

Jorg Friedemann, Merrill Lynch:

Thank you for the opportunity and good morning, everyone. Gabriel, Arthur, congratulations for the results obtained. I have two questions. One is more strategic and the other one is more focused on the quarterly results starting by this strategy. If possible, could you please talk about the outlook that you have for the health product in 4Q and beyond 4Q? As we have a top down scenario, which is a little bit uncertain, a little bit turbulent here in Brazil. And I do not see that this has been impacting your private, maybe the group product that represents almost 60% of your portfolio. So, maybe you could tell us how interest rates and the slight increase in unemployment that we can see now whether this impacts your churn or not. I think this would be rather interesting and maybe you could tell us if there is any concentration in the 3Q or the 4Q in terms of the re-pricing strategies for specific products.

I think it would be very interesting so that we could see beyond the specific seasonality of 4Q, a potential growth in premiums that could materialize for the next few quarters. And afterwards I will ask my other question. Thank you.

Gabriel Portella:

Thank you, Jorg. I will give the floor to Mauricio Lopes, who is the Health and Dental VP.

I would love to answer your question, but I would really like him answer. I would love to do it myself.

Mauricio Lopes:

Well, maybe strategically although the economy has been showing you these signs, we do not find and adverse climate yet. We continue to have a positive move in our portfolios, and some corporate portfolios. They are either stable slightly negative, but we do not perceive yet any major impact in terms of our health benefits, no, this is not happening. The potential still exists in a potentially volatile environment for cross-selling our products. So, if you have an adjustment proposal and if on the other hand you wish to carry out some special renegotiation, Dental appears very intensively in renegotiations and it ultimately generated benefits to SulAmerica.

To answer your question, volatility is not impacting us, not yet, and adjustments have been offset by cross-sell mainly in the Dental portfolio. As far as pricing is concerned, over the last 12 months, we see in major repricing movement not only SulAmerica but all of the players in the market and in our corporate and SME and Dental portfolios, this is happening in all our portfolios and for 4Q this shouldn't change, I think we should re-price intensively and the cycle starts very strongly as of 3Q in July, and it should be intensified over the few next quarters and closing the cycle as always by the end of 4Q14.

Jorg Friedemann:

Okay. But in terms of figures in the two aspects that you mentioned, retention continued to be around 90% as we had seen until 2Q, and also re-pricing in the 13%,

14% bracket is it still valid for the products that are having re-pricing especially the group insurance?

Mauricio Lopes:

Retention continues to be very high. And I think the time for the quality of the products than the perception that the client has of our brand and also because the market as a whole separate last year and the beginning of this year, an increase in loss ratio that impacted everybody and everybody became more aggressive.

And the client, of course, the client can change the product, and when he looks and sees the competitive environment, the client sees an environment in which the upside for an exchange is not really worthwhile because there could be a conflict in terms of benefits that the client desires. So, we see no change whatsoever in terms of decreasing our retention. It is quite the opposite. We believe it will be kept at this level or even higher.

Jorg Friedemann:

Without talking about loss ratio?

Mauricio Lopes:

Yes. This is around 13% and 14%, as you said yourself, varying according to the portfolio, but the trend is to have it at these levels and we do not see a downward trend in this figure at all.

Jorg Friedemann:

And my second question has to do with results. I need some explanation, please, about the reversals in the judicial contingencies provision. Maybe you could tell us if the decision has already been made by the higher court of justice. Can you appeal? And what is the amount? I believe, it should be between R\$25 million to R\$30 million, but maybe you could expand on this.

Arthur Farme:

We have reversed part of the provision that we had that was associate to this claim. We are still waiting for some decisions, and this figure was R\$25 million in the quarter.

Jorg Friedemann:

And what is the part that you have not reversed yet?

Arthur Farme:

It's more or less the same size as this one.

Jorg Friedemann:

Thank you.

Rafael Frade, Bradesco:

Good morning, every one. My first question is to Mauricio. It has to do with Health. Talking about the growth delivered in the quarter and talking specifically about growth, 16% growth year on year, but as Mauricio said, the adjustments around the mid-teens and we know that it could be about 15%, so we are talking about an adjustment that was close to the increase in premiums, and the growth in your membership of about 4%.

So, apparently the new clients or the new policy holders are coming onboard with the lower tickets. Does it have to do with your strategy? And the second question has to do with Dental, 25% increase in membership and 17% in premium, and I would like to understand whether this is a different mix of clients or what lies behind this growth.

Mauricio Lopes:

What we see is a change in the mix in some points, both cost wise and the clients that are small. What we see here in the change in figures is an adjustment in loss ratio but relevant in the cleanup of the portfolio of over 40,000 lives that happened so far in cleanup of the portfolios and mainly the corporate ones, some Company's addition, companies that we have already cleaned up recently.

