

3Q22 Conference Call Transcript – Q&A

Operator

Ladies and gentlemen, we will now begin our Q&A session. Our first question comes from Samuel Alves – BTG Pactual.

Samuel Alves (BTG Pactual)

Good morning, Ricardo, Reinaldo, Juliana. Good morning, everyone. I have two questions, both concerning the same theme. My first question is about IBNR and provisions. The third quarter presented a great reversal of approximately R\$350 million. I would like to confirm: is there any event that explains this reversal, even with the increase in revenues quarter over quarter? The second question is also related to IBNR. When we analyze the loss ratio, excluding IBNR, we observe an increase quarter over quarter. I would like to know the reasons for this increase, if it was due to a mix of procedures or something related to frequency. Thank you.

Reinaldo Amorim (Vice President of Finance, Risks and Compliance)

Thank you for the question. It is important to remember a relevant point concerning IBNR - IBNR is a part of our technical provision, and it is related to the incurred but not reported claims. Another relevant part are those claims that were already reported to the Company by providers and beneficiaries – in case of reimbursement – but have not been paid yet. In this case, they were already registered in lines such as: accounts payable, claims provisions and claims to be settled. The analysis should be done considering the total provisions, summing up both components. A segregated analysis of one of these components will eventually expedite the communication or even the regulation and payment processes, which follows a pre-established calendar. So, it is important to keep in mind that a health claim is paid between 3 and 4 months after its occurrence and it is communicated to the Company by the provider around 2, 2.5 months after occurrence. So, my suggestion is: sum up IBNR + Claims Payable and you get the total technical provision IBNP – incurred but not paid. In this sense, you can notice that the total provisions grew from the second to the third quarter. Health provisions grew almost R\$150 million from one quarter to another, which makes sense and it is consistent with your observation concerning the portfolio's growth. The observed seasonality in the last two quarters is similar in the second and third quarter, but we had an even better claims management in the third quarter, which was one of the reasons why the growth was not so relevant. So, to answer your question: there is no specific impact on provisions, any change in methodology or acceleration observed in the period. Concerning the second part of your question, which is related to the loss ratio: it is not useful to observe the Company's cash loss ratio alone because it is related to the providers' payment schedule. As mentioned, most of the claims paid by the Company in this quarter are related to occurrences of the first and second quarters of the year, but there are also occurrences from previous years, that is why the analysis is very distorted. The Company focuses on the analysis of the accrual criteria, which is the model used in our financial statements.

Samuel Alves (BTG Pactual)

Perfect, Reinaldo. Thank you. We will analyze both technical provisions together.

Operator

Our next question comes from Vinicius Ribeiro – UBS.

Vinicius Ribeiro (UBS)

Good morning, everyone. Thank you for the opportunity to ask questions. I have two questions, both related to the loss ratio. My first question concerns negotiation, price adjustments, frequency behavior and other adopted measures that you mentioned during the presentation. Do you expect loss ratio to reach pre-COVID-19 levels in 2023 or only in the next years, or do you think the loss ratio will no longer reach pre-COVID-19 levels? My second question is a follow-up concerning a theme that we have already discussed in the previous quarters, which is mid-ticket's loss ratio and profitability. When you launched the Direto line, you mentioned that you expected an equal or a slightly better loss ratio for this segment. As there are several moving parts associated with the pandemic, how the profitability of these products has behaved as it keeps growing? Once again, thank you very much for your time.

Juliana Caligiuri (Vice President of Health and Dental)

Hi, Vinicius. This is Juliana. Thank you for your question. The recovery of the loss ratio will be a long process, but I will not give you any guidance. We know the loss ratio will recover as we readjust prices and control costs better, but there are no quick mechanisms to accelerate this movement. As you know, price increases are made respecting the renewal date for the contracts and claims control lasts longer. We noticed an inflexion at this moment, which seems to be positive. We can observe a smooth reduction, but a loss ratio of 88% is still very significant and we believe that it will take some time to reach pre-pandemic levels. We will keep on handling important price increases in portfolios that are presenting a higher loss ratio. Concerning mid-ticket, it continues presenting a better loss ratio in relation to other products. So, there is a mix of new sales because when the portfolio is new and is growing it is more oxygenated than others as there is a significant proportion of new sales. We cannot affirm yet if the Direto line will have a much lower loss ratio, but we can tell you that after 5 years of its launch we continue observing a high growth. We believe this product is excellent to control the loss ratio better and our expectation is very positive, but it is still maturing.

Vinicius Ribeiro (UBS)

Perfect, Juliana. Thank you for your answers.

