

3Q16 Conference Call Transcript – Q&A – SULAMÉRICA

Operator

We will now start the Q&A session. Our first question comes from Mr. Thiago Kapulskis – BTG Pactual

Thiago Kapulskis (BTG Pactual)

Good morning everyone. I have two questions: my first question is related to the health segment, to this good trend in the loss ratio, and also in number of members, which you have maintained, despite the macroeconomic problems in Brazil. I would like to understand if there is room for further improvement in the loss ratio for the coming quarters and, also, I would like to understand a little better how you would sustain this member retention, and if you can also see this trend ahead. And my second question is related to the auto segment: how is the competitive environment? We saw a significant increase in auto revenue in the quarter and I would like to understand if this reflects price increases in the industry, and also if there is a chance for more increases, if this has happened. Thank you.

Mauricio Lopes (Vice President of Health and Dental)

Good morning, Thiago, this is Mauricio speaking. Thank you for the question. In terms of loss ratio, the beneficiaries matter, I think we are seeing a set of initiatives, which were put into action in the past, as we've talked about in the last calls, and they are fortifying, maturing and also delivering results. All the established initiatives, in health and claims management, are being implemented, which means that they are generating a set of claims reduction which is proving to be efficient and bringing a very interesting value proposition. This helps us explain the maintenance of existing members, as well as the addition of new members to the portfolio, i.e. new sales. One thing leads to the other. Health and claims management provides SulAmérica a chance to explore a new value proposition, which brings clients who are interested in having a prevention and promotion approach to their portfolio, clients who see the loss ratio control as relevant for its own operation and this has proved to be successful. One last factor that I think helps the portfolio growth is that we have grown the operation in some regions that, until then, we had not yet explored. SulAmérica's service providers have expanded the network in some regions where we, traditionally, didn't focus so much, the commercial area has been structured in several regional clusters for a long time now and they have taken great advantage of the opportunities; in other words, we've been growing in regions that until then, for us, were virgin regions. This has proven to be interesting. These are the two factors that allowed for a well-behaved loss ratio and a significant portfolio growth, despite the

crisis scenario. And the initiatives are still ongoing, in other words, we continue working on everything that we have invested until now.

Eduardo Dal Ri (Vice President of Auto and Massified)

It's Eduardo speaking. About your other question, yes, we are seeing the market raising their prices, in order to make them more adequate to the risk we are facing since the last quarter of 2015. At the beginning of the year, some insurers were more competitive, they lowered their prices, perhaps influenced by the lower production, and macro factors explain this. But now I think they are more aware of the risk increase, which, I repeat, began at the end of last year. Now they have more appropriate prices. In a certain way, since we have a price strategy, this movement made us more stable. On the first half of this year we had already reached a price level which was more suited to the risk and, in a certain way, we faced a stronger production drop compared to the market. We now realize that, not just because of the price increases which we intensified since the end of this quarter, but the trend continues in the commencing quarter. Yes, we have increased our prices, and we continue to increase our prices, also encouraged by the price increases by the market. So, much of the uptick that you pointed to, in relation to the previous quarter, has exactly to do with your observation, the more rational market allowed us, who already had higher prices, approach the price of the competition, not because of our price cut, but rather because of the prices hikes by the industry. And it also encouraged us to intensify our pace of price increases, and that's why we are seeing better average premiums, from the end of the 3rd quarter, and now in this quarter, which is still in the beginning.

Thiago Kapulskis (BTG Pactual)

Perfect, it's very clear. Thank you for the answers.

Operator

Next question from: Gabriel Gusan – Bradesco

Gabriel Gusan (Bradesco)

Hi, good morning everyone. My first question is about the membership base, I wanted to understand a little better, in relation to new members, which has compensated the churn, which I imagine is still running at a high level, if there is a concentration in a specific region or if it's been more spread. And my second question is still in health, but it's more strategic. Is there a target for profitability or loss ratio that, when reached, it would start to make sense to be more competitive in price, i.e. to have lower price increases in the next readjustment cycles. Is there such a level? Do you have a profitability payout or a loss ratio level, or even some other level that makes sense? Thank you.

