

1Q20 Conference Call Transcript – Q&A

Operator

Ladies and gentlemen, we will now begin our Q&A session. Our first question comes from Felipe Salomão – Citibank.

Felipe Salomão (Citibank)

Hi, good morning Portella, Bottas, Raquel and others participants at the conference call. Thank you for the opportunity to ask questions. I have two questions, the first one is related to the adoption of new capital rules. Could you please give us an estimate of the amount, in million of Reais, that the implementation of these new rules could free of Sulamérica's regulatory capital? I would also like to know if these rules are current, and confirm whether it is a permanent reduction rather than something that can be revised once the pandemic is over. My second question is related to medium and long-term consequences of the pandemic. We are noticing a movement regarding new technologies, such as telemedicine, medical orientation by phone, health assessment through WhatsApp, and so on. In your opinion, is it possible to conclude that these new technologies and the change in behavior will benefit the company's efficiency and possibly help to better control the Health loss ratio? I imagine it is already possible to have an estimate, given that some weeks have already passed, and considering the unit economics from person to person, can observe the appointments or beneficiaries' claims if it is cheaper due to these new technologies? These are my questions. Thank You.

Ricardo Bottas (Vice President of Control and Investor Relations)

Salomão, thank you for the question. This is Bottas speaking. I will answer your first question and Raquel will answer the second one. In relation to the new rules, I think Gabriel mentioned in his speech, regarding ANS resolution, it was already in discussion and was approved before the pandemic. Its main purpose is to change the regulatory model of the capital requirement migrating from solvency margin model to a capital risk-based model. It is worth remembering that a few years ago this difference already existed, there was an asymmetry between the capital requirements of operators and insurers. So, this change, which had been happening before the beginning of the pandemic, seeks the convergence of the capital requirements in the private healthcare system until 2022. Thus, in your question you asked if is possible to estimate a capital reduction, what I can tell you is: yes, but it is not a reduction of capital requirement, excess capital is going to happen indirectly and prospectively, as far as the solvency margins of ours insurers are frozen in the nominal value of the solvency margin that we had in March 2020, this means... Salomão, your question has a very important point. The number I am going to give you has a degree of uncertainty and it is not a forecast. You know that the Company does not provide any kind of guidance but *ceteris paribus*, preserving our model of operation and our expectation to increase in revenues and in claims, it is worth to bear in mind that our solvency margin uses the higher one. In our case, is the reference of the historic of claims, considering the reference of claims that we had before the pandemic would represent, until 2022, an additional non-constitution of a monthly solvency margin in the order of R\$35 million. I cannot tell you if this number will remain the same because, from now on, we are going to observe which will be the impacts of the revenues and the claims frequency behavior since the beginning of the pandemic. Regarding solvency, it is effective as of April 2020, so it is currently effective and predicts to converge the capital requirements in the whole system until December 2022, in this sense, by 2023 the system will have the same capital requirement. Thank you.

Raquel Giglio (Vice President of Health and Dental)

Good morning Salomão, thank you for the question. I am going to answer the second question... The telemedicine in Brazil had its extraordinary approval by a recent ministerial order but in this first moment it is temporary. Before focusing on the telemedicine topic, I want to look back to 1 year ago, the Video Calls with Physicians feature (videoconference with doctor) are already available to our beneficiaries for over a year. At this moment, what we have been doing is to reinforce even more this entrance arch and it is guided by new technologies in digital tools. Probably, from now on, the consumer relations of the Health beneficiaries will change due to the possibilities they have in their hands. The Video Calls with Physicians feature is already available for 24/7, without limitation of use and it is accessible to a 100% of our beneficiaries, also, doctors are able to prescribe medicines with this recent approval. We also provide to most of the Coordinated Care physicians the possibility to make appointments in the Health Cloud tool, being able to continue the medical treatments and even assist new beneficiaries through this tool. The physician works from home and the beneficiaries have much more comfort at their homes. The number of accesses in the feature has increased a lot, both for physicians and beneficiaries, not surprisingly the NPS is very high. So, I think that the consumer relation will change from now on. How far the migration from physical to digital will remain in the digital tool? How is going to be the new behavior? I think it is too early to forecast, the scenario is still very volatile, but there is no doubt that the consumer relation with these possibilities has changed. Some of these possibilities already existed and others are new. The beneficiaries are enjoying and considering this a significant differential. Thank you.

