1Q16 Conference Call Transcript – Q&A – SULAMÉRICA

Operator

We will now start the Q&A session. Our first question comes from Mr. Gustavo Schroden - Bank of America Merrill Lynch.

Gustavo Schroden (Bank of America Merrill Lynch)

Good morning, Portella and Arthur, thanks for the opportunity. I will make two questions. The first question relates to the health segment and I guess it is worth highlighting the great performance of your successful claim management. So, when we look and follow the banks, we see that this year must be the year with more impact from economic slowdown in SMEs and unemployment, it will start to appear. If we look at the initiatives to reduce the loss ratio, which you have been working on, they are linked to prevention, working with the hospitals, and there is a pricing effect as well. What do you think you can do to protect yourselves from what can come in 2016, related to possible bankruptcy of SMEs and unemployment increase, effectively in 2016? Not considering the Company's management related to the hospitals and prevention, is there anything you could do to try to maintain this level of loss ratio in the health segment, against the SMEs impact and the unemployment increase? And do you think it is going to be harder, the price negotiation in 2016, with this current economic situation? After that, I'll be back for my next question. Thank you.

Mauricio Lopes (Vice President of Health and Dental)

Hi Gustavo, it's Mauricio speaking. Thank you for your question. I think the work we are doing in SulAmérica is very strong over time. The fundamentals remain the same, even in an economic slowdown scenario. The concept of health and claim management, with the established and mature underwriting process, with no boldness, is permanent across the range of work that is being done. The perception we have is that, despite the economic scenario, market consolidation brings some opportunities, it has brought opportunities over time, and when you have a product with a relevant concept that works with prevention and promotion, with an adequate pricing and a well-structured claim management, you have the tools to try to work against the existent crisis. Going straight to your point, obviously, there are other actions on the side, which are not our flagship initiatives, which also bring good results and help us to retain clients, for example, the changes in the retention structures, being more active and less reactive, redesign of products, entry into new markets, a correct approach by the commercial area, so with all those factors we can maintain the mix that we found in the last quarters, despite the unemployment increase in the country.

Arthur Farme (Vice President of Control and Investor Relations)

Gustavo, this is Arthur speaking, thank you for your comments, in addition to the questions. I think there is a point that can be complemented by Mauricio, related to the retention efforts being made by the Company, and also by the fact that the small and medium enterprises portfolio works as an accommodation for a migration from other modalities which could happen. In other words, this growth clearly shows the potential in the small and medium companies segment, not only in health, but in all our business lines. It's more evident in the health segment and we notice this migration. We don't see any signs of deterioration in delinquency levels in this portfolio, so it isn't a reason for concern at this point. As Mauricio mentioned, we have been able to maintain good retention levels and here, live, I ask him if he has any additional contributions.

Maurício Lopes (Vice President of Health and Dental)

I think these are the points and the final message is: we are looking at this issue very carefully, tracking our retention levels, which remain in good shape, and putting a lot of effort in being proactive in case anything moves away from what we were expecting.

Gustavo Schroden (Bank of America Merrill Lynch)

That's good. I just have a follow-up question, because I understand that everything within management's reach is being done. My point is: you don't think that pricing will be harder in this coming round? Not because of the Company's capacity or the alignment with other competitors at the time of negotiation, but simply because a lot of companies may cease to exist or may say: "look, I can't accept this price level", and seek maybe a drastic alternative. Ultimately, do you see a tougher environment to negotiate prices from now on? Not because of competition with other players, because I believe everyone will be aligned, but simply because the client may not see the possibility of working with high level companies anymore, which usually have prices a bit higher.

Arthur Farme (Vice President of Control and Investor Relations)

Gustavo, this is Arthur, and before Mauricio enters in any question of the unit in more details, I can say that the Company doesn't share a view as negative as the one you seem to be suggesting. Of course, competition is a key factor, the space for us to continue to practice the prices we need given the behavior of medical costs is also critical, but we are not seeing this year so different than others in relation to the challenges we have to keep the portfolio's profitability. In general, this is the message I wanted to give and now Mauricio complements.

Maurício Lopes (Vice President of Health and Dental)

I think an additional point here, as a complement, Gustavo, is that the market is going through a consolidation process. With the level of claims that we have, our capacity to negotiate our network is huge. We have been doing a very structured work together with our key service-providers partners, hospital networks, laboratories, doctors, in order to find transition paths, paths that may bring more stability to our claims and structure to our long term relationships and this has been yielding fruits. So, although there is a higher pressure in claims in the market, there is the medical inflation, which has always existed, not only in Brazil but in the whole world, we are using tools that may bring a more linear level of claims, despite any bump in the economy that we may have in the short term.

