

**Guilherme Assis, Raymond James:**

Hi. Good afternoon, everyone. So, I have actually two questions. My first question would be regarding the SME segment, which has been one of the segments that you guys have been growing the most. I would like to understand the dynamics here in terms of the growth and the loss ratios that you had in this specific segment. And whether we are going to see any kind of adjustment in terms of growth in the segment related to the underwriting of additional risks in this segment. So, that is my first question.

My second question would be regarding the decline in selling expenses that you had, pretty much in all the group insurance business that you had. I would like to understand what is going on, if this is something that you expect to keep these selling expenses at these levels that you presented during the quarter. Those are my questions. Thank you.

**Thomaz Cabral de Menezes:**

Guilherme, thank you for your question. In the first one, related to the SME and the middle market segment, I think the results that we are seeing are basically reflected on the right strategy that the Company has taken in order to take advantage with the overall sort of economical growth of this segment. As we all know, with the stabilization of the economy, more formalization of jobs, a bigger perception of the business entrepreneurial that offering of benefits and insurance to its employees is something that not only helps to attract but also to retain talents. I think we have benefited from the right strategy to focus not only on the commercial side, working with brokers and with partnerships and distributors, but also in the product design and underwriting criteria, which has led us to grow, as you mentioned, in the Health PME more than 30%, selling more than 25% on dental and increasing more than 300,000 lives in the overall health.

I think we also launched a product for Life related to the segment, PME, and Carlos Alberto Trindade also looked at opportunities within our P&C segment for products that will take advantage of this growth.

So, Brazil is growing, and growing in the middle class, it is growing in SMEs. So, there are huge opportunities there with more formal jobs.

**Guilherme Assis:**

Thomaz, if I may just add to the question, I think my specific question is, I know you have been growing quite consistently in that segment, but clearly the loss ratio seen was greater. I am not sure, from your numbers, I can tell if there is any relation to a growth in SME and the loss ratio. But my question is rather like, you have to give up part of this growth, particularly in SME, in order to improve your loss ratio in the near future. Should we expect any deceleration from that, in that segment or in the group segment as a whole, as a part of the adjustment that the Company will have to do?

**Thomaz Cabral de Menezes:**

Guilherme, to the contrary: I think the loss ratio on this segment is better than the overall portfolio. So, although the loss ratio is stable, I think the faster and the stronger we grow the segment will help us overall on our loss ratio.

**Guilherme Assis:**

OK. Thank you. And regarding the acquisition cost?

**Thomaz Cabral de Menezes:**

There is a difference in the acquisition cost, depending to what you compare: a bit higher than that you differ this cost. So the average commission could be a bit higher to large groups, but overall the bottom line is better on the segment, and that is why we have a strong focus and actually doing quite well in this segment, not only in SME but also on dental, which also has a better loss ratio.

If we move on to your second point, I think that, again, this is part of a strategy that we have set within our distributor partners and our distribution cost, our cost of acquisition, we have implemented a series of initiatives not only to increase the number of partners and the number of brokers and partnerships that we have within the Company, but also we have designed a model that we remunerate the distribution based on growth and based on profitability. So, I think the result of this has been quite positive, where we have been able to reduce our distribution cost to be more aligned, perhaps, to the market, but totally focused on results.

We do not expect any further movement on this side, but I think this has been a good result from a strategy that we have implemented in the last couple of quarters.

**Guilherme Assis:**

OK. Thank you.

**Iago Whately, Fator:**

Hi. Good afternoon. I understand that one of the reasons behind the high MLR in 2012 was the incorrect pricing of Health insurance policies in the beginning of the old cycle, mostly in the 3Q11. So, besides the price readjustments of individual plans, which were lower than medical inflation, why contracts were mispriced? Was that part of the commercial strategy, or sales to price contracts in new segments?