Felipe Salomão (Citibank)

Bottas and Raquel, thank you for the answers.

Operator

Our next question comes from Maurício Cepeda – Credit Suisse.

Maurício Cepeda (Credit Suisse)

Good morning everyone. Good morning Gabriel, Bottas, Raquel, Arthur, thank you for answering the questions. I have a few questions and I will try to ask as briefly as possible. Probably the number of lives in the Health segment will suffer an impact, so I would like to know your perspectives from now and also perspectives related to market share. You are a premium player, your ticket is well above others players for example, the verticalized ones. This is my first question. The second question is also related to this context of perspectives. Could you please talk about the share buy-back program that you've announced yesterday? The third question is related to the financial assets exposure, you had an excellent profitability because you were more exposed to risks. Bottas mentioned that the Company is going to recover as the market does and maybe with this high-risk financial assets exposure plan. I have also two simple questions related to others business of the Company. Regarding Life insurance: Do you expect any kind of damage due to a contractual clause regarding a claim related to the pandemic scenario? Regarding Private Pension, the VGBL product grew very sporadically. What are your perspectives to inflows and others perspectives from now on?

Ricardo Bottas (Vice President of Control and Investor Relations)

I am going to answer the second question, regarding the share buy-back program. Gabriel and Raquel, could you please answer the question related to perspectives? This question has some aspects related to the portfolio behavior and the consumption. As we have been saying, it is very difficult to predict the future consumption behavior, the impact due to the economic crisis since the beginning of the pandemic and the percentage effect of the pandemic. Cepeda, thank you for the question. I am going to begin by answering your second question regarding the motivation of the share buy-back program. First of all, I think it is important to bear in mind that

the Company, since its IPO, already had share buy-back programs for many years. If I am not mistaken, the last program ended in 2014 and since then, the trajectory of the Company value has presented a continuous increase. Due to some effects of the capital market and the strong devaluation that we have seen recently, we understood that it was an opportunity. The current price might not be reflecting our vision, despite everything that we have been doing in relation to the perspective and the value of the Company. For this reason, we have discussed with the Board of Directors that approved the share buy-back program for 18 months. It will allow us to eventually act if any kind of long-term asymmetry is noticed. The negotiations can be carried out for a period of up to 18 months, which is the maximum period allowed, and enables us to buy-back up to 5% of the available units in free float. This program is mainly due to our perception of the spread from the current price and the strong devaluation of the Company's units. I think that we made very clear in the Gabriel's speech that the systems and process of the Company are integrated and we believe in the resilience of our business model. Gabriel and Raquel, could you please answer the first question? Thank you.

Gabriel Portella (CEO)

Maurício, good morning! This is Gabriel speaking. I think that are two relevant points in your question: the first one is our real position... I think that we have never been well prepared and positioned as we are now, considering everything that we have developed through the time aiming a greater development of our business, digital tools and everything that Raquel has mentioned about the maturity of the entrance arch, while the Company is operating fully remotely. In relation to your second question, regarding the tough economic times that we must face until the recovery of the economy, without a doubt it is going to happen but nobody can foresee the effects and which sectors will be more or less affected. So, the probability isn't the share, it is to continue developing, I think Raquel is going to talk a little bit more about the planning in relation to the new products. Concerning your second question, we are prepared not only to face the crisis but also to successfully overcome it, regarding everything that we have developed in the last few years and all the tools that we have. In relation to the economic aspects, the unemployment situation, the economy recovery and also the point that Raquel has mentioned earlier in her answer to Salomão: the future behavior of our beneficiaries and companies is unknown, we know that we are well prepared for this recovery and to face the crisis with safety and efficiency, this is our priority and also we need to prepare ourselves for the new models that will come. Now, I hand out to Raquel so she can talk a little bit more about our product strategy development in the Health segment, but not limited to this business. Regarding the others questions, I think Marcelo could give you more details.