Maurício Lopes (Vice President of Health and Dental)

Gabriel, this is Mauricio. Thank you for the question, good morning. Regarding sales, I think we have been able to show dynamism in all portfolios, in the affinity segment, SME and corporate. So, we have been able to perform well in all three. In the regions where we have tradition, we continue to perform very well, the commercial area was completely structured and remains structured in these regions. We have increased our approach and training for a huge set of brokers in the regions where we already used to work, but in new regions we are also seeing growth. And then, from North to South, from East to West, we have several clusters that were created in the last two, three years, with accreditation and structures that we are able to capture new lives. So, keep doing what you were doing, add new regions, and the compound give us an interesting mix in the three products, actually, the four products, because ASO has also grown in sales, so we have an interesting mix with the four products and it distributes the production a little around the country. So I cannot specify a region as the differential of the sales increase. It's a very structured work done by our commercial area, that is spreading the production around the whole country, and the more dynamism we have with a growing providers' network and the maintenance of the current one, the more we will give the the commercial area the adequate conditions to capture clients in these new regions. Regarding the loss ratio, we don't have any target, what we have is a thesis, which we believe is very strong. The thesis is, if we can effectively put the health management tools to work, and we are managing to do it, controlling costs, being the best in class in claims management, we will continue to have a good value proposition. The good value proposition can obviously lead to a smaller loss ratio, but we are still in the process. So we are testing the initiatives, and they are proving to be effective, they are showing improvement of results year after year, but they are still under development. We don't know where they will finish, but they are running and growing. I think this is the most important point for us: the initiatives are still under development and will continue to be accelerated.

Gabriel Gusan (Bradesco)

Perfect, thank you.

Operator

Our next question: Gustavo Schroden – Bank Of América Merrill Lynch

Gustavo Schroden (Bank Of América Merrill Lynch)

Good morning everyone, thank you for the opportunity. I will make two questions; the first one, sorry to insist on this matter of the number of health members. It seems to me that when we look at the numbers, there was a drop in the number of corporate and affinity and, apparently, we had

a migration of these members to ASO plans. First, I would like you to confirm if this perception of the migration from corporate to ASO is correct. And second, if there is a difference in profitability, because I think the issue here is different: corporate plans represent premiums and ASO plans are not charged as premiums. So I'd like to know if there is a difference in profitability when you lose corporate members to ASO, and then I'll ask my second question.

Maurício Lopes (Vice President of Health and Dental)

Gustavo, this is Mauricio again, thank you for your question. In fact, we had a very large migration during the quarter, which had an impact on premiums, premium growth was proportionally higher in the previous quarter so, although quite strong, it was slightly lower this quarter due to this migration. So, your first answer is yes, your perception proves to be correct. In terms of profitability, remember that the large contracts that migrate to ASO are contracts which already have a lock up for a higher loss ratio, they are contracts that already work maybe with a lower profitability than small size contracts. So the migration to ASO is also profitable to us, it's a good operation, it's profitable, it pays well but, more than that, you have to look at the ASO operation considering the positive effect that it generates on the providers' network. A strong ASO operation enables us to have sufficient volume to negotiate with the providers' network around the country, which benefits the prepayment operation, so we see the two products as tuned, well-balanced, and we have no problem with the migration of a large size contract to pre or post. The two types of contracts are profitable and, more than that, make the operation as a whole profitable.

Gustavo Schroden (Bank Of América Merrill Lynch)

It's great, it's clear. For my second question I'll change a little to investment income matters. If we consider the SELIC rate remained stable last year, the financial result has grown very much based on the AUM that you've had. So, if we look ahead to the decrease in the SELIC rate, which I think is the expectation of the majority, what have you been doing to try to minimize this impact? Because in a scenario with a stable Selic from 3Q15 until now, we already saw your financial result grow only with AUM. Assuming the Selic drop, I imagine that your financial result will suffer a little. So I'd like to understand what strategy you have to try to minimize this impact. Change allocation? Are you already doing it? If you could elaborate on that I would appreciate it. Thank you.

Arthur Farme (Vice President of Control and Investor Relations)

Gustavo, good morning, it's Arthur. I think some of the measures are already starting to appear. You heard Eduardo comment on the auto price

adjustment matter. The industry is more rational in pricing and SulAmérica is already positioned in this direction, anticipating the interest rate environment that we are going to experience and which had already been completed this quarter, we saw it. Another issue is the control of administrative expenses that also improved our efficiency. It's a factor within the reach of the company, to improve its costs, we have invested in increasing the productivity of the company in several aspects, and this anticipates this scenario of an interest rate drop. I think that at the beginning of our conversation I highlighted the fact that our asset allocation responds to a whole strategy of protection of liabilities, ALM, and so forth, which shall move together with this new environment of changing interest rate. To talk a little about investment strategy, I'll ask to Marcelo Mello, the head of our asset management, to complement it.

