

Q3 2021 Earnings Call

Company Participants

- Raphael Afonso Godinho de Carvalho, Chief Executive Officer and Interim Chief Underwriting Officer
- Willy Otto Jordan Neto, Chief Financial and Investor Relation Officer

Other Participants

- Daniel Vaz, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Earnings Review Call IRB Brazil RE for the Accurate Figures of 2021 and Q3 FY '21. Today's conference call includes Mr. Raphael de Carvalho, Company's CEO; Wilson Toneto, COO; Willy Jordan, CFO and IRO; Mr. Carlos Andre Guerra Barreiros, General Counsel for Risks and Compliance Officer; and Mr. Daniel Vega VP for Damages, Liabilities and Special Risks. We would like to inform you that this conference call is being recorded. And all participants will be in the listen mode only during this presentation. Right after that presentation, we will hold the Q&A session. (Operator Instructions). The presentation was put together by IRB Brasil RE and should not be taken as a source of investment data.

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Market and competitive position information, including market forecasts that were alluded to throughout this presentation were obtained through internal surveys, market research, public domain information and corporate publications. References to continued operations one-to-one, one-off operations and run-off effects, will be presented in the

managerial format. The unaudited businesses are going to be presented here for the best management purposes.

Mr. Raphael de Carvalho, CEO, will start with his presentation.

Raphael Afonso Godinho de Carvalho {BIO 22478426 <GO>}

Good morning. Thank you all and welcome those of you attending this conference and thank you very much for your interest and this follow-up, and despite in the introduction, some of the people have been mentioned here, I would like to reinforce here that we have some new names in the leadership of this organization. Just to my side, we have Toneto and Guerra who are well known to you from other calls. But we have a couple of new names starting by myself, myself Raphael de Carvalho, I have taken the CEO position since the beginning of October. And we also have our Investor Relations and CFO, Willy Jordan who has also recently joined our team in mid-October.

And I also would like to remind you, something that we shared about couple of weeks ago, about a reorganization that we did here in our business area. We basically split the old structure that was called Reinsurance VP in two business units that reply directly to me and I will get into the details more towards the end of this presentation. But that basically talks a lot about the executive strategy and the leverage advantages.

The first one is the Life department that I actually would like to announce, that it will be occupied by Ronald. In fact, Ronald is a very experienced business person in insurance and reinsurance, Life specifically, both in Brazil and Latin America, and he will take this position next Wednesday and he is a head of one of the largest life reinsurance companies of the world. And the other structure as it was mentioned at the beginning of the presentation is a VP, also reporting to me of Damages, Liabilities and Special Risks and to this, we elected Daniel Vega, who's got 20 years of career that's been through basically all our business units. He is a specialist in a underwriting and even more important than that, he knows our clients, our portfolio deeply.

And having said that, now I would like to invite Willy to share our earnings with you.

Willy Otto Jordan Neto {BIO 15002562 <GO>}

Thank you. Thank you, Raphael. Good morning, everyone. It's a great pleasure for me to take part for the very first time in the earning results call of the IRB. And starting with Slide number 3, we had in the -- for the fifth quarter, consecutive quarter, a positive cash generation with an accurate amount of BRL1.5 billion over the last nine months and even if we disregard the non-operating events such as the court settlement that was received from Eletronorte in the first quarter and the payments received from subsidiaries, we generated a positive operating cash of BRL1.1 billion in 2021.

And we should also highlight that the cash generation results should converge on the long run. In the past, IRB gave positive results, but was burning cash and after the restructuring, we paid those -- that with accounting results which are still negative, but our cash

generation follow up indicates that we are on the right track. Another important information is that from the recurrent figures, when we exclude the discontinued businesses under recurring expenses, we've had a net profit in the first nine months of 2021 of BRL670 million higher than last year and going from a recurrent loss of BRL568 million in the first nine months 2021 for a recurring net income of BRL102 million in 2021. And this at asset next also demonstrates that if we look at the long run, the remaining contracts and the run-on have already started to show much better performance, again showing that we are on the right tracks.

Now going towards Slide number 4, we would like to present you with the net income for the accurate figures of 2021, showing the impacts of the discontinued of the run-off and non-recurring one-off effect. And as I mentioned, we've had BRL102 million in the one-off and discontinued business. The effect of the tail of the discontinued contracts was BRL539 million, partially offset by the one-off discontinued events.

The following Slide demonstrates basically the same impacts on the third quarter, where the recurrent net profit was a BRL44.5 million and we've also observed in the third quarter, a very important influence of the tail of the discontinued claims, and from the 556 losses, the impact was BRL330 million precisely because of the additional provisioning of BRL129 million in the life segment abroad. On the other hand, we had a one-off gains referring to PIS/PASEP in August, with a very positive effect of BRL129 million on the net profit of the quarter.

On Slide 6, we would like to illustrate again the effects of the tail of the large discontinued contracts. The tail of the run-off contracts have had a diluted impact throughout the time and we will have a gradually lower importance in face of the businesses that were renewed and the new businesses, the new deals. And the impacts of the underwriting companies of the run-off businesses were negative in the BRL753 million in 2020 and BRL538 million in the year-on-year until September 2021.