Gustavo Schroden (Bank of America Merrill Lynch)

Perfect, it's clear. Let me just make my second quick question. In the auto segment, we saw a significant increase, for the second quarter in a row, of the loss ratio and the Company grew at very high rates in the past 12, 18 months in this segment. Should we interpret that maybe this growth came through the adoption of a softer pricing policy and now the effects begin to show in 2016, with this 670 BPS increase in the auto loss ratio? And just to complement the question, I could see in this quarter that fleet growth was much lower than earned premiums growth in auto, which leads me to understand that you are now working with higher prices. If that's true, how long do you think it's going to take to bring the auto loss ratio to a lower level, assuming that you actually are working with higher prices, i.e., more appropriate pricing? Thank you.

Eduardo Dal Ri (Vice President of Auto and Massified)

Thank you, Gustavo, it's Eduardo Dal Ri. I will answer both questions, starting by the first one. No, there is no relation. Our loss ratio today is not related to our more accelerated growth last year, even because it wasn't so accelerated, and, if you notice, you'll see that from the second half of last year, we began to reposition our prices, which in fact lowered our average growth rate. The current loss ratio is much more related to external factors. I would mention a few, which have been widely disseminated by you, but with a little more depth. The first is theft and robbery, which began to hit the market as a whole during the fourth quarter of last year. This has persisted, mainly in regions in which we placed our bets, as per our pricing criteria last year. These were regions who were either not affected or under control when it came to theft and robbery. I could mention some of the regions that suffered with higher theft and robbery: Rio Grande do Sul, Paraná, Minas Gerais, the Northeast, and also Rio de Janeiro, which represents a somewhat higher share in our portfolio, around 20%. So this is a very important factor in our portfolio. Another aspect was inflation of auto parts, which was way higher than the IPCA figure we are used to follow and the increase was a bit abrupt. Part was to compensate workshops, especially workshops which distribute new vehicles, and part due to the stronger dollar. Another aspect that affected the quarter was rainfall. Rains were more concentrated, we did have higher levels of rainfall, but in some metropolitan arears, they were more concentrated, i.e., in a few hours, we had a lot of rain. That impacted us, including incidents in regions where we have more penetration and this affected us. Now I will move to the second question, this issue which you have been seeing, and that's a good reflection, the issue if our prices are more aligned. The truth is that we didn't simply raise prices because we were not aligned in the past. In fact, according to our underwriting strategy, we, as soon as we see risk deterioration, we increase prices. What we face today are the results of an exposure whose risk level was already set, but is now immediately impacted by theft and robbery, inflation in auto parts, which affects our entire portfolio. On the other hand, we are already adjusting prices. This may explain a little our higher drop in growth, because we anticipated this price increase in relation to the market, which now seems to begin to increase their prices, according to the new risk level. So, of course you should expect a movement towards the loss ratio target that we always seek. What we see now is a transition period. At the first moment, we face a higher risk level, then, immediately when we detect that the risk has changed, we adjust our prices. So we have this off season, this calibration between production and loss ratio that does not seem to have much explanation, because we are less competitive. This obviously brings a lower loss ratio with time, but, in this off season, we have this scenario with a higher level of claims and lower price.

Gustavo Schroden (Bank of America Merrill Lynch)

Great, that's very clear. Thanks for the answers and congratulations for the work done in the health segment. Thank you.

Operator

Our next question: Marcelo Cintra – Goldman Sachs

Marcelo Cintra (Goldman Sachs)

Hi, good morning everyone, thank you for the question. I have two questions. My first question is related to revenues and premiums growth. When we look at the results, we see growth only in the health segment, mainly driven by SME and dental. I would like to understand a little bit more how do you see these two lines, if you expect a deceleration due to the weaker macro scenario, which you even talked about in the beginning of the call, and also understand a little about the other business lines, if we should still see pressure in growth going forward. Then I ask my second question. Thank you.

