

Carlos Macedo, Goldman Sachs:

Hi, gentlemen. I have two questions, actually. The first question is with respect to the loss ratio on the health business, which has been on a combined basis well above 80, but has not seen any release in the beginning of this year. I know a lot of it had to do with expenses for hospitalization from last year. But when do you think we are going to see a little more release there? Is it a matter of pricing, a matter of cost, a matter of frequency? Can you give us some more color on that?

The second question is with respect to growth, not only in health but in all businesses. In auto your fleet size is increasing 20% a year, in health we saw very strong growth in dental, in SMEs, and even in the core health business, group health is increasing very fast. You are gaining a lot of market share here. Is there anything specific that you are doing differently? Obviously the base is a little bit lower, now that Brasil Veículos is out; but is there anything that you can say about how sustainable this kind of growth is going to be?

Thomaz Menezes:

We will address your first question. Specifically related to the loss ratio on health, as Arthur had mentioned before, it is basically related to a higher frequency where there is a higher utilization into the service of our business, but also related to the increased of vehicles costs, with all the new technologies and all the new services, in consequence a better service, we have seen the medical cost growing higher than inflation.

But specifically what we are addressing and we will address is a higher frequency than expected and a higher frequency than we have seen, which is not just something that impacts us, it is something that has impacted the market, and we have already implemented a series of measures that will take care of this frequency in the next couple of quarters.

Carlos Macedo:

Just coming back, sorry to interrupt; is the fact that the frequency has gone up and the costs are higher, is it something you can price in? How competitive is the market in terms of pricing? Is it something you can actually address with pricing?

Thomaz Menezes:

We have seen our strategy on pricing, which there has been a change in regulation where you can only adjust the price once a year. So, we are in the middle of adjusting some of the contracts that we have, a significant part of contracts that we have this year. We have seen, perhaps better than expected, the adjustments of some of the contracts.

So, the way we are going to address this, is we will keep the growth momentum, which you have seen and you well said has been quite significant in all lines of health, but also we have been able to implement some of the adjustments on the contracts as expected. So, this will also contribute to our bottom line.

The market is competitive but nothing different than what we have seen in the prior years. Although the new regulation will help us, because you can only make an

adjustment on the contracts once a year, different than in the past. So, we see that the market will be perhaps a little bit less aggressive in pricing going into the new contracts.

Related to the growth, I think it is just a bigger focus. The Company has been sort of working inside for the last couple of years, restructuring, reorganizing, improving efficiency, and I think what we have seen and what we will see is the strong momentum on topline growth. There is nothing that we foresee that will keep the growth from where we believe needs to be.

So, it is a good economic growth from the Country, a good economic growth from the industry, more focus, more channels for distribution and more people in the streets, improving the relationship with the brokers, improving the distribution channels that we have within the different partnerships that we have, and good product with the right price. So, we expect to see the tendency remaining the same.

Carlos Macedo:

OK. Just so I get it right: there is no growth margin trade-off here, right? Or at least not that you are foreseeing right now?

Thomaz Menezes:

No.

Carlos Macedo:

OK. Perfect. Thomaz, welcome to the call. Thank you Arthur and Thomaz for your insights.

Esteban Schreck, Morgan Stanley:

Hi, gentlemen. Thank you very much for taking the questions. Let me go back and reiterate the question on health care loss ratio. I do not think I got a clear sense of what is going on. So, basically you are saying that there is higher frequency and higher medical cost, right? But have you pinpointed, have you found the reason why this is going up?

And aside from mispricing, what could have gone wrong that medical loss ratio or loss ratio, for example, for individuals going up by 600 b.p.? That is one point.

The other one is can you give us a good sense of what you are doing in order to take care of this, and then what should we expect for the rest of the year in terms of loss ratio for the health care business?