Raquel Giglio (Vice President of Health and Dental)

Thank you Gabriel. How are you Mauricio? So... we are also looking at the possibility of a recessive scenario that we must face ahead. There are many possibilities such as: a decrease in the people's income and an increase of requests to downgrade plans, which reinforces our strategy, an example is the launch of new products. I would like to reinforce the Direto line... It is worth remembering that we have already launched this product in Rio de Janeiro, São Paulo, Curitiba and more recently in Campinas, in partnership with Hospital Vera Cruz. Just to remember... We passed through a trial phase and in that moment we had some relevant findings. In the beginning, the commercialization was only available to enterprises with groups over 30 lives. At that stage, our main focus was to understand the behavior of this product and its relationship with the customer. As I mentioned, at that moment we had some relevant findings and we made some adjustments in the offer, as an example: we included a maternity in the São Paulo region, which is the Maternidade Santa Maria from Santa Joana group. We included in the regional product the benefit of a national emergency assistance, in case the beneficiary is traveling and needs an emergency room. We began to offer these products to the retail portfolios, notably in SME (Small & Medium Enterprises) and Affinity. In the next 3 weeks,

3 more products will be launched, one more in São Paulo, one in Recife and the other one in João Pessoa. As Gabriel has mentioned, we have been working from home in the last 8 weeks and our speed has not decreased. For us, this movement gives us flexibility and resilience to face possible difficulties encountered by customers. I already had the opportunity to share with you that our customer average retention time is very high. We must have a case by case understand to draw an offer, so we will face tough negotiations from now on. Probably in many cases we will have to make: a plan reduction; a downgrade; a reduction on the readjustment index; an increase in the copay; a contractual expansion or add a contract to Dental. All of this will end and when it happens, we would like to have our customers with us. So, when the companies begin to hire more and improve its results, they will be here with us. I think this is the idea of our strategy. Now, I give a change to my colleague Marcelo talk about the Life segment in your question. Thank you.

Marcelo Mello (Vice President of Investments, Life and Pension)

Thank you Raquel. Thank you Mauricio for your questions. You have asked 3 questions... One of them is related to the insurer's reserve management, and the other two questions regarding Life and Private Pension. I will begin by the investment reserves. As Bottas mentioned, we kept the exposure in shares, which is small, but obviously, with the very strong impact that we saw in the equity assets, this portfolio presented a huge impact, but we did not see any reason to decrease our position in this stressed scenario. We made some tactical changes in this portfolio: we left the sectors that were severely affected by the crisis, as the civil engineering and some financial institutions that we had in our portfolio, but in the other hand we increased our position in more resilient sectors. In the macro point of view the portfolio was kept but in the sectorial standpoint, a reallocation was made to allow us be better aligned to this scenario. We also took advantage of the opening of the future interest rate, not only in the fixed rate but also in assets adjusted by the inflation rates, to make a tactical position in those assets. You know the rates were depreciated a lot in this scenario and I think that was a great opportunity to buy assets to the insurer. After all the dysfunctionality that we saw in this market we have recently begun to make a position in credit assets. Probably you may have seen a large volume of rescues in the industry, mainly in the fixed income industry, that has impacted the credit funds and has generated a dysfunction in the pricing of those assets. We monitored this movement until it reaches a certain level of price that makes sense to a high-quality portfolio with a very competitive rate to the reserves. So basically this is what we did in the last few weeks, always observing the actuarial liabilities of the legal entities, respecting the actuarial liabilities and we were buying position with the excess of capital. Regarding your question about the Life operation, we, voluntarily, decided to reimburse ours beneficiaries that were diagnosed with COVID-19. We had some cases but, fortunately, not many and the insured amounts were relatively low. So, there is no point that is worth commenting. In relation to Private Pension, you mentioned the increase that we had in the first quarter, it was strong not only by the gross collection point of view but also in the net income. It was one of the best quarters that we had, the gross collection and the net income were due to a portfolio that has been built through the time, not only with Sulamérica's products but also with an open architecture with many funds that were launched throughout the time, the facilities offered mainly to the brokers by hiring Life and Individual Private Pension products also through digital signatures. We also observed a relevant increase in the investment platform, distributing Private Pension products, so this channel is presenting an increase quarter after quarter and, obviously, we have been capturing this increase. Regarding the Private Pension, we noticed that the market was presenting a very strong increase in the first quarter and in the end of last year. As this segment has a very strong connection with the increase in the real income and the cash reserve, we must see an impact for the following quarters, on the other hand, as the interest rate is very fresh in the Private Pension customers minds, the products present a highly sensitive performance and, as we have

a portfolio of products that are performing well, I think we can gain market share through the portability from the competition, OK? Thank you.

Maurício Cepeda (Credit Suisse)

Thank you.

Operator

Our next question comes from Guilherme Grespan – JP Morgan.

