

Y 2019 Earnings Call

Company Participants

- Fernando Passos, Deputy CEO, Chief Financial Officer and Investor Relations Officer
- Jose Carlos Cardoso, Chief Executive Officer

Other Participants

- Andreas Valanides, Analyst
- Henrique Navarro, Analyst

Presentation

Operator

Good morning and welcome to IRB Brasil RE's 2019 Fourth Quarter and Full Year Earnings Conference Call. Here with us today are Mr. Jose Carlos Cardoso, CEO and Fernando Passos, Deputy CEO, CFO and IRO. This conference call is being recorded and participants will not be allowed to ask questions during the presentation. After the presentation, we will open the question-and-answer session. (Operator Instructions) This presentation was prepared by IRB Brasil RE and shall not be considered as source of data for investments.

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Mr. Jose Carlos Cardoso, CEO of IRB Brasil RE will now begin the presentation.

Jose Carlos Cardoso {BIO 20228447 <GO>}

Good morning and thank you all for participating in our earnings conference call for the fourth quarter and full year of 2019. I begin the presentation by pointing out that our financial statement are audited by PricewaterhouseCoopers and also have [ph]2B for the actuary auditing; PwC and now Ernst & Young. On the first slide, we include Price's accounting opinion where it states that the financial statements present in all material aspects the equity and financial position of IRB, its subsidiaries in appropriated way.

Moving on to the next slide number 3, we highlight the actuarial opinion of PwC and Ernst & Young. IRB financial statements for the year 2019, already account with the double independent actuarial auditing as they were examined by Ernst & Young in addition to PwC, which continues to check our actuary information. These reinforce the company's search for the best governance practices. On slide number 4, we present our results compared to the guidance released by the company in August of last year. It's possible to observe that the written premium grew 22.3% in 2019, in line with the projection of 20% to 27% for the year. The amplified combined ratio for 2019 reached 70.2% within the range of 69% to 73% and the administrative expense ratio of 5% is also in line with the company's expectations for 2019, which was between 4.6% and 5.2%.

Now in the next slides, Fernando Passos will present the results we achieved in 2019.

Fernando Passos {BIO 20117537 <GO>}

Thank you, Cardoso. Let's begin on slide 5, in which we present the track record of the total written premium of the company. The total written premium was BRL8.5 billion in 2019, 22% above 2018. In the fourth quarter of 2019, IRB's total written premium increased almost 25% compared to the fourth quarter of 2018, achieving BRL2.1 billion. On slide 6, we present the track record of IRB written premium. We have the breakdown between Brazil and Abroad, both in the full year of 2019 and the fourth quarter of 2019. Of IRB's total written premium, BRL4.8 million were written in Brazil and BRL3.7 billion were written Abroad. In 2019, IRB's written premium in Brazil increased 14.4% compared to 2018. The highest volume of written premium in Brazil came from the property segment, which corresponded to 33% of the total written premium in Brazil. Other highlights were the agro segment, which corresponded to 23% and special risks with a contribution of 14%. IRB's written premium Abroad increased almost 35%, the highlight is the life segment with 37% of the total written premium Abroad followed by property with 25% and agro with 19%. These are the same segment that company has expertise in its local operations. In the fourth quarter of 2019, of the total written premium by the company BRL1.2 billion was written in Brazil and BRL900 million Abroad. The total written premium in Brazil by IRB in the fourth quarter of 2019 increased almost 21% compared to the fourth quarter of 2018. The written premium Abroad was up 30% compared to the fourth quarter of 2018.

On slide 7, we will talk about the dynamics of the retrocession ratio and the total written premium. Let's start with the graphs on the left side of the slide, which shows the track record of the retrocession ratio. In 2019, the company's retrocession ratio was 25.9% compared to 26.9% in 2018, a decrease of 1 percentage point. Historically, the company has already showing important decrease in its retrocession ratio. The retrocession ratio went from 30% in 2017 to 25.9% in 2019, a drop of 4 percentage points. This decrease in cost with the same protection of the reinsured premium was possible due to the

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confidence of our retrocessionaires in good loss ratio presented by the company. Also due to their rating upgrade by AM Best from A minus to A on a global scale and the improvement in governance with the change to corporation status. In the fourth quarter, the decrease in the retrocession ratio was even higher, reducing 6.7 percentage points compared to the same quarter of 2018. Now on the right side of the slide, we see the track record of the retained premium by the company. In 2019 retained premium was BRL6.3 billion compared to BRL5.1 billion in 2018 with a growth of 23.8%. In the fourth quarter of 2019, the retained premium was BRL1.5 billion, an increase of 37.8% compared to the fourth quarter of 2018.