**Thomaz Cabral de Menezes:**

Iago, I will take a first look at this, and then I will ask Gabriel to add on. I do not think the expression "wrong pricing" is appropriate, because on the individual, as you know, that is dictated and decided by the local agency. With respect to the SMEs or within the group lives, we price according to the contract that we have with individual companies up to a certain loss ratio or result, and at that time. And looking forward, or course, it has actually performed a bit different than we expected for a couple of reasons. Not only frequency, and we have been able to keep our medical cost under inflation and under, but we have seen a level of frequency and utilization higher than expected.

So, it is important to mention that we are at the end of a readjustment cycle, so we are in the last months of a 12-month readjustment cycle, which from this month on we expect to implement price adjustments in all of our portfolios and our new products.

Gabriel, I do not know if you want to add any other comments.

**Gabriel Portella:**

What was the second question?

**Thomaz Cabral de Menezes:**

It was basically related to the pricing of our products in Health.

**Gabriel Portella:**

There is no commercial agreement. This is a profitability reason, but sometimes you can forecast some things that happen in real life, as, for example, doctor's fee adjustment and the high level of the market; this impacts our portfolio.

But remember, all the group contracts that we have are based on breakeven contracts. Then, we have two types of adjustments in those contracts. The first one, when you look back you see the breakeven that we have combined with Health. And the second one is the forecast for the next 12 months for the medical inflation.

For this particular year, we are putting more than two digits, around 14% of medical inflation for the next 12 months, adding with the breakeven contracts that we have with each policy.

**Iago Whately:**

OK. Thank you, Gabriel. Should we expect any improvement in MLR in the last quarter of 2012, or it will only be seen in 2013?

**Gabriel Portella:**

There is a big influence of seasonality in the last quarter, always, according to our methodology. The influence of seasonality is very strong, and always in the last quarter of the year, thank God, we have Christmas and other things. People go to parties and not to hospitals and doctor's offices. Then we expect a recovery of the loss ratio in the 2H as a whole.

**Iago Whately:**

OK. Thank you.

**Roberto Savaris, Barclays:**

Hi. Good afternoon, gentlemen. Could you, please, comment on the performance of the group addition plans, since it was responsible for the membership growth above industry? And if this segment is associated with the increase in premiums or not. OK. Thank you.

**Thomaz Cabral de Menezes:**

Just to make sure that we understand the question: you want to know the participation of the affinity or the group on Health?

**Gabriel Portella:**

I guess he asked about the performance...

**Roberto Savaris:**

Yes, affinity.

**Thomaz Cabral de Menezes:**

Both the affinity segment and the affinity policy. That pretty much follows the overall performance of the group, Savaris, and are nothing much different both in terms of new sales and also in terms of MLR, the additional group health and also those adhesion contracts have performed the same way.

You can have slight differences in loss ratios for certain policies, which are compensated by acquisition costs, but then we have a comparable gross margin at the end of the day.

**Roberto Savaris:**

OK. Thank you.

**Operator:**

This concludes our question and answer session. I would like to turn the conference back over to Mr. Menezes for any closing remarks.

**Thomaz Cabral de Menezes:**

OK. I want to thank you for the participation on the call and for those that did ask questions. Of course, this was a challenging quarter and we look forward for a better 2H12. As we commented here, mainly for Health, we are at the end of a price-increase cycle and our expectation is that for the next semester, as it has been in the past, not only as a function of the price adjustment but also new sales, that we tend to have a better semester.

I wanted to highlight that we continue to be firm on our strategy. We have demonstrated, despite the competition, strong top line growth, basically in all lines. We grew premiums in 14%, we are growing high double digits on health, we are growing on lives, and we have a better expectation for the 2H, specifically related to auto, where we have definitely in the 1H a focus on bottom line and profitability, where we think the market will come to an overall movement that will benefit our strategy.

So, we continue to be absolutely confident with our strategy, with the opportunities that we have within the market and within the lines of businesses that SulAmérica is strong.

Thank you for the participation in the call.

**Operator:**

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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