a variation in the loss ratio. And the price adjustment is much more to recover margins than anything else.

Q - Marcelo Henriques {BIO 17385475 <GO>}

And you said also that frequency is declining. Could you give us some more color about what you see, was it a recent event, was it last month, last two months, what are you seeing that makes you think that the frequency is trending downwards?

A - Gabriel Portella {BIO 18012687 <GO>}

So you understood about the price. So it doesn't have to do with the recovery of the past margins. But we are looking forward in all business lines, in Group, in SME. And the second point has to do with the frequency of utilization which shows a trend that reflects the health structure in the country. There are some factors that we have to take into account, which inhibit that.

So we see that these factors are important to take into account when we design our actions to pressure [ph] frequency downwards. The trend is downwards. But it doesn't

mean that the frequency has decreased to the level that we would like to see in all segments, that it is trending downwards but it's still high.

That is there is a new behavior in terms of utilization, generally speaking. This varies according to the segment. But this is being captured for future adjustments. And this is the normal cycle in the Health market, past experience influences the future experience. So this all plays a role.

If you are unable to interfere strongly, you would see the same trend going forward. We have a very high quality product, our network is open. So we are maintaining quality while controlling utilization.

Q - Marcelo Henriques {BIO 17385475 <GO>}

One more question, please. An insurance that belongs to a bank group, enforced the readjustments and decreased it from 3 to -- from 4 to 3.5, which affects Life, Individuals and Health. The impact was 2.1 billion. And a bit more than half of it was in the Health business, basically.

So this is the topic that belongs to a different insurance company. But I know also that all these variables that impact the actuarial calculation. Could you tell us how you see this trend of a lower liability where you can have a better mark-to-market liability? You can mark liabilities better than market to market?

A - Gabriel Portella {BIO 18012687 <GO>}

Thank you for the question. We have no comments about rules of our counterparts. But there are solvency rules that are being discussed in the market and through that it's going to deal with that in the future. This has an impact on any company. Of course, it depends on its solvency volume. But it's not clear today what will be done. So we have to wait and see what will be the impact on us and what kind of a fusion we will have to make in the near future.

Operator

Could you repeat your question please?

Q - Marcelo Henriques {BIO 17385475 <GO>}

What rate do you -- (inaudible).

A - Gabriel Portella {BIO 18012687 <GO>}

We have many different approaches but we don't disclose it in this forum.

Operator

Mariana Taddeo, UBS.

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Q - Mariana Taddeo {BIO 15009172 <GO>}

Good morning. The financial result has had a strong growth because of the portfolio in variable income. How do you see the result of these quarters is smaller, because SELIC's smaller than it was in the past? But do you have the intention of compensating that? Can you change that at 39%?

A - Gabriel Portella {BIO 18012687 <GO>}

Good morning. The call -- the sound quality is very poor. I'm sorry I could not understand your question. So maybe you're asking if we are going to change the portfolio or if we are seeing the financial -- the behavior of the financial result in a quarter, was that your question?

Well, first of all our investment decision comes from the ALM policy of the Company. So any investment strategy is related to a review of our ALM [ph] structure. And I say that because we usually look at financial results and we don't take into account all the financial result and all the performance of the Company.

ALM looks at the whole balance and we might adjust our policies and our strategies depending on our ALM analysis. There is nothing in our operation that would justify a significant change in what we have been doing in our strategies except for what I said before, you have a higher exposure to variable income bonds because of opportunities that we thought were present in the stock exchange markets.

For the rest, there is a high exposure to the SELIC rate in ITCA, was a result of our pre-positions. And we did not renew it. We didn't think it was justifiable. And there was a higher rate than what we had before, especially the first nine months of 2011.

From now on, I think that the behavior that we saw in the first nine months of this year; we will continue on the (inaudible) there has not been any significant change in our allocation strategy. If that's what you meant, I hope that I have answered your question. And if I didn't, please ask again.

Q - Mariana Taddeo {BIO 15009172 <GO>}

Well, that was my question. Thank you, very much.

Operator

This is the final announcement. (Operator Instructions). Gustavo Schroden, BES Securities.

Q - Gustavo Schroden {BIO 17051676 <GO>}

Good morning, everyone. I would like to go back to the issue of financial results. We've seen an improvement. And because of the stock exchange, there is also a positive impact of monetary correction or contingencies. If we look at your statement, last quarter we had a BRL10.8 million and in this quarter we have a positive result of BRL10.6 million, positive in contrast with negative.

So how do you explain that and what should we expect in the future because in the financial result, in the others line, there was an increase of 24% if we compare quarter-on-quarter? So I think that this is a relevant impact in the financial result. And what should we expect for the future?

A - Gabriel Portella {BIO 18012687 <GO>}

Gustavo, thank you for the question and your comments which is relevant if we compare the Third Quarter to the Second Quarter. I don't know if you remember, when I mentioned Property and Casualty. And the impact on a higher loss ratio that resulted from the review, in the basis. A share of that revision had an impact because of the monetary result of contingency liabilities.

And I think things did not happen in the First Quarter in the same process that was related to administrative processes. It had a more positive impact on the portfolio. I think that in the future I think this line will go back to normal because the most relevant revisions are being completed. So we shouldn't have an impact neither strongly positive nor strongly negative in terms of that.

Q - Gustavo Schrodén {BIO 17051676 <GO>}

Thank you, very much.

Operator

Francisco Cot, Banco Fator.

Q - Francisco Cot {BIO 1398441 <GO>}

As regards administrative expenses at 8.5% of the combined ratio, my question is do you think that is the efficiency limit or can you improve that even further? How do you see administrative expenses going forward?

A - Thomaz Menezes {BIO 16674464 <GO>}

Thank you for your question. I always say that we can always improve. There's always room for improvement, there's always room to do something different and continue to invest in reviewing processes (inaudible). The Company has reaped the benefits of an excellent execution in strategy, relative to this topic.

I think we are at a competitive level. And we are also very mindful that we can always improve something here and there. But I wouldn't say that we see major improvements in this area, 8.5% or something below 9% at best to great operational efficiency at the very best in terms of competitiveness in the industry.

Operator

We now end the q-and-a session. And I would like to turn the floor over to Mr. Thomaz Menezes for his final remarks. You may proceed, sir.

A - Thomaz Menezes {BIO 16674464 <GO>}

First of all, I would like to thank all of our associates who were involved and engaged in delivering this result. And SulAmerica continues to be committed to the sustainable growth of all of its business lines and we trust our growth strategies for the next years.

This year has been --- has presented many challenges because of all the factors that we commented on in this call, a drop in interest rate, changes in the market. But we are sure that the Company has performed very well in the last quarter. And focused on improving loss ratio by establishing appropriate prices and also focusing on operational efficiency and efficacy whilst maintaining strong revenue growth through our broker networks and our more than 100 distribution units.

Thank you, very much for participating, for your questions, for the interest to take in our Company. And we remain available to take any questions or clarify any issues you might have. Thank you, very much.

Operator

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

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