Moving on to slide 8, we will talk about the changes in technical provisions. As we always report the change in technical provision has the hope of retaining values that are the result of a increase in their retained premium of the company, in order to avoid that the premium is booked as earned premium before time and as a result to the underwriting income of the company. As the time of the policy coverage goes on depending on the business performance in the term for the risks expired, this provision may be booked to earned premium and after that to the underwriting result. Change in technical provision went from BRL297 million in 2018 to BRL633 million in 2019. In the fourth quarter of 2019, changes in technical provisions was of BRL139 million.

Now on slide 9, we see that the earned premium achieved BRL5.7 billion in 2019, an increase of 18.3% over 2018. As a result of the higher volume of written premium with 22.3% growth, which was in part offset by the growth in technical provisions. In the fourth quarter of 2019 the company's earned premium increased 13.6% from BRL1.4 billion to BRL1.6 million in the same period of 2019. On slide number 10, we present the development of the premium triangle per underwriting year. On this is slide, it's possible to see the evolution by harvest. Through this too, it is possible to see that the earned premium in one year derives from the underwritings made both in the current year as well as in the previous years. So if we can see the same dynamics of premium recognition that occurred in 2017 and 2018, we will have a significant volume of premiums for the year of 2020 from contracts overhead agreed. This demonstrates the resilience of the dynamics of the company's earned premium.

On the slide 11, we can see the loss ratio track record. In 2019, the company's total loss ratio was 51.1% against 55.9% in 2018, an improvement of 5 percentage points. The retained claim I think, has two main components; OCR, Outstanding Claims Reserve, which reflects the claims reported that the company received in the period and the IBNR, which essentially refers to an actuarial provision made by the company on a statistical base to prevent future claims notice. There is also a third item to impact the retained claim, which are salvage and reimbursements, which reflect the company's ability to recover amounts of claims paid. In nominal terms OCR went from a net constitution of BRL2.5 billion in 2018 to BRL3 billion in 2019. The IBNR went from a net constitution of BRL423 million in 2018 to a net constitution of BRL264 million in 2019. In nominal terms, the value of retained salvage and reimbursement went from BRL241 million in 2018 to BRL401 million in 2019.

On slide 12, we present the triangle for development of loss, gross of retrocession per underwriting year. The triangle of claims development by underwriting year allow us to

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see the evolution of claims by harvests compared to the triangle of earned premium by harvest. The claims triangle contains the claim reports received by the company, their underwriting year, their harvests, the evolution of IBNER allocated for each underwriting year, which together with reported claims form basis of OCR as well as the IBNR allocated by underwriting year. The triangle also brings the impact generated by the exchange rate change of the loss provision and their respective retrocession assets. When we exclude the exchange rate impact which affects the company's financial expenses line, we will have comparable base to compared to a loss ratio per underwriting year, their harvests.

The third component of claims, that is the salvage and reimbursement, they are not components of the loss triangle. However, they need to be considered for the calculation of the company's real loss ratio, as is the case with the main global reinsurers and according to the Solvency II [ph]growth. So you can check, company's loss ratio per underwriting the year gross of retrocession, we have filed considering the effects of salvage and reimbursements by seeing the loss ratio line on the table excluding the exchange ratio, the exchange rate variation. Again, this percentage loss ratios do not consider the effect of the salvage and reimbursements recovers. According to the company's provision dynamics, a prudent claims estimate is made for the provision mainly for recent underwriting year. As a result, it is expected that part of the margins are of the constituted provisions will be reverted in the future years, when the risks expire. On this slide 13, we will present the triangle for development of claims net of retrocession. This view is originated by the gross version in which we apply the retrocession contracts conditions.

Moving on to slide 14, we will deal with information related to salvage and