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

Gustavo, it's Marcelo Mello speaking, good morning. We have room to take some positions, in the investment portfolio, in assets that can contribute to a satisfactory nominal result. As you can see here, we have a very large Floating Interest Rate allocation, respecting the ALM, as Arthur commented, which can be reduced, so we can take advantage of market opportunities in the private credit market, which seem to arise now in this last quarter and at the beginning of next year, as well as, depending on our macro scenario, increase the exposure to fixed or inflation-indexed securities. So I think that, in a certain way, on the investment side, we can seek compensation through these allocations that talked about. I don't see much space here, considering our scenario, to increase the equity portfolio, which is already relatively small.

Gustavo Schroden (Bank Of América Merrill Lynch)

It's great, it's clear. Only one last question about investment income. Do you have any simulation, for example, for each 100 bps drop on the Selic rate, what would be the impact in the investment income, do you have any study on that, something to share with us?

Arthur Farme (Vice President of Control and Investor Relations)

Well, Gustavo, it's Arthur. No. For sure we have studies, the Company's plan takes in consideration this whole movement, but there are many variables at the stake, including our corporate debt, so the investment income is not only related to asset allocation. Although it has a leverage, considered healthy, we will maintain that leverage, and so may also benefit from some interest rate drop, plus a number of other factors related to contingencies, collection methods and so on, all of which affect the line as a whole.

Gustavo Schroden (Bank Of América Merrill Lynch)

Good, that's great, thank you.

Operator

Our next question: Domingos Falavina – J.P. Morgan

Domingos Falavina (J.P. Morgan)

Good morning everyone, thank you for the opportunity. We noticed a substantial improvement in the individual portfolio. I think the loss ratio improved 500 bps or a little bit more year over year. What was the key factor in this improvement? Was it the price adjustment that ANS passed – which, in theory, was the same of last year, so it should not have made much of a difference – or was it due to a reduction in frequency? Could you explain a little better why this ratio dropped so shortly? Thank you.

Maurício Lopes (Vice President of Health and Dental)

Hi, Domingos, it's Maurício, thanks for your question. Our individual portfolio is always our first option to test any initiative in claims management and health promotion. In other words, it's the portfolio that has the actions in progress for longer, and we continue making great efforts to improve in this direction. Obviously, you can see the effect of the price adjustment authorized by ANS in 2Q16, it was put in effect in May, maturing in the second half of the year. But we need to take into account two things: first, this portfolio is becoming smaller and smaller. It's shrinking pretty fast. The churn in 2016 is the highest of our history. We are already above 7.5% of churn in this portfolio. As it shrinks, because of the churn or everything else, then we should expect this portfolio to show an increasingly volatile result, so the quarter view may represent less and less what it really mean to us. There will be a quarter that it will drop sharply and another one that will go up sharply, but it doesn't represent the portfolio as a whole. And in a portfolio that is going to hit a hundred and a few thousand lives, now we have less than 180 thousand lives and it's been going down by 7.5%, this behavior must be accentuated. So my suggestion is not to look the individual loss ratio so punctually, since in one quarter we'll look for a reason to the sharp growth and in the next one the reason for the sharp drop and this would not reflect the real trend of a portfolio that has a high churn.

Domingos Falavina (J.P. Morgan)

I get it. So let me ask another question. The churn in this portfolio was very high. Is this churn selective or not? In other words, is the average loss ratio of people leaving higher or lower than the average portfolio?

Maurício Lopes (Vice President of Health and Dental)

The individual portfolio by nature has a set of older contracts, therefore it is a more treated brand. Our individual portfolio has a very strong characteristic because there is a large part of it that is not regulated; they are contracts from before 1998 and 1999. Who are we losing in this portfolio? We lose a number of people who die naturally as the portfolio has a high average age, but there are many people who find a cheaper solution in the market, a solution that better meets their needs, in terms of new plans with another profile, another format, or the person just found a job or became an entrepreneur or affiliated to a class entity. So we cannot think that what we lose in the individual portfolio is so different than what we lose in other portfolios, the profile is quite the same, the only difference is that the individual is better treated because it's been with us longer than the others. So the profile of loss, in terms of gender, age, geography, is very similar to the other portfolios that we have.

Domingos Falavina (J.P. Morgan)

Perfect. Thank you.