And as you can see from the image, this impact came from four contracts that were terminated in July 2020. And for 2021, this impact of BRL538 million came after, aside to this four contracts, another 13 contracts that were also terminated in April and July. So when we look at the bottom of the Slide, this image illustrates very well the behavior of the sale. So in 2020, the four contracts have generated BRL753 million of impact in the underwriting results, and this impact in the nine first months of 2021 went down to BRL316 million, so less than half. And we have BRL221 million additional that were due to those 13 discontinued contracts in 2021.

Likewise, we can expect that the effects of this deal will still be felt in the coming quarters. However, we hope that they will become less representative of the years of 2022 and 2023. It is also important to highlight that although the impact of the one-off contracts will gradually fall with time, our activities is subject by its own nature to oscillating results. So in short observational periods, that as we saw in this last quarter, we saw that we might have punctual deviations of this trajectory.

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Moving on to the next Slide. We see what happened with the premiums in the Company. Although the written premium has fallen by 10.9% in the first nine months of this year as compared with 2020, I would like to highlight that in the domestic market, there was a growth by 5.8%, which reflects our strategy of prioritizing our local market. As a consequence, production in Brazil accounted for 61% of the total, relative to half last year. Many of the discontinued contracts were international and they were canceled or reduced due to the low profitability.

As regards retrocession premium in Q3 2021 and in the nine months of 2021, there was a reduction in retrocession expenses as compared with 2020. This happened because the basis of comparison of 2020 included an exceptionally high volume of retrocessions because of the reduction of the exposure to foreign risk, and also due to the needs to adapt the Company to regulatory limits.

In Q3 2020, we held LPT operations, loss portfolio transfer operations, which alone increased the retrocession ratio that quarter by 15 percentage points. As a consequence of the lower retrocession, the earned premium has been gradually increasing relative to previous periods in the quarter and the accumulated for the year.

Moving on to Slide 8, the commission ratio fell from 24.7% in Q3 2020, to 19.7% in Q3 '21, reflecting the renegotiation of contracts at more appropriate levels. Administrative expenses, once we exclude the non-recurring effects of the payment of fines relative to fiscal things, provisions for labor lawsuits and payment of indemnification, the administrative expenses remained flat at 5%.

On Slide 9, we see an improvement in the loss ratio during the nine first months of 2021. The recurring ratio fell 7 percentage points and went from 92.1% in 2020 to 85.6% on the accumulated to September. Also, looking at the recurrences, but looking for Q3, we saw claims especially in properties, special risks and aviation, where the loss ratio was in line with insurance and reinsurance market, which had a lower performance generally speaking.

Also in Q3 2020, we had LPT operations which contributed further to the reduction of the loss ratio in the period. Our combined ratio also showed an improvement in nine months. And looking at the graph, the combined ratio on a recurrent basis was 118%, a 2 point percentage points improvement relative to last year. Quarter-on-quarter, the ratio was impacted by the effects mentioned on loss ratio, which is the main component of this indicator.

And looking at Slide 10, we are going to talk about solvency relative to regulatory requirement. The solvency is appropriate at 142% when we look at regulatory solvency, which considers adjusted net worth. If we look at the total net worth, which is what is used in other markets, our solvency goes to 264% of the minimum required capital. The difference between the two indicators has to do with our tax credits, which are excluded in the adjusted net worth calculation. The decrease in the solvency indicators and the sufficiency of coverage implies an increase in technical provisions during the long tail, but as new contracts come on stream, the tail effect was going to be minimized. On the lower

part of the Slide, you see how we calculate the minimum capital requirement, which demonstrate its breakdown, its composition, which considers risk capital for subscription, credit, operation and market.

On Slide 11, we show the sufficiency of our coverage for technical provisions. On the lower part, you see that at the end of September, technical provisions were BRL15.8 billion as compared to the volume of eligible assets for collateral which was BRL16.2 billion. That is, we have a surplus of BRL347.4 million. If we include the safety margin, the regulatory safety margin, which is 20% on the risk capital which is a BRL304 million, we are still sufficient from a regulatory point of view. As we informed last quarter on July this year, the regulatory agency has established criteria which will complete -- contribute to the increase in our sufficiency, especially the change in the safety margin of 20% and this is going to be effective in January, 2022.

On Slide 12, you have our cash position and investments. And this position is now stronger having reached BRL10 billion. The growth in the period has to do with the actions taken in 2020, such as increase in capital stock, the venture issuing, LPT operations and sale of assets and of course the greater operating cash generation in the last five quarters. As regards the financial results, the growth in the quarter and in the nine first months of 2021 has to do with a greater balance of investments. The increase in the Selic basic rate and also the monetary updating of the recovered PIS/PASEP tax. Quarter-on-quarter, the drop in financial result is explained because of the interest paid on debentures in Q3 2021, which did not exist in 2020.

I'll now turn the floor over to Raphael for his final remarks.