So, there is a change in the mix, a relevant change in the mix, and looking at the package as a whole, this could mean an increase in prices, but the explanation is the change in the mix. Three, four months ago, we had a new product for companies that we worked with, and a more flexible contracting move together with the Dental product that is being contracted together. And for these products that are more sensitive, we have a conversion rate of 30% in Dental. So, this has been driving the two portfolios and changes the mix slightly into the profitable product, 16% more than the basic product in the Dental.

There are two movements that should be shared. Some large contracts that bring lower prices than the retail contract. So, part of what you saw in this comparison that you mentioned, the increase in the number of members and the prices comes from these live contracts, but also the change in pricing with a lower ticket, but it has a higher stability. And the commercialization channel is more simple and entrepreneurs have been finding in this product an important benefit without increasing costs exceptionally because this also aggravates loss ratio. So, this is the price composition that you see, and in a more detailed account, we could go into details, but these are the general explanation.

Rafael Frade:

I have one additional question about capitalization. When we talk about the results of capitalization, we have R\$11 million and you highlight that in the administrative costs you have R\$20 million administrative expenses that higher because of SulaCap. So what about the financial result? We need a better visibility about the results of SulaCap.

Arthur Farne:

There are other things, not only SulaCap, and the effects of CAPEX etc. The result of capitalization is here in a balance sheet line.

In this quarter, I would like to remind you that you have SulaCap, and when we say, the revenue, it is a net contribution by SulaCap. It will have the variation in the level of the future, the financial result has an impact. The financial impact it is not the line item of financial results, and the other line under capitalization. This would be an abstract. Shared services as administrative expenses allocated can bring about some distortions when you...

Rafael Frade:

OK. When we see administrative expenses and we see the impact of SulaCap, you are talking about the R\$11 million in personnel and 4.5...

Arthur Farne:

I would answer R\$20 million.

Rafael Frade:

Are these R\$20 million related to SulaCap alone or they have other things?

Arthur Farne:

There are other things, not only SulaCap, but the Company has a major project portfolio and this year, specifically is it higher than in the previous years, according to investments that we have been making, and for instance I could mention IT and systems, but in the investment plan of the Company, there are other items that are included there.

Francisco Kops, Banco Safra:

Good morning, Gabriel, Arthur, Mauricio. Thank you for the opportunity and congratulations for the results. With a strong adjustment in stock retention relating health still, I congratulate you for that. My question is more generally about profitability.

Of course, you have a high seasonality in terms of quarters and ROE, 15.5, 14. So, looking ahead, what do you believe would be a sustainable ROE for SulAmerica, and if there is an improvement in over what you see today and where could it come from some products that could bring an improvement or maybe Health or new business or Life and Pension or and maybe an increase in your leverage? Afterwards I will ask my second question.

Arthur Farne:

Thank you for your remarks and for your question. We believe that this ROE reflects our current portfolio correctly, the operations are improving. Health shows improvement coming from some pressure regarding loss ratio, and as the capitalization operations may bring a more expensive contribution to our results, as of next year we will have 12 months already of capitalization under the umbrella of the group.

And I would like to draw your attention to the increasing importance of the management fees and performance fee, almost R\$25 million as I said before, of assets under management, and these assets are built or positioned based on a more and more diversified portfolio, and maybe Marcelo could give us some more color about that.

But all this is the improvement in the operations and the outlook for a higher contribution to the financial results with the increase in the average rates. All this points to an improvement in the ROE. The profitability of the Company will improve because of all these factors that I have touched upon briefly.

Francisco Kops:

Thank you very much, Arthur. And my second question has to do with Health. It is a follow-up on the previous questions about health. I am talking about loss ratio. We know that this sector has some problems regarding the supply side; by that I mean hospitals and doctors, physicians.

So, for SulAmérica and for other insurance companies in the market such as Bradesco, do you think that will be any change there? Do you believe the companies themselves could somehow concentrate more in the losses or more co-sharing or co-participation, is there an alternative for this problem of high-loss ratio?

Mauricio Lopes:

Mauricio, here. Thank you for the question. I think the diagnosis is more or less stable. The market will go towards a new model at some point in time, and we assure that this will happen. What we have believed in in the last few years, and we continue to believe in, is that there are two trends that should be shared with the final client and with the beneficiary.

One is the risk management part, that is to, say, have a very well engaged network, so to say, very well thought tables and a very streamlined operation, very good structure, and this is the core of the health operations in any health operator, any health insurance company, this is the fact that we have been working on, and what we call health management will gain space or will gain room in this market as we are able to bring technology. And so the beneficiaries that there is a more participative task, provided this could be well structured and sustainable and with relevant IT to be shared in a balanced fashion, and we have already been talking about this, about these health program.