Operador

Our next question: Marcelo Cintra – Goldman Sachs

Marcelo Cintra (Goldman Sachs)

Good morning everyone. Thank you for the question. I have two; the first is a follow-up to a previous' question. In relation to the geographical expansion, I just wanted to understand better how are you positioning yourselves in the Rio de Janeiro state, since we have often seen news about possible financial problems at Unimed-Rio and, due to that, you could have a great gain of lives there. Is SulAmérica having some different positioning in terms of new products, maybe to have a better fit or even to attack this portfolio? And if can we expect maybe a positive surprise in terms of numbers of lives coming from Unimed-Rio to SulAmérica next year. I come back for my second question.

Matias Ávila (Commercial Vice President)

Marcelo, it's Matias speaking. There is only one commercial strategy and it applies to all regions. As Maurício said, we have paved the way to operate. It has been the same training, formation and qualification strategy of our distribution. There is no differentiation by region and, because of this, we have been reaping the fruits, growing at the same pace in all regions of Brazil.

Gabriel Portella (CEO)

This is Gabriel, if I may complement. This phenomenon that is happening in Rio has already been happening all over Brazil. SulAmérica has shown not only efficiency, but also a good product and good sales, so this market consolidation, as I will name, has been happening in Brazil, we've been capturing a positive average churn, as we see with the new sales level in our portfolio. In Rio it could become stronger, obviously, but I don't think this is good for the market. We shouldn't celebrate or encourage that but it is part of the competitive process. So we are paying attention to that, and we have received some migrations, we have been very selective in this process, as we are in other regions, in other situations like this. But this is a good moment, the current moment of SulAmérica's health and dental has been good and we've been able to capture lives not only in Rio de Janeiro, but also in other regions. In Rio de Janeiro we do have a higher growth expectation based on the investments we have made to consolidate our position there.

Marcelo Cintra (Goldman Sachs)

Perfect. Thank you very much. My second question is related to expenses. When we look at the quarter, you had again an improvement in the administrative expenses ratio; I think it was around 8.1%. I just want to understand how do you see this level from now on? How sustainable is this level of administrative expenses? Is there still room for improvement, since the progress was both sequential and year over year? Thanks.

Arthur Farme (Vice President of Control and Investor Relations)

Marcelo, it's Arthur. I'm going to start by the end. Yes, there is room to improve this ratio. It is hard to give you a figure now, but clearly there is room to improve. We have already seen the results of the investments that we have made in training and qualification of the Company's infrastructure; we've seen the ratio of revenues per headcount much higher in recent years. We anticipate we will continue reaping benefits of these investments, but the comparison you were making in relation to the 3Q15, if you notice by looking at the Financial Statements, you will see that part of the improvement is due to the declaration of the IoC in 2015, a higher payment of PIS and Cofins taxes of the subsidiaries and these taxes are considered in the administrative expenses line. We have also been able to use our bargaining power, since we are a large Company, in our negotiation with suppliers and we are doing this along with the necessary investments in qualification, training and so forth, not only for the providers' network, as Matias said, but, as Gabriel also mentioned, for the entire team of the Company.

Gabriel Portella (CEO)

Marcelo, I will add on what Arthur said. We had a very strong collective labor agreement in January and I remember that when we commented the 1Q16 results, we saw an increase in these expenses and this agreement has been diluted with all other expenses that Arthur mentioned. So part of this reduction is the amortization of this high administrative expense from the agreement we had in the first quarter.

Marcelo Cintra (Goldman Sachs)

That's great, perfect. Thank you and congratulations on your results.

Operador

Our next question: Eduardo Nishio – Brasil Plural

Eduardo Nishio (Brasil Plural)

Good morning, thank you for the opportunity. I have two questions, both related to health. The first is about the market and then about your initiatives. In relation to the market, we see a strong consolidation that has been increasing recently. Could you comment a bit more on how you see this consolidation trend in the next one or two years? When do you think there will be a relief for the market, not only because of the crisis, so when do you expect the market will hit the bottom? And since health is very political, do you anticipate any action from the Government in terms of improving the situation of insurers and operators in the medium and short term? This is my first question. The second would be more to Maurício, it is about the long-term health fundamentals. If you could breakdown the main initiatives, open up a little bit the tools you're working with, if you could list them and, more or less, explain in which there is more room to capture gains, in tool "a", "b" or "c". If you could give some color on that, it would be great. Thank you.

Gabriel Portella (CEO)

Nishio, I'm dying to answer that, but I'll let Maurício speak. It's Gabriel speaking, how are you? He is not content to let me talk, so I will let him speak. Okay?