Gabriel Portella (CEO)

Hi, Marcelo, this is Gabriel Portella. Well, as you've already commented in relation to health, we had a positive combination of increase in the number of beneficiaries, good growth in the SME and dental portfolios, good use of cross-sell, great relationship with the sales area, trainings for all the brokers. I think this whole strategy applied to the health segment, besides the medical costs themselves, ends up reflecting the experience we have in each group. So, in the case of health, I think the explanation is very clear, as is taking advantage of these opportunities. The high level of new sales, offsetting the effects of unemployment, also helps this process of revenue growth. In auto, as I believe Eduardo has already explained, we are recovering. We have this off season in the quarter and the economic slowdown also contributed to our drop in revenue, however, if you compare our fleet year over year, we still see growth in the insured fleet, which is a good sign. In property and casualty, I think Arthur has also commented, it is has much to do with the sale of the two portfolios last year, and when we look at the massified segment, which is now the focus of our operation, we see growth not only in premiums, but also in insured members, as well as in the number of brokers selling our products, so it's a good perspective. In the case of life and personal accidents, we still have a repositioning underway and I confess it's taking longer than we would like, but it continues to generate positive effects with the cancellation of some policies, and this year, in the first quarter, it wasn't different. But when we look at other products more suited to our mass, we see the same growth we showed in property and casualty. The positive aspect in life and personal accidents, within underwriting, is that we are consistently recovering the loss ratio, and it shows in the results of this portfolio. Private pension contributions are growing at the pace we expected. Savings bonds revenue was affected by the rent guarantee segment, in which we are market leaders, impacted by the decrease in rental contracts being signed. Fees from ASO plans are growing at a strong pace, as a result of the migration from pre-payment to post-payment plans. The asset management fees reflect a higher demand for fixed income products, which lowers the rates, but we keep growing our asset management and total capital. So, this is the characteristic of a multi-line company, in which processes compensate each other and strategies can be executed with no prejudice to the movement of the company as a whole.

Marcelo Cintra (Goldman Sachs)

Perfect, thank you. Just following-up on this, so, do you think this growth of 13.5% you released in health is sustainable for the next quarters, for this year, something close to this growth range?

Gabriel Portella (CEO)

Without thinking of this as guidance, we see a favorable moment for us. We don't see other variables getting even worse, so we believe we will continue to grow within our expectations, at a strong pace. As we said last year, we have basically the same consideration: despite the unemployment, we are successfully capturing the moment of the market, the quality of the products, internal cross-selling, good broker acceptance, i.e., maintaining a high service level.

Marcelo Cintra (Goldman Sachs)

Perfect. My second question is related to administrative expenses. During the call, also in the release, you commented that part of the increase was related to the labor agreement and also to the insourcing of the call center. I just wanted to understand better, in my opinion these are two recurring lines. I'd just like to understand if this should be the new level or if there was something specific which came a bit higher this quarter, and if we can expect improvement from now on. Thank you.

Arthur Farme (Vice President of Control and Investor Relations)

Marcelo, this is Arthur speaking. I think so, I think it's a sustainable level. As I said in the beginning, the increase in the first quarter was basically because of this insourcing and the difference in the labor agreement, related to 2015 and approved for 2016, which was in line with the inflation. So there is nothing extraordinary about this level we are showing now.

Marcelo Cintra (Goldman Sachs)

Perfect, just checking, thank you and congratulations.

Arthur Farme (Vice President of Control and Investor Relations)

Thank you.

Operator

Our next question: Gustavo Lobo – BTG Pactual

Gustavo Lobo (BTG Pactual)

Hi, good morning. Most of my questions were already answered, but I still have one doubt related to the health segment. Until 2014, also because the price increase is concentrated in the middle of the year, the second quarter ended up being the weakest of the year. Last year this didn't happen. In fact, the first quarter was the weakest and the results improved over the year. Do you already have visibility on the seasonality this year, if we will see an increase in profits in the second quarter or we will have a higher health loss ratio?

Arthur Farme (Vice President of Control and Investor Relations)

Lobo, this is Arthur speaking. The Company doesn't have a guidance policy, as you are aware, but looking back, even because we have the present today, we don't have any change in the expected pattern for the quarters, i.e., in the behavior. The calendar for price readjustments didn't change, the composition of the portfolio didn't suffer major changes, so this shouldn't be a factor which would explain a different profile over the year.

Gustavo Lobo (BTG Pactual)

Perfect. So with no change in the dynamics, we should continue to see SulAmérica's results much more concentrated in the fourth quarter rather than specifically depending on a higher or lower profit in the three first quarters, isn't it?

Arthur Farme (Vice President of Control and Investor Relations

Yes, as I've said, the profile didn't change. The seasonality didn't change.

