

Felipe Salomão, Flow Corretora:

Hi, guys. Hello to everyone. Thanks for the opportunity. I just have one question regarding the tax rate you paid this quarter. The effective tax ratio this quarter came in at 36% while the historical average is of, let us say, close to 40%.

I would like to know the reason for this decrease considering the Company does not pay interest on equity, and if we can expect a lower tax ratio for the coming quarters or if the tax ratio should come back to the 40% level. Thank you.

Arthur Farne d'Amoed Neto:

Well, thank you for your question. I guess we have some difficulties in hearing your question, but you should expect full year impacted tax rate slightly below 40, the nominal 40, which is what we are exposed to in most of our legal entities. In this quarter itself this is due to some issues related to the consolidated subsidiaries. So, as you pointed out we have not paid so far interest on capital and this is not what would explain such a decree.

Felipe Salomão:

OK. Thank you very much. And just another quick question: the return on equity of the quarter was close to 14%, that depends on the way you calculate it, and I would like to ask which value the Company believes to be kind of a sustainable ROE for the long run, especially having in mind the end of the current restructuring process that you are doing. Thank you.

Arthur Farne d'Amoed Neto:

I guess the figures we have seen for the 9 months of 2010 would maybe better reflect what we should expect going forward. You have to also take in account the fact that we maintain some excess cash so the return on equity is also partially affected by this impact.

Felipe Salomão:

OK. Thank you very much.

Henrique Caldeira, Barclays Capital:

Hello, good morning everyone. Can you just comment more about this trade-off on growth and profitability? It seems that the Company already seems to take a few initiatives to recover margins going forward, we saw a flat insured fleet this quarter. Is this the type of growth that we would expect going forward increasing, you know, 10%, 11% year over year in order to gain some margins over next year? Or do you think there is room to grow a little bit above this type of rate? Thank you.

Arthur Farne d'Amoed Neto:

Thank you, Henrique, for your question. And that is right, I guess the quarter marks a clear change in that respect, especially in the automobile segment where market

conditions have allowed us to increase premiums and at the same time we are working on the personal costs, especially those repair parts related to partial losses cases.

In health, this quarter marks the beginning of a new pricing cycle as well as some additional measures to curb frequency of utilization down. So, it could be the case that we would not necessarily emphasize top-line growth but rather benefit from some operations to improve our operating ratios.

One has to take in account the fact that the 4Q usually tends to be more favorable in this respect as we see some seasonality affecting both health and auto as well. So, there is a trend of acceleration in new car sales in this quarter and a reduction, on the other hand on our losses in our portfolio of health in terms of less utilization because of holiday season etc. Maybe Thomaz could add a little on this.

Thomaz Cabral de Menezes:

I guess, Henrique, as we have talked about, I think the last quarter during a couple of months we saw a very aggressive price competition with an increase in labor and spare parts. I think the market has already adjusted that, perhaps we were one of the first ones to adjust our price up, and we did sacrifice top-line growth to recuperate bottom line profitability. So, I think that we will see, in term of losses, a better quarter in auto.

And in health, as Arthur mentioned, I think we will see the effectiveness of some of our measures or the expansion of some of our measures to control frequency. We have a quarter that traditionally, from seasonality has a better loss ratio plus the adjustments of some of our group health contracts will contribute to a better quarter.

Henrique Caldeira:

Thanks. That is very helpful. My second question: is there a number or a level that you feel comfortable in sharing your expectations for the Group plans on loss ratio? Maybe if you consider what has been reported over the last 9 months, and how much room do you think there is improvement for next year?

Arthur Farne d'Amoed Neto:

We do not want really to talk about any guidance in this respect, we think we are in a high in both group and individual health. So, the measures we have been taking, the changes in the portfolio, the price adjustment we have been able to adopt, the should lead to a decrease in our loss ratio as compared to what we are reporting now

Henrique Caldeira:

Thank you, Thomaz, and thank you, Arthur.

Domingos Falavina, UBS:

Hi, good morning, Thomaz and Arthur. Thank you for taking the question. I have a question regarding the *Letras Financeiras*. Basically we had a recent decision on approving the insurance companies to acquire it. If you could further discuss a bit on

the impact you could see in terms of average yield or how you could offset part of the interest rate decrease buying this high-yield banking instruments.