Maurício Lopes (Vice President of Health and Dental)

Hi, Nishio, thank you for the question. This consolidation movement we've seen has accelerated fairly. There are two reasons for that: the first one has to do with the fact that a large share of the market, given the legal requirements, doesn't have their entire solvency structures and complete provisions, and they have a period of experimentation to adjust to that. In a more favorable market environment, you are able to comply with those provision complements or capital requirements in a simpler way. Since the country has been facing this period of turbulence in recent years, the sector

was or still is quite pressured, so the space to reach the necessary capital requirements has become quite small for some players. And I don't know if you read an article that was published one or two weeks ago showing that there are almost 65-70 operators (small, medium and large ones) running with negative shareholders' equity, and this leads to market consolidation. So if on the one hand you have the solvency and capital issue pressuring the sector and this doesn't affect insurers which were already capitalized, with their capital requirements fulfilled or about to be fulfilled, this falls on top of non-insurers, cooperatives, large group medicine companies and so forth. The second part of the answer is more related to scale and specialization. The health market is complex and it's hard for operators to have the structure to specialize themselves when they have a low volume of lives; look at the example of SulAmérica itself. Today we do the previous authorization of procedures with expert doctors in almost 100% of the cases. In other words, the doctor who authorizes an oncology procedure is an oncologist, and so on. So this specialization is translated into better services to our customers because they know that their case has been analyzed by a specialist, it provides a perception of better quality value for the provider because the requesting doctor can talk with someone who has the same technical knowledge and it also allow for better claims management to the operator and the final client because we are able to discuss in an equal base with the provider about which is the most adequate therapeutic plan applied to each situation. A small insurance operator cannot do that because the cost of using technology and workforce is high and requires scale, so the pressure of capital and the need of scale to be able to deliver good quality service to customers lead to market consolidation. Regarding the tools, which is your second question, we have a huge set of initiatives which we began to put into action a long time ago. In terms of health management, the whole strategy for wellness and chronic and complex cases is in place. We rolled out the wellness and health coach initiatives to the entire portfolio and we are still working on the chronic and complex ones; network management tools are moving full speed ahead, qualification, ranking, second opinion, direct sales, procedure packaging and all the things we've been mentioning on the other calls are working in full swing. And this whole set of tools gives us a better perception of value and claim control, but, more importantly, it gives us a better perception of health management. The next frontier to us is to become effective health managers and I think this will be the main driver to market consolidation in the medium to long-term. This is what we believe in and what we've been doing.

Eduardo Nishio (Brasil Plural)

Thank you for the explanation. I've seen this article , it's very interesting. I believe there is a time lag for companies in judicial settlement or with negative shareholders' equity to effectively recover or eventually cease

operations. Do you have a timeframe you can share with us for when we will stop seeing cases such as these in the market?

Gabriel Portella (CEO)

I think this is a question for ANS, not us. But, anyway, as I said in a previous answer, this market needs a large number of healthy operators, an operator in trouble isn't good for the market, it's not good for the image of the market and this market still has a lot to grow, as less than 25% of the population is covered by private health insurance. Brazil is huge and there is room for all models, so this isn't good for the market. However, capitalization differs among operators, you have management issues, scale issues, all kinds of problems and I think each operator has to take care of its own issues. We don't have a timeframe for that, but we believe the market offers room for all models, there is a lot of room for players doing their homework and we are one of these players.

Eduardo Nishio (Brasil Plural)

In the health segment, do you think 2017 will be better for the business than 2016?

Gabriel Portella (CEO)

It will be better in terms of development. The health segment has big challenges: the balance of medical inflation and increased frequency with new technologies. I believe there is a lot of room for growth and with the positive signs we are seeing for the country in the next years, without a doubt, there is room for well positioned players to grow. We mustn't forget the dental segment, which has even more room to grow, an even higher synergy with the growth of the health market itself while the market is developing. You also have the unemployment effect, which is still high, but all forecasts say we should begin to see a decrease in unemployment in the second quarter and this also boots activity. So, the recovery of the economic activity, lower unemployment or higher employment levels create a more favorable scenario, and, since we just faced perhaps one of the worst crisis in the past years in such a healthy manner, our view is very positive in this sense.

Eduardo Nishio (Brasil Plural)

OK, thank you.