Gustavo Lobo (BTG Pactual)

Perfect, thank you.

Operator

Our next question: Gabriel Pimentel – Bradesco

Gabriel Pimentel (Bradesco)

Hi, good morning, everyone. I have two questions about the health segment. The first is whether there is any specific work being done in other states which have operators in trouble, we could mention Rio de Janeiro, to get ahead and try to bring clients in advance or if it's too early for that. And my second question in health is related to the corporate segment. We saw a reduction in the portfolio, much less than what we see in the competitors and believe to be the market's average, but the loss you had was more related to the termination of contracts with companies or layoffs in companies which remained in your portfolio? Thank you.

Maurício Lopes (Vice President of Health and Dental)

Gabriel, this is Mauricio, thank you for the question. Regarding regional opportunities, the company has national coverage. We are present in absolutely all states, making sales, with post-sales teams in place and we've been working hard. The sales team is running the whole country, we calibrated the regional portfolios in relation to both product and price in the several segments, whether affinity, SME, corporate, dental, in the last two years. And the market is in consolidation mode, so it's natural that we have a growing presence outside the São Paulo-Rio de Janeiro axis, including Rio de Janeiro in this context, over the time. To grow outside this axis is an ongoing work we've been doing. In relation to the corporate segment, our retention rate has been very solid, as I commented a while ago when answering the question made by Gustavo from Bank of America. We continue with a good retention, we continue to work all drivers for retaining clients, greatly improving our service level. We managed to put to work a set of facilities of service operations for mobile applications, which gives the feeling of quality to the customer and take the load off our contact center, improving service for absolutely everyone. I think this creates a virtuous cycle for retention, i.e., good service with good suggested claim end up keeping the client more time with us. Obviously, you have the regular cycle of layoffs which has been going on, but the volume of new sales being brought by the commercial team has been offsetting this very efficiently.

Gabriel Pimentel (Bradesco)

Perfect, thank you very much.

Operator

Our next question: Francisco Kops – Banco Safra

Francisco Kops (Banco Safra)

Good morning, everyone. In fact, regarding health as well, I would like to go back to a few topics. I remember that in the fourth quarter call you explained that a little or part of the worse loss ratio year over year was due to the calendar effect. You were changing the payment schedule of a few suppliers and that hurt the fourth quarter. My question is if this didn't help the first quarter. Still in health, I would like to clarify another doubt: the average price increase in the past two years was between 15%-17% and, everything else constant, keeping the number of beneficiaries and everything constant, this should be the growth in premiums. The growth in premiums below this level indicates that there may be a mix effect within SulAmérica's products, moving not to lower-margin products, but to cheaper ones?

Maurício Lopes (Vice President of Health and Dental)

Francisco, let's begin backwards. An important point when looking at the sales mix in the recent past, quite different from previous cycles, is that we have huge growth in contracts with co-participation in corporate plans. Just to give a statistic of the number, approximately 70% of every corporate plan sold last year was in co-participation and, more importantly, the level of co-participation in the contracts also increased, i.e., it's now included in the ones it wasn't, and increased its share in the ones which had it. This naturally leads to a reduction in the average ticket of the portfolio, but also to an expected greater reduction in adverse selection and moral hazard which may arise from higher use. I think you must take that into account when you look at the mix. The second relevant point is that sales and retention are not concentrated in cities and regions where we had more share, but are spread out across the country and, naturally, you have smaller networks, the service level or the quality of the hospitals or the perceived price of these hospitals is smaller in some regions, which leads to a different average ticket in relation to regions where we previously operated. Thus, this also changes the price mix we may have in the portfolio. These effects are mixed and must be considered. In relation to the calendar effect, we changed it in 3Q15, so we are in the third cycle with this more adjusted calendar. We must remember that the focus of this change in the payment schedule is for us to have more stable provisions. We can have a more linear flow during the year, that's what we've been seeking since 3Q15 and will continue in this process until the end of the year, it's an ongoing process here.

Francisco Kops (Banco Safra)

Alright. I understand then that it helps a bit to smooth the seasonality, so it helps a little to answer a Gustavo's question. My second question, I believe it's more directed to Arthur and Portella. We are seeing that the market has high expectations of falling interest rates, the future interest curves show that. SulAmérica, as any insurer, has a very important financial component in the Company's ROE. How is the Company preparing for this possible environment of lower interest rates? What can we expect for SulAmérica's ROE in such an environment? Is there anything you can do? What are you planning, maybe increase a little the portfolio's risk, focus more in the reduction of expenses, pass this drop in interest rate to prices… Anyway, if you can talk a little bit about how the Company's preparing for this scenario, it would be good. Thank you.