Guilherme Grespan (JP Morgan)

Hi Gabriel, Bottas, Raquel. Good morning and thank you for the opportunity to ask questions. I have two questions. The first one is related to regulatory environment. My question is not about the ANS capital requirement, it is about the National Congress. We have been seeing some law projects which addresses: the readjustment of the healthcare plans; the possibility of SUS to use private beds for Covid-19 patients; an increase in taxes, going in the same direction of the banks - a potential increase of taxes to the insurers of the social contribution. I would like to know if you can share with us your vision... Which law project do you think that have a higher probability to be approved? Which impact do you expect to your operation? My second question is related to efficiency. The current scenario brings us a lot of long-term discussions on efficiency. The idea of my question is not to talk about the opportunity of gaining efficiency with home office, new ways of working and conduct business. The idea of my question is to talk about the short term. Imagining that 100% of your work force is working from home... Is there something related to the general and administrative expenses (G&A) that we can see as a potential gain for this year that make a decrease in the ratio when compared to 2019 results? Is there something that led a decrease in the ratio? Are there segments or any kind of allocation of costs with potential decrease in this year? Those are my questions, thank you.

Gabriel Portella (CEO)

Hi Guilherme, this is Gabriel speaking. Good morning and thank you for the questions. I am going to separate the regulatory environment in 3 blocks: ANS, SUSEP, and the third block I will call as Ministry of Finance, which involve taxes. I am going to begin by the third block, the tax reform was already announced last year so, at this moment, on tributary reform discussion we do not think that the projects and measures announced are going to be approved, but this is at least our expectation. Regarding SUSEP, also working remotely, we have a lot of milestones and postponements of the deadline so, it's an extremely favorable cooperation regarding Other Property and Casualty, Life and Private Pension. In relation to ANS, Bottas already had the opportunity to cover the measures that were set before so, regarding ANS, we do not have anything that is worth highlighting. I think that are thousands projects around the Brazil in the Legislative Power, in many spheres from Federal to Municipal. An issue that we observe and deserves a greater concern is the coverage, such as non-payment, and it's established that it is a Federal discussion, also there is a law since 1999 which determines and disciplines all of these aspects. Therefore, the good sense has prevailed, in order to keep organized what is most organized in the country, which is the private sector of the supplementary healthcare system. Although there are threats and you know all of them, we are not too concerned... Actually, this isn't the best term because we are always concerned and you know that, but we do not see a bigger threat that we cannot appeal or argue in this environment, mainly in the Legislative sphere. In relation to efficiency, I think that has been our trajectory and, in previous calls, we have been saying that even with the segregation of the Auto and Massified structure, that occurred recently, we aim for a gain of efficiency. Obviously we have investments, you have been seeing this and Bottas has been giving all the visibility of the investments that we have been doing to this segregation bearing in mind the proximity of the closing, which is expected

for 3Q20. So, seeking efficiency is one of the main characteristics that always follow us, that is why we are analyzing the processes implemented in this period that can be converted to definitive processes with greater efficiency and lower costs. Everything that we have been doing to the digital transformation accelerates and we want to accelerate this even more. Segregating the Auto and P&C businesses effects, object of the transaction with Allianz, we will always seek efficiency, and it is what we have been doing in the past few years and what we are prepared to do. Evidently, at this moment there is a big discussion related to the reopening model, which I call world reopening model... How are the Companies going to work? How are the people going to move around? What is going to be the security measures? Probably, at this moment, we must make changes in our workplace, in the operational logic, but, as I mentioned before, I would say as well as on risks, we also must have to change parts of our process, technology and operations. We are very well prepared to continue to pursuit this efficiency that we have been presenting in the last few years.

Operator

Our next question comes from Samuel Alves – BTG Pactual.

Samuel Alves (BTG Pactual)

Good morning Gabriel, Bottas, Raquel, Marcelo, good morning everyone. I have two questions: the first one is related to the Health loss ratio dynamic. You have mentioned in the earnings release and also in the webcast presentation that there are positive effects of postponed procedures but, on the other hand, there is an increase in the number of the hospitalizations for COVID-19 cases. Just to understand, we are already in middle of May... Can you share with us, which strength should prevail in the second quarter? The second question is also related to the first one. Could you please give us an idea of the cost of a patient that is hospitalized with confirmation of COVID-19? You had more than 1.000 cases, I understand that it may vary widely, but I just want to have an idea of the magnitude of this. Thank you.