Thomaz Menezes:

First, we expect that the loss ratio that we have seen this quarter we do not foresee that could be a loss ratio that we will see for the rest of the year. We have implemented a series of 80 different measures going from network providers review, and reimbursements of claims, medical account audits; a whole bunch of different initiatives

that we have implemented effective Jun–July that we expect that will help us control the costs of the claims and the frequency.

The frequency itself, although there is some seasonality to it, if we compare it to the same quarter of last year we normally see a higher frequency in the utilization. We have not been able to pinpoint exactly where. It is the terms, it is the laps. As we go through the hospitals, there is a higher frequency across the board.

We are seeing some medical costs increase going up, as I said; new technology, new procedures, therefore an improvement on the quality of service and therefore a higher cost.

So, we do not foresee that there is a silver bullet or single action that will resolve. It is a series of things. So, it is price, it is sales, it is adjustment of price, it is adjustment in the frequency or better control on the frequency. It is a better cost on average claims. It is revision of the service provider network, to identify the outliers and those that we believe needs to be addressed. It is stronger claims audit, the closing of the medical bills; there is a series of different initiatives that we have implemented and we will foresee that will contribute to the loss ratio for the next couple of quarters. We do not see this loss ratio for this quarter being for the rest of the year.

And if you could just remind me of the second part of your question.

Esteban Schreck:

I think you covered most of it. Can you give us a sense on what we should expect for the 2H10 in terms of loss ratio for the health care business?

Thomaz Menezes:

At this time all I can say is that we do not foresee the loss ratio of this quarter to remain for the rest of the year. We see some improvement on the loss ratio for the rest of the year.

Esteban Schreck:

OK. And another question on Brasil Veículos, can you explain exactly how much revenue, if any, should you recognize as you provide services to Banco do Brasil going forward? Just to understand exactly, how much longer should SulAmérica benefit from providing services to Banco do Brasil? That is one thing.

And the other thing, your reported net income was around R\$93 million, but the recurring is R\$52 million. So, I just want to understand; is that only the difference related to Brasil Veículos or is there anything else in there?

Thomaz Menezes:

Before I ask Sergio Borriello to answer this question, I just want to pinpoint here that we do have an agreement with Banco do Brasil that for the next six months we will provide full service for them, and this is after the approval of Susep, which has not happened yet. And then after the six months we will have 12 months of servicing related to claims for another 12 months.

Sergio Borriello:

Esteban, let me clarify one point here, which I think I got wrong. The difference between the number as published and the recurring figures is just the impact of the sales of the real estate property that we have in São Paulo. So, there is no impact coming from Brasil Veículos in those figures.

Esteban Schreck:

OK.

Arthur Fame:

Just to complement the information about Brasil Veículos, as Thomaz said, we had this period, which combined together these two periods, the full service and just the claims management that could take about 19 to 20 months to finish this operation. So, it is nothing for now, but I think it is something to occur during this period, which is up to two years.

In terms of the payment that we are receiving to make these services to them, we are recognizing up to now, and after we have changed the accounting methodology for Brasil Veículos, we are recognizing it as a reduction on our administrative expenses.

So, what will happen in the future is these reductions will not be part of our results anymore. On the other hand, we can cut the costs related to the same operation. So, we believe that with that period up to two years we will be able to eliminate the impact of the money we are receiving against the cost that we are having to make the services to Brasil Veículos.

Esteban Schreck:

So, going forward it is going to be a net figure between the amount you receive and the cost that you provide, right?

Arthur Fame:

Yes, in that sense. We will eliminate both sides: the money that we are receiving and the costs that we are having related to that operation.

Esteban Schreck:

OK. Thank you.

Operator:

At this time there are no further questions. I will now turn the conference back over to Mr. Menezes for any closing remarks.

Thomaz Menezes:

I just wanted to thank everyone for participating in the call, and as usual through the right channels here we are always available for any further specific questions you might have related to the quarter results or the year-to-date results. Thank you very much.

Operator:

Thank you. This concludes today's conference. You may now disconnect.

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