Arthur Farme (Vice President of Control and Investor Relations)

Kops, it's Arthur, good morning. I think your questions already came with the answers, but perhaps I can complete what you've anticipated. Obviously it's an issue that characterizes the insurance industry, so, beginning with the equilibrium that accompanies this segment, in a scenario with lower interest rates, the operation will have to contribute more to the result, being it through cost control, and in this case our variables are commissions, claims and administrative expenses. Considering that commissions are much more defined by the Company's alignment with market practices, and we've been doing that, we've been reaping good fruits in claims, thanks to all the initiatives we've adopted and Mauricio and Dal Ri were very clear when then gave examples during the day. Regarding administrative expenses, the improvement of the ratio itself confirms the attention the Company pays to cost management as a whole. In relation to the portfolio management, we are very concentrated in floating-rate assets and a change in the interest rate may create new opportunities, maybe an appetite for further diversification, even increasing the flow of private credit emissions for companies with high ratings, which are basically the ones we are interested at. Then, yes, this is an attention point, but it's also an issue that will have several others parts moving, among them the possibility of repositioning our investment portfolio in line with eventual offers. We must always remember that our investment decisions are related to the ALM management. As the profile of our liabilities didn't change, there is nothing structural to recommend that, we are then talking about more tactical actions to take advantage of opportunities that different assets may bring.

Francisco Kops (Banco Safra)

Perfect. I understand that none of these alternatives is completely trivial. Just making a follow-up, Arthur, the cost of capital also falls, so I believe it would reasonable for the market and even the management to be satisfied with a little lower ROE. Is that how you see? Or no, you have a ROE in mind regardless of the cost of capital, or actually with a lower cost of capital you would think performance would be satisfactory with a lower ROE?

Arthur Farme (Vice President of Control and Investor Relations)

If we have one thing in mind it is to always want a higher ROE and we have been managing to reach a good ROE level for the profile of the portfolio and the size of the Company. We are closing this quarter, the first of the year, with almost 16%. It's true that in any formula you come to adopt for the cost of capital, with lower interest rates, it will be smaller. If this means that we will change our pricing policy or any management decision because of that, not necessarily. We are always seeking to maximize the return of all portfolios, obviously observing market conditions.

Francisco Kops (Banco Safra)

That's great, Arthur, thank you.

Operator

Our next question: Domingos Falavina - JP Morgan

Domingos Falavina (JP Morgan)

Good morning, Arthur, good morning, everyone. My question is related to the investment income. Historically, you have been delivering an investment income among the strongest in the industry, when compared to the CDI, much stronger than Porto's actually. We notice this quarter that the result came somewhat weaker. When I look at the allocation of the portfolio, it barely changed quarter over quarter. The only difference I see is in debt, with the issue of a credit bank note in the fourth quarter. I would like to understand a little better what brought the result from close to 100% of the CDI, or higher, to 95% now.

Marcelo Mello (Vice President of Investments, Life and Private Pension)

Domingos, it's Marcelo Mello, how are you? As you well noticed, the investment portfolio changed very little. We made an allocation in a global stock strategy, aimed at diversifying the insurer's allocation, of the reserves, not only from a geographical standpoint, but also from a currency one. The geographical allocation was not so favorable in these first three months, as we saw the BRL get stronger in the past months. But as Arthur commented, it's a small exposure, one we understand diversifies the portfolio. In addition, it's a possibility that is being offered to *SulAmérica Investimentos'* investors, as it's a product developed together with Franklin Templeton. So it makes sense when we consider allocation and also distribution to other investors. This was the main impact on the investment income in the quarter. In relation to the credit bank note, I will let Arthur comment.

Arthur Farme (Vice President of Control and Investor Relations)

It's just the management of the Company's leverage profile. Nothing extraordinary, it became the assets Marcelo commented in terms of investments.

Domingos Falavina (JP Morgan)

Very clear. So, if I understood correctly, it was volatility in the quarter, not something structural. So we can assume the Company going back to previous levels of return.

Marcelo Mello (Vice President of Investments, Life and Private Pension)

It was a one-off volatility related to this foreign currency exposure.

Domingos Falavina (Jp Morgan)

Very clear, thank you.