Raquel Giglio (Vice President of Health and Dental)

Hi Samuel, this is Raquel speaking, how are you? I am going to begin by answering your question that relates to the magnitude of costs of a Coronavirus hospitalization versus an elective procedure... I would like to say to you that a surgical procedure, mainly those ones that use materials and drugs that have high costs, are always more expensive than a clinic hospitalization. The Covid-19 hospitalization is basically clinic, but on the other hand, with a certain number of cases that we have, we can observe that this hospitalization average is higher than the others. However we already had 1.000 cases, there is a gap between the effective occurrence and the end of the regulation... the provider must send us the account and we must do the regulation process. At this moment, I do not feel comfortable enough to say to you the delta of this. I think that what is most important to bear in mind is that an elective procedure is cheaper than a surgical one but the coronavirus hospitalization tends to be a little bit more expensive than the elective ones, due to everything that we have been commenting here as: a greater use of materials, ventilators, personal protective equipment (PPE) and etc. Regarding the decrease in frequency that we have been observing since the second half of March and how it is going to behave from now on, I think there will be a new normal but no one is ready to say how it is going to be: People are going to be afraid of going to the emergency room? Will they think twice before going to an emergency room? There will be a decrease in the urgent hospitalizations? There will be a decrease in elective procedures? So, I think all of this is unknown and everyone has this in mind. What we can see with the decrease in frequency, here I will focus on the elective surgical procedures, taking for granted that they must have to be done, and they will come back at any time but gradually because the hospitals also have their full capacity for these kind of procedures. So, the scenario is still extremely volatile, we have

been monitoring this numbers on a daily basis, but we do not have the numbers maturity, neither on frequency nor on the average cost of Covid-19 hospitalization to have a definitive position on what is going to happen next.

Samuel Alves (BTG Pactual)

Thank you Raquel, if you allow me... I just have one more question. Related to receipt flow in the Health segment, have you felt any change related to non-payment in April and May? Thank you.

Raquel Giglio (Vice President of Health and Dental)

Samuel, for now, absolutely nothing relevant. Just to complete my answer of the previous point, we always have to emphasize that our focus is on the right and adequate patient care with the logic and as the center of Coordinated Care, seeking stronger contact with our beneficiaries, notably to the older ones... The procedures that must occur, will happen and we are keen to talk to these people to bring this new reality into perspective. On the other hand, something related to behavior may change definitive in the future. Let's wait and see. Thank you.

Samuel Alves (BTG Pactual)

Perfect Raquel, thank you very much.

Operator

Our next question comes from the webcast, from Zoe Tan – Columbia Wanger.

“The client lost in the dental segment was due financial struggles or did they switch to a competitor? If it was last option, what drove the lost, was it pricing or other reasons?”

“Is any there riskfor which the Auto transaction to Allianz would not go through?”

Thank you!

Raquel Giglio (Vice President of Health and Dental)

Hi Zoe, thank you for your question. This is Raquel speaking. I going to begin by answering the question related to Dental. We consider the loss of this client a normal movement of the market. There was a bid and as I emphasized here before, we have a very sustainable pricing strategy, we use the right price to preserve the long-term relationships. There was a bid in the market and in the end of that, due to a more aggressive proposal of certain competitor, the costumer chose to do this migration, thus, everything seems to be normal. We have our loss ratio outcome goals and a major impact was not verified. I would also like to take this opportunity to reinforce that we have extended to Dental beneficiaries, the medical orientation by phone as offered to the Health beneficiaries, which is a significant differential of SulAmérica Odonto. As the Health beneficiaries, the Dental ones have a specific coronavirus button in the app that allows them to call physicians and clarify any doubts related to the pandemic or some symptoms they are feeling at the moment. We consider this an extremely relevant differential that distinguishes SulAmérica and brings the Company a major chance to retain the Dental clients. Thank you.

Eduardo Dal Ri (Vice President of Auto and Massified)

Hi, this is Eduardo Dal Ri speaking, how are you? Good morning. Despite this pandemic scenario, that was already mentioned a lot in this conference call, we continue our work from our home, following all the previous steps to the closing of this transaction and in strict

compliance with the deadlines and with what was agreed to happen in these periods. We are convinced that the closing will be in the third quarter of 2020 and, until this moment, there is nothing to stop it. Thank you.

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