We will exceed 30,000 lives this year, and we bought the two from Health and global assessment that is the tool, that is the world's benchmark that evaluates risk for entrance in the portfolio that we have signed a contract recently with them in order to have a more massified operation without bringing an additional burden to the operations.

And we trying to bring this structure to Brazilian entrepreneurs who do not have this very well structured, and this technology is not very well defined here in Brazil, and this is why we are trying to bring something from abroad in order to have a quick delivery to the market.

And we believe in this and we believe this will be one important mechanism having a core operation, best in class, which is loss management working more and more with our risk partners and bringing this news with the more and more intensive health management that can be shared with those who put the bill on the other side. So, I answered your question with these two points. We are about to see a stronger change.

Francisco Kops:

Thank you.

Eduardo Nishio, Brasil Plural:

Good morning, everyone. Thank you for the opportunity. I have two questions. One has to do with Health and the other one with Auto. In Health, following up on the previous question, I would like you to mention the initiative that we have taken in order to control loss ratio, and the outlook for next year in terms of loss ratio whether you will be able to bring it lower than the 60% that you have had in the last few years, and whether the initiative will be able to bring down this figure.

And my second question has to do with auto. What is your view about the competitive environment? Competitors will become more and more aggressive. And do you believe that the benign cycle could be extended a little bit further and wide?

Gabriel Portella:

Mauricio will cover and Carlos Alberto Trindade afterwards. Thank you for the question.

Mauricio Lopes:

We have been investing quite a lot of efforts in these two blocks that we have already mentioned and I would not be able to tell you all the projects that we have, but Health management and risk management, they have about, each one, seven or eight projects.

So, there is a big arsenal being built here, systems under change in the network, payment system and work related to more core Health management, more centralized in order to have distribution among our many partners, change in the payment format. And we have been doing this quite a lot.

The second opinion via Einstein, via other hospitals. There are many improvements that we are trying to achieve. And I think it would be more productive if we could continue this stock afterwards, and we could give you more details afterwards because if you add everything, I think it would be 17 or 18 actions on both sides.

And the problem that we have in this process is the following: as we have to rush because we have cost pressure in the market as a whole, the teams are very much committed looking inside, looking to Health Management. As our commercial area is separate, we can continue to have speed without getting in the way of the commercial area.

So, we are looking inside and we are not really going to through the field, we are trying to deliver better solutions in order to deliver a better loss ratio in the short and the medium run.

Commercial, this service is not all only to Health but also to all the other area that I would like to invite you to have a more detailed conversation. And now I pass the floor to Beto.

Carlos Alberto Trindade:

Good morning. Let us talk about Auto, your question about the price cycle. If I see whether the cycle will continue for a longer time or whether it will be impacted by the increase in interest rates, well, the increase in the interest rate is always a positive component for this business.

However, by itself, it cannot solve the issue of profitability of the portfolio that is impacted by other factors as well more specifically in this period that we are talking about end of 2013 and 2014, there are many aspects that affect this view.

Since the movement that we saw 2013 regarding the processing of the PMG, generating an acceleration of premiums earned in 2013 that will end as of February 2014. Therefore in the sense that was very limited to 2013 and 2014, the Company that followed this fact, basically those were not in the IFRS have to concern themselves with the process as of February, and this is an additional point of concern to the market.

We have a major possibility of a return of the IPI tax as of January, the end of the incentives for the sale of vehicles. And I think we should draw your attention to the fact that the return of the IPI tax does not affect future sales. It affects the portfolio installed as of January.

So, not being concerned with this now could bring about a major mistake in your pricing. So this is what the role plays in terms of keeping this longer cycle, and also we have a frequency of test in some regions.

And the impact is more immediate. It is more an aspect that brings concern to the market and the market has been discussing actions with the Department of Public Safety, and the public powers in general in order to try to control this increase in theft.

And also inflation that brings about pressure on labor costs and also auto parts that are important components of the overall loss ratio. So all those leads us to a market scenario that tends to maintain the current situation of concern to bring loss ratio to adequate levels and in case this takes control this will be a value destruction that the market will be doing, and I do not believe this would happen.

Eduardo Nishio:

So, you believe that 2014 will still be favorable regarding competition?

Carlos Alberto Trindade:

Yes. I believe that 2014 regarding the three or four aspects that I touched upon, I think, we would have the 1H and possibly the 2H14 still quite stable, maybe with some kind of movement by the end of next year, but we will have to better understand the scenario when it comes and how all the factors come into play during the pricing, but I am rather bullish and we believe that until the 2H13, we will not see major changes in this scenario.