Operator

Next question comes from: Rafael Frade – Bradesco

Rafael Frade (Bradesco)

Good morning, everyone. I have two questions. I'd like to hear a bit about Maurício's opinion on the recent discussions ANS has been having regarding a stricter regulation for the sale of health plans for individual micro entrepreneurs (MEI). I would like to understand how you see this regulation coming into practice. What could happen to this segment? Would the trend be a migration to another segment, like affinity plans, for example, or would this market cease to exist? The second question is related to your life segment. You've been saying in the last cycles that you intend to diversify your business, but as the Health segment has been performing pretty well, it has been gaining share in the business as a whole, while the life segment has been showing lower profitability levels than the group's average. I would like to understand the importance of this segment in your product portfolio and if it's something you can rethink going forward.

Maurício Lopes (Vice President of Health and Dental)

All right, Rafael, this is Maurício. Good morning, thank you for the question. This discussion regarding MEI and CEI has been going on for quite a while, this is not the first normative draft the market has seen, we've been working internally for a while, self-regulating in most cases. I'll give SulAmérica's example, which is good in terms of telling you what we did. Since March/April, 2015 we've been asking these small and medium businesses (MEI, CEI and DECA) a declaration of authenticity. This means we've already been more careful in accepting these businesses for one and half year now, and the reason behind that wasn't regulation, it was an underwriting decision, as we believed it was important to differentiate a fully constituted company from one which was only incorporated to buy a health insurance plan. Furthermore, since May, 2016, we also have a rule saying the company must have been incorporated for at least six months. And we stopped accepting the DECA type of company; we now only work with MEI and CEI businesses and we already didn't have Eireli companies and, as I said, this has been the case for at least six months. The perception we have, in terms of who benefits and who doesn't from this changes, is that the demand for health insurance plans is inelastic, it doesn't depend on the type of contract. We don't control it. As you close one door, another one opens, the customer seeks another type of contract, he finds a solution to enter the market, it's very inelastic. The main elasticity driver is income, as you are aware and as we always comment. So, if the regulator decides to impose the companies a minimum six-month period of existence, it shouldn't impact market growth. I believe the ultimate growth driver is income and the market will end up finding a solution. In our particular case, I believe we have very interesting advantages. The first one is that we quickly anticipated this movement, more than one and half year ago, and this translates into a higher quality

underwriting, i.e. we always seek quality rather than quantity, and we've been trying to do that in a robust way. Another one is that the changes made in the portfolio in the past three to four years now give us the possibility to work in any large location, with almost all types of products, expect individual plans. So, if I believe this to be true, that the demand is inelastic in relation to the type of plan, we're well positioned to work with affinity, corporate, ASO and SME plans, so I don't see this regulation as a risk for us in particular.

Rafael Frade (Bradesco)

Perfect, Maurício.

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

Rafael, this is Marcelo Mello to talk about the life segment. You must be monitoring the repositioning process in the segment, as we are not renewing portfolios with low profitability levels and launching new, more profitable products. We already see results as we showed a significant improvement in the loss ratio when you compare the 9M16 with the same period of 2015. Even in premiums, considering the non-renewal of some large policies last year, we've been able to offset this negative impact, mainly with the growth in individual policies. As you can see in the earnings release, this portfolio increased its share from 17% to 23% in the segment. So I believe we are in the right path, looking at more profitable products, looking at segments which will bring more satisfactory results. We just launched our travel insurance, fully online, obviously respecting the partnership with the broker channel, and we think it has significant room to grow in the next quarters. When you look at the loss ratio of the segment, in comparison to some other portfolios, we see it must be a focus because its loss ratio is one of the lowest we have. So, we are pretty focused, maybe Gabriel should comment a bit on this matter, about how the company is committed to the Life segment, but my understanding is that the strategy is moving in the right direction to grow premiums and evolve more and more in terms of loss ratio and gross margin.

Rafael Frade (Bradesco)

Marcelo, if I may, just so I can better understand the profitability of the product. Because, without a doubt, when we look at the loss ratio, it's indeed lower than other products, but when we look at the ITR, where you show the P&L of each business unit, we see a very low bottom line profitability in the life segment. I don't know if there is some sort of allocation that distorts a bit this analysis, if you could shed some light on that. Is there something below the loss ratio, below the gross margin, that could be impacting the life segment?

Arthur Farme (Vice President of Control and Investor Relations)

Rafael, this is Arthur. I think that when you look at this note, there is a distortion related to administrative expenses. You are looking at Life and Private Pension figures and Private Pension didn't perform so well, we had lower contributions and portability volumes, and I believe this was the case for the industry as a whole. But we agree with the highlight you initially made about the life segment: we also believe in a favorable structure for this portfolio.

Rafael Frade (Bradesco)

Understood, perfect. Thank you very much.