Arthur Farne d'Amoed Neto:

Thank you, Domingos. I have here André Lauzana with me, he has joined the Company a few weeks ago, and as he is responsible for Treasury here, I will ask him to elaborate a little bit on this. Please, André.

André Lauzana:

Hello, we have analyzed investment and it is a good notice that we are allowed to invest in this type of asset. We decided to invest a portion of our assets on this asset and we see and analyze the market what yields we want to invest and we are investing not a huge amount on that, but a part of our portfolio.

Arthur Farne d'Amoed Neto:

I guess, Domingos, adding to what André mentioned here, as you pointed out, this was approved last week but by the Brazilian Monetary Council that insurance companies could invest in *Letras Financeiras* as well.

So we think this is an opportunity to diversify our exposure in the corporate credit segment, in which case we have seen news of up to 112% of the CDI, of the Brazilian base rate for tenors of up to 6 years. So, we have already built part of this position using the flexibility that we have in our portfolio and this is something that we are going to keep on monitoring with André and his team very closely over the next months.

Domingos Falavina:

OK. If I do a very simple math here assuming like a 10% interest rate and some certificate of deposit being issued, I do not know, of 100% the CDI, this would grant you some 10% more and so 1%, in your average portfolio of R\$4.7 billion, if you allocate, I do not know, 20% on that we would be talking about some R\$10 million to R\$15 million more in financial income. Does this make sense to you?

Arthur Farne d'Amoed Neto:

I guess if you think of something south of R\$200 million and that is due to our, say, credit policies and the way we manage ALM here in the Company. So, our first move and our first decision is taking base in the ALM and only if we have some room or some flexibility we would invest in those assets, but we are not necessarily following that especially for cash flow component.

Domingos Falavina:

OK. And last question: on the share buyback program, do you have any update on that?

Arthur Farne d'Amoed Neto:

No, it is outstanding. We have not purchased a meaningful amount of that, we have been approved by the Board, but it is something that as we do, as we move and exercise the buyback as we have the approval for, we are going to keep on indicating that in our ITR.

Domingos Falavina:

Ok. But do you expect to be more intensive towards the end of the year or nothing major?

Arthur Farne d'Amoed Neto:

I cannot anticipate that. Remember that in this case the primary objective of our share buyback program is to fund our stock-option program. This is what we have been engaging in, what is the need arising from our share base compensation packages and only if we need then we go there and buy back those shares. We do not necessarily want to hurt our liquidity buy being more aggressive in terms of buying back our shares.

Domingos Falavina:

I understood. Thank you very much.

Mariana Barros, Goldman Sacks:

Hi good evening. I have just a quick question: we saw your average auto premium increase on a quarter-over-quarter basis, to what extent can we say this is a better price environment or a mix change in your auto portfolio? Thanks.

Thomaz Cabral de Menezes:

Mariana, this is Tomas. It is probably both, we have had a better mix of our portfolio, not only the expansion of our physical presence throughout the Country which contributed to a different mix of our portfolio, but also it is a better environment from price competitiveness.

During the quarter, as Arthur and I have mentioned, a couple of months we saw a very aggressive competition in specific geographies which we were one of the first to anticipate an increase in price to protect our bottom line and not sacrifice bottom line to maintain the growth.

So, although we have had strong growth for the year, for the quarter, we are focusing more on bottom line and our loss ratio than top-line growth and we expect to see that for the quarter going forward too.

Mariana Barros:

OK. Perfect, thanks.

Operator:

This concludes today's question and answer session. I would like to invite Mr. Thomaz Menezes to proceed with his closing statements. Please, go ahead sir.

Thomaz Cabral de Menezes:

OK. I would like to again on my behalf and Arthur's behalf to thank everyone for the participation and the questions. As I mentioned in the opening, this has been a very important year for us in terms of restructuring the Company and reinforcing the team, investing in processes and technology and physical presence.

I am confident that this quarter is the beginning of a turnaround of the year and I am confident that for the future of the next quarters we will see some improvements in terms of the results of the Company on health and auto.

So, I want to thank everyone for the participation and also to reinforce that Arthur and his team are here available to answer any further questions that you might have for the quarter and for the year. So, thank you and have a good weekend, everyone.

Operator:

That does conclude SulAmérica audio conference for today. Thank you very much for your participation, and have a good day.

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