Raphael Afonso Godinho de Carvalho {BIO 22478426 <GO>}

Thank you, Willy. In the beginning I said that I have been in the Company for 40 days. I would like to share with you how I used these 40 days. I concentrated most of my energy in reviewing the strategic planning and focusing on the future. Obviously, without putting a lot of energy in getting to know the organization and thinking also about the short term. If I had to summarize our vision for the future, I would say that we have to resume growth with profitability. This is our motto, our objective and this is our mandate, the mandate of the Company's management.

How do we intend to do that? First of all, we are going to explore and tap the competitive advantages of our Company. Our main competitive advantages are, first, IRB has a deep knowledge of the local market. One of our Board members likes to say that, nothing relevant happened in Brazil in the last 80 years that required protection, and that could do out -- could do away with (inaudible) with idea. So this is with us, we see that in the data, in the statistics, in the actuarial experience that we have. We are uniquely positioned to make all of these available to our clients.

A second point, and that's where I'm going to stop. We believe that our ability to serve our clients in Brazil, is unique. Our ability, because of the size of our balance sheet, of our book in the country and the size of the team, the degree of specialism and the volume of

business that we make available to our customers and commercial partners. IBR is a Brazilian Company. We make decisions here and we are able to serve and understand better the needs of our clients.

In order to do that, we have implemented initiatives under our strategic plan and we have three major strengths. We are going to focus on greater efficiency in business, has to do with underwriting, process improvement, especially when claims happen and when clients exchange data with us. Then we have efficiency in capital, where we allocate capital and we can focus on those areas where we can make a difference and less energy in those areas where we don't make so much of a difference.

And then, we are going to focus on cultural transformation and this is going to happen on two pillars. The first one is a total focus and decision making, thinking primarily of our clients. And then, innovation, that's the second pillar. We know the local market, and we have the ability to craft solutions that our competitors don't have.

So speaking of our initiatives, our competitive advantages, makes clear where we are going to focus our energies, to resume growth with profitability. We are going to focus on Brazil, and just to give you some numbers, Brazil has to account for two-thirds of our operation, from two-thirds to three-quarters of our operations. We have been doing work to that end and we are going to do even more to acquire new clients, and to sell more to current clients.

And to extend this area of differentiation of IBR, we are going to focus on Latin America, focusing on some countries and especially on those areas where we are strong in Brazil. This means that we are not going to leave other geographies, but we are going to be more selective and we are going to get in those areas where our tax structure and our cost structure can be used to our advantage. And especially when we can earn business that is complementary to what we do in Brazil and in Latin America. So this is how I summarize our vision for the future. Again, this is where I focused most of my energy in these 40 days, and this is where the organization is going.

And now, I would like to open for the analysts to ask their questions. Thank you very much.

Questions And Answers

Operator

Thank you. We will now begin the Q&A session for analysts and investors. (Operator Instructions). Our first question comes from Daniel Vaz from Credit Suisse. You may proceed, sir.

Q - Daniel Vaz {BIO 20331316 <GO>}

Thank you. My question has to do with the announcement you made relating to the division and the new Vice President for Reinsurance. You will have Life, Damage and

Special Risks and Liabilities. You have announced Mr. Ronald Affat to head Life; and Daniel Vega to head Damages, Liabilities and Special Risks.

So what is your idea in terms of having this new structure in place? Can you give us some more color about the objective of having these two executives who are very experienced working in the Company in this way? What value is going to be added and what contribution can they make?

A - Raphael Afonso Godinho de Carvalho {BIO 22478426 <GO>}

Thank you, Daniel, very much for your question. This is Raphael speaking. So the very first reason really for us -- I hope you got it right, and really two units, one for Life and the other one for Damages, Liability and Special Risks. So both of them are reporting to me. So yes, you did get right. What is the (inaudible) reason for why would -- I mean, split the business like this, so that we could be more customer-centric, with the specific knowledge for each one of those units.

Those are units where we have different weights and different relevances within our organization and the Damage was considerably larger than the Life today. However, we firmly believe that the Life market has a huge growth potential not only in the country, but throughout Latin America also. So one of the reasons for us to do this breakdown was to better embrace this opportunity. It also reflects how our clients are organized. A major part of our clients are organized like this, so that basically improves our mediation capacity to what our clients are used to.

And last but not least, it also allows us to get closer to our underwriters, to our business units, and to our clients ultimately. So when we split this into two units, the level of expertise and the specialization and is also very important and this is something that we can't simply forgo when thinking of the business as a whole.

Operator

(Operator Instructions). We now would like to close our Q&A session, and I would like to hand the floor over to the Company for the final remarks.

A - Raphael Afonso Godinho de Carvalho {BIO 22478426 <GO>}

Well, thank you very much for the questions and for the interest. And I would like to reinforce our future vision, which is to resume growth with profitability and we have to be as profitable, as robust and looking ahead very optimistically towards the future of this organization. Thank you very much once again.

Operator

We would now like to close this IRB Brasil RE call. Thank you for your participation. Have a nice day.

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