Operator

Our next question: Victor Schabbel – Credit Suisse

Victor Schabbel (Credit Suisse)

Good morning, everyone, thank you. I would just like to follow-up on the expenses part, G&A. I would like to understand your motivation for this insourcing and the consequent increase in personnel and expenses. What's the strategy behind or your vision behind this movement?

Arthur Farme (Vice President of Control and Investor Relations)

Victor, this is Arthur speaking, thank you for the point. The decision was made basically because it's more profitable all-in. Firstly, we are comparing a quarter with and another without. Secondly, we will have a broader control and have been having since the moment we insourced. This means we had some contracts which could be reviewed and the calculation we made to evaluate the insourcing of the call center showed us that this was the better way. So the motivation was not only because of the business model, but also financial.

Victor Schabbel (Credit Suisse)

Ok. So there's an understanding that the service itself, with better cross-selling, you often highlight the point of being a multi-line insurer... Do you understand that eventually the service itself can improve and this makes sense for the multi-line strategy of the Company from now on? Is that on your mind?

Arthur Farme (Vice President of Control and Investor Relations)

This is correct. It's part of the Company's preparation for this model and our intention is to take advantages of these opportunities as we better equip ourselves also in this client interface front.

Victor Schabbel (Credit Suisse)

Alright, thank you, Arthur.

Operator

Our next question: Eduardo Nishio – Banco Brasil Plural

Eduardo Nishio (Banco Brasil Plural)

Good morning, everyone. I have only one question. Sorry to go back to this point of administrative expense (G&A) because I think that, not considering the G&A variation, maybe you would have a combined ratio even lower than last year. Looking at the lines here, I don't see relevant room for improvement, but I would like to know if there are initiatives here which we may expect to improve this ratio throughout the year or if it's going to me more gradual, scale gains, ie, we will have to see revenues, the insourcing of the call center generating more revenues. Ultimately, is there this fact that your natural growth should lower this line a little or can we expect perhaps a surprise coming from cost-cutting initiatives? Thank you.

Arthur Farme (Vice President of Control and Investor Relations)

Nishio, thanks for the point. If you look at the table we included in the release detailing the main lines that make up the administrative expenses, personnel worsened 20%; part is headcount, part is labor agreement. Third-party services came 8% worse, better than inflation. Another important line here is tax expenses on which I commented in the beginning. Due to the declaration of Interest on Shareholders' Equity, we have here the effect of PIS and Cofins of the receiving companies. We must remember that this is the consolidated figure for the group. I don't see any of these effects representing a trend of worsening in administrative expenses, on the contrary: we have been able to run at, if not the best, one of the best levels of operational efficiency in the market and we intended to maintain this behavior.

Eduardo Nishio (Banco Brasil Plural)

Alright. So we can expect the same level of 9.6% in the next quarters or maybe an improvement?

Arthur Farme (Vice President of Control and Investor Relations)

I can't comment on the next quarters. What I'm saying is that this figure has an one-off effect related to PIS and Cofins, highlighted here by the increase of 112%. Obviously, this is a non-recurring effect. In relation to personnel, during the year, we will have absorbed this impact related to the change in headcount which took place in the first quarter. This means that, as the base become more comparable, we should move closer to the labor agreement, which was around 11%. This year, in particular, there is a marginal exchange rate effect in software license contracts, which are indexed, but, again, it is transitory and was due to the behavior of the exchange rate last year, reflecting in the contracts we have in the segment.

Eduardo Nishio (Banco Brasil Plural)

Perfect, but the point is that part of these are fixed costs, like personnel. So, for this part we can expect only the maintenance of the labor agreement by the end of the year, a more or less stable level, maybe a marginal headcount increase related to the growth of the operation, but, in theory, the fixed part should be diluted with revenue growth, right?

Arthur Farme (Vice President of Control and Investor Relations)

Correct. We should remember that you see here a growth of 20% in personnel expenses, while the labor agreement was around 11%. This insourcing involved about 320 people out of a total headcount of 5,400. So it isn't dramatic in terms of size, but you do have an impact because you are comparing one quarter with this higher level with another without it.

The exchange rate effect will also be diluted as the rate's own perspectives are falling given the improvement of the economic environment. And as for the tax expenses, it was, again, a one-off event as we didn't have this declaration in 1Q15 and had now in 1Q16.

Eduardo Nishio (Banco Brasil Plural)

Thank you very much.