Eduardo Nishio:

Going back to Mauricio. Thank you very much for the opportunity and certainly I would like to talk to you again about these points. I would like to know how many percentage points with these initiatives you are seeking and what is the timeframe for this?

Mauricio Lopes:

We do not disclose this, but what we can tell you is that the return on investment will be very positive. So I talked about investments, and we have investments of course that are limited by our budget, but they have all been approved with a good return, higher than we expected. I cannot disclose precise figures, but they are very profitable for the insurance company besides bringing a very good quality of service to the beneficiaries. Thank you.

Gustavo Lobo, BTG Pactual:

When we look at individual Health plans loss ratio, we see that this peak was in the 2Q12 and the 2Q13 it was more or less similar to the 1Q, and now there was a major increase in these plans. Was this increase in 3Q due to some specific claim, or was it something that slid from 2Q to 3Q? And what do you expect from now on, because I would like to know how much it could improve in 4Q, this loss ratio for individual Health plan. So, I would like to have an idea of the improvement that could be achieved in this area?

Mauricio Lopes:

Thank you, Gustavo. We have not been selling individual plans since 2004 or 2005. What we see, placing this into context is that this is a simple portfolio, some adjustments, well, this is controlled by the government, and we have 1.04 variation higher than the normal index 10.17, 9.04 for the remaining of, or for the other portfolios in the market. This is slightly more protected, but there is a slight delay.

So, there is always a delay and we may find some variation and in the portfolio that may be driven by this delay, and we may find some variations in the portfolio that may be driven by this delay, as I said before, but it could be the effect of two other factors.

One, this portfolio which will give you a figure to illustrate. We have launched practically 1/4 of this portfolio in the last four years gradually in 2009. At the same time, this year we have over 280,000 beneficiaries, and we are talking about 215,000. It would be relevant as we take actions because it is more and more focused and more and more improved, so we can place more ammunition to work on some things that were more difficult in the past and we will continue to do so.

We imagine that in medium and the long run we will be able to bring about a more ongoing stability to the loss ratio. This difference between quarters, well this is a natural trend in four, five years with the process and same percentage, and we have 120,000, 130,000 lives. This should become more and more volatile, and the only way to finish volatility is through the change in the market, how we will be able to share our cost, and have a more channeled network. And this is a review that we are doing in our training department.

Maybe it has to do with the situation that are not really with a structure. And the medium and the long structures should bring about more and more results to a portfolio that become smaller and smaller. In the same period whereas this portfolio decreases 24%, 25% SME portfolio increases 102%. So, we are looking at something that is gradually shrinking.

Gustavo Lobo:

Thank you.

Domingos Falavina, JP Morgan:

Good morning. Thank you for the opportunity. My question has to do with the previous question after Gustavo. It has to do with the seasonality in 3Q. Do you believe that this non-improvement in 3Q could bring about a higher loss ratio for 2014, vis-à-vis 2013?

Arthur Farne:

Thank you for question. Looking ahead, we cannot really foresee the future very precisely, but I can give you some figures or some guidance. SulAmerica is participating get data through this institution for surveys.

If you take these historical series, it went from 16% and this was very well below that and we see the decrease in the portfolio for the next few periods. And this will be seen more through the future but anyway in a downward trend it would have to do with the quarters. We saw a movement that has nothing to do with these structuring, it has to do with these situations. And as the portfolio decreases, it becomes more and more volatile. So, we can expect volatility there over time.

Domingos Falavina:

When you see it is not related to the structure, but it has to do with this situation, what exactly do you mean by that?

Arthur Farne:

This portfolio is concentrated in Rio de Janeiro, Salvador, Pernambuco and Sao Paulo. We see variations in the network and medical cost in this region, and this year we also had a change in medical remuneration with the adjustment of medical fees for individual plans.

So, it all has to do with a more effective cost management for this portfolio having all the players aligned in a more efficient manner and this is what I mean. If this will continue, I cannot tell you, this is why I tell you that it is not related to restructure.

Domingos Falavina:

What kind of estimates do you have for medical costs? Looking at the composition of your medical costs you have new services that will have to be included and covered, so what kind of impact do you expect from these now mandatory inclusions?

Mauricio Lopes:

Well, it would be enforced as of next year, and we do not know exactly, but we are preparing, we are doing our homework to have a distribution mechanism and loss ratio control that can comply with the law and that can also protect the Company, and the agency itself mentioned this.

Operator:

As there are no more questions, I would like to give the floor back to the Company. Mr. Portella?

Gabriel Portella:

Thank you very much for your participation, for the questions. And as always, we will be available to you to clarify any doubts that you might have. Thank you very much and have a good day.

Operator:

Sul America's Conference Call is closed. We thank you for your participation and wish you a very good day.

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