

3Q17 Conference Call Transcript – Q&A

Operator

Ladies and gentlemen, we will now begin our Q&A session. Our first question comes from Mr. Gustavo Lobo – J.P. Morgan.

Gustavo Lobo (J.P. Morgan)

Good morning, everyone. I have two questions, the first one is about the group health portfolio. We see this loss ratio improvement of 120 BPS YoY in the third quarter and we know that the readjustments are concentrated in the middle of the year. The question is: what are you seeing in terms of loss ratio improvement, not improvement, but trend for group health loss ratio in the next three quarters? Is it possible to accelerate this improvement in order to compensate the lower SELIC rate or this might be the delivery for the next quarters? After that, I have a question related to auto.

Maurício Lopes (Vice President of Health and Dental)

Good Morning, Gustavo, this is Maurício speaking. Thanks for the question. The portfolio is well priced. I think the point is: we don't give future guidance or estimates, but our perception is that the readjustments which were established in the last quarters reflect fairly well what we imagine the portfolios must have to be stable in the future. So, we are unconcerned about what's in the portfolio. With no forecasts for the future, obviously.

Gustavo Lobo (J.P. Morgan)

Ok, thank you. Regarding auto, we're seeing an improvement in the operating results of the portfolio, a strong one, but at the expense of a big drop of the insured fleet. The question is: when will we see a turning point in terms of fleet? From an operational standpoint it's clear, looks like it's already happened, but when will the fleet stop falling and resume its growth trend?

Eduardo Dal Ri (Vice President of Auto and Massified)

Gustavo, thanks for the question. This is Eduardo speaking. We hope soon. It depends on the risk, how much we have to increase our own prices or how strict our risk selection is, and it depends on the market as well, how it will adapt, not only to the worse risk we have seen in recent times in Brazil, but also to the lower SELIC rate for the future, which will put pressure on gross margins, not only ours, but the market's. So, this question is strongly related to other variables. We have done our job preparing ourselves to face these variables I just mentioned to you, but it will also depend on the market's answer so we can resume growth. A figure that you've already mentioned, and you're right, is that the operational results are being mitigated through several actions we've been carrying out.

Gustavo Lobo (J.P. Morgan)

Perfect, thank you.

Operador

Our next question comes from Mr. Henrique Navarro – Santander.

Henrique Navarro (Santander)

Good morning, everyone. Congrats on the results. My question is on your investment portfolio, the equities share has been historically small, which even echoes with others portfolios from

competitors. My question is: with the SELIC rate decrease, do you have any plans to increase this share, changing the mix a bit? We have been seeing the SELIC rate falling compared to the last year, but is there any plan to change a bit the mix of investments in your portfolio?

Ricardo Bottas (Vice President of Control and Investor Relations)

Navarro, this is Bottas speaking. I'm going to start answering your question and then I'll pass to Mello who will complement. It's important to highlight one of the Company's strategies, its ALM policy as an important principle for protection of our indexed liabilities and this is a component which is always relevant in our criteria and in our allocation strategy. I just wanted to highlight that point, a point that I know that you are aware of, but it's always good to emphasize it. And now I hand the floor over to Mello so he can talk about our strategy in more details.

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

Navarro, taking into account Bottas' assumption, respecting all ALMs of SulAmérica's legal entities, we have room to act on other investment options, for an example, looking a bit more to our private credit portfolio, if we see interesting issuances at low market risk with interesting yields. We can look a little more, if there is a premium recovery, to inflation-linked securities and we can also look to fixed-rate securities. And, obviously, if the decision is to increase our equity position, this position will consume our risk budget. So, whenever we decide some sort of allocation, we also consider how that allocation will impact our risk budget. We have room to assume more market and credit risks, even respecting, actually mainly respecting, the ALM of the group's legal entities.

Henrique Navarro (Santander)

Ok, perfect. If you allow me another question, in the third quarter we saw for the first time, an increase, albeit small, in the number of members of health insurance, this behavior was basically flat in the last four quarters, then it increased 1%, 3% in the year, while Brazil is still on recovery mode. My question is more directed to you who are in the battlefield, watching more closely the economy recover: is this improvement you saw in membership, even considering the difficult scenario in Brazil, related to an economic improvement, a macro improvement, from which you are starting to benefit? Has there been any change on your side, marketing or something else, which contributed to this increase in membership? You don't provide guidance, we know that, but just if we could elaborate on how this membership number moves in the next quarters. Thank you.

Maurício Lopes (Vice President of Health and Dental)

Navarro, this is Maurício. Thanks for your question. I will break it in three components, ok? The first one, which is the question about net adds in contracts, we still have negative net adds in the industry as whole, you can see this in the agency numbers, but it's getting less negative, we started a way better macro cycle that I think will bring some relief to the portfolio, a breather. It is still negative, but it's starting to reverse, should reverse in the next quarters, as I and the market as a whole imagine. The second component is sales and the strategy is to get a slightly more rigid subscription, more focused on the contracts that we have appetite for, notably in the SME portfolio which grew its membership by 4% in the last cycle, as well as in some regions that where we didn't work in the past, I think this has been showing good results. So, despite the negative movement of the whole market, the sales cycle has been positive and with a fairly successful underwriting. We are not signing loss-making contracts, I think this is the most important point. The third component is how we organized ourselves to work on the retention front and today we are fully structured, all retention projects are totally rolled out, there is nothing yet to be developed, we are seeing their maturity, they are showing to be quite assertive in all the portfolios that we have been working on. So, the three components together allow us

to have a really different membership dynamics compared to the rest of the market. And I think these are pieces that complement each other considering the process as a whole. As the economy is improving, we are moving to a better position and the movement of members is becoming less negative, or even positive, and this should bring relief to the portfolio. When will it happen? Nobody knows. But there are really good macro estimates for the country now. Regarding dental, it is always worth highlighting the continued growth of the portfolio over the past years. This portfolio, at the time of the IPO, had eighty thousand lives and today we're talking about practically nine hundred thousand lives. So the portfolio grew eleven-fold in a space of ten, seven years of work. I think this is a very favorable aspect to notice on our side as well.

Henrique Navarro (Santander)

Perfect, thank you very much.

"This document is a transcription with text adaptations made in order to make reading and understanding of the speeches in it easier. The text depends on the quality of the audio and on the speakers' discursive clarity, therefore it counts with adaptations that increase the legibility and coherence without affecting the speakers' discursive ideals.

Declarations about events or future results are based on certain premises and analyses that are completed by SulAmérica ("Company"), representing exclusively the expectations of management relative to the future of the business and the continued access to resources to finance the business plan of the Company. However, the real results of the Company and its controlled entities depend, substantially, on changes in market conditions, government regulation, competitive pressures, sector and Brazilian economic performance, among other factors, may differ significantly or implicitly from those declarations.

This transcript and its contents are the property of the Company and, therefore, should not be disseminated or reproduced partially or entirely without the consent of SulAmérica."