Operator

Our next question comes from Mauricio Cepeda – Credit Suisse.

Mauricio Cepeda (Credit Suisse)

Hello everyone, good morning. Thank you for the opportunity to ask questions. My question is related to the prior question. As I understood, there is a positive perspective that the Direto line can present a lower loss ratio. From a broader perspective, in terms of downgrades, my first question is: considering the commercial landscape, what are your perspectives concerning downgrades, mainly in corporate plans? I would also like to know: even if you negotiate lower prices a better loss ratio can be expected? Thank you.

Juliana Caligiuri (Vice President of Health and Dental)

Hi Cepeda. Thank you for your question. Downgrades are natural, especially in a moment marked by high price increases, inflation and companies still recovering from the pandemic. Many segments suffered significant impacts after the pandemic, not only the health segment. We are not observing a significant increase in downgrades and our customers are not massively downgrading their plans as a mechanism to maintain their products. Our membership continues increasing, including in the "Especial" product and also in the mid-ticket. So, we do not observe a

cannibalization and we see the mid-ticket as a leverage for membership growth. However, it is natural that some customers need to downgrade and look for more cost-effective solutions, that is why we believe the Direto line has a very important role. The company also promotes several actions to help our customers in difficult scenarios. We have made several actions to control claims such as capitation models – in which we chose some diagnostic, outpatient and specific medicine networks to transfer volume in order to have a more competitive negotiation. We noticed that many customers are interested in this strategy aiming at lower loss ratio. I think everyone aims at lower loss ratio, but many customers also understand that downgrade is not the best mechanism to achieve this goal. That are other efficient mechanisms that allow customers to keep a higher-quality product, greater amplitude and so forth. With the growth of the mid-ticket segment, we believe that, in the long term, our average ticket will change because the larger the mid-ticket segment gets, the lower average ticket will be. On the other hand, we will have a greater control of claims and a healthier loss ratio. This is our thesis, and it has been proven so far. As I said, 5 years has passed, and this thesis continues solid.

Mauricio Cepeda (Credit Suisse)

Perfect, Juliana. Thank you.

Operator

Our next question comes from Leandro Bastos – Citi.

Leandro Bastos (Citi)

Good morning, everyone. I have two questions. You have just talked about downgrades. Concerning this theme, as price increases evolve, do you identify any demand for adjustments in the network? You have also talked about capitation model with labs, is this gaining traction? Are you working on this front? It will be great if you can give us more details.

My second question is related to the launch of the Direto Mais, a product with national coverage, in September/22. What do you expect as addressable market for this product? How is the product's acceptance since its launch? Thank you.

Juliana Caligiuri (Vice President of Health and Dental)

Thank you, Leandro. The adjustment of the network is a natural tool in the management process of health products, but it is a point of pain for our beneficiaries, mainly considering capillarity. We know that customers - especially big companies that understand claims dynamics and the loss ratio complexity - see this as a possible mechanism since it does not impact the quality of rendered services. It is important to keep in mind that maintaining our quality is one of our main principles. No capitation movement or other change in our model has impacted the quality of our services, just eventually impacted the capillarity. In the case of the capitation that I previously mentioned, the capillarity was not impacted. We expanded the number of units with the companies that were the winners of the bidding process, so we have maintained a significant geographic coverage. It generates a discomfort to beneficiaries, mainly when it is not well understood. Companies are asking us to make this type of movement, but always reinforcing a clear communication, otherwise it can generate conflicts between clients and beneficiaries. We have been learning a lot throughout this journey and we are improving our processes to make effective actions to generate minimal impacts and conflicts. The Direto line tends to gain traction as we have already created more restricted products in terms of network. We are always trying to find more mechanisms to better control costs, claims, effectiveness, and quality with specific networks. Concerning Direto Mais, we are very excited with the initial results - more than one thousand sales in less than one month of the launch of the product - which is very positive when compared to the performance of other Direto products. The São Paulo market has a huge

potential – we expected 50, 60 thousand lives in 3, 4 years of operating in the mid-ticket, possibly it will also be the potential for the next 3, 4 years of the Direto Mais, but it is a very new product and we are still learning, considering this is a national product, different from the ones which have a regional focus. Besides health management mechanisms, the beneficiary's journey is monitored by physicians through a digital multichannel – physicians are one of the central parts of our model. I think there is much to learn before we conclude if this model will continue in our strategy, but we are betting on it. I think this product changes the relationship between physicians, patients, hospitals and health plans and articulates the different players in an effective way. So, very positive expectations, but it is too early to give you an answer.

Leandro Bastos (Citi)

That is great, thank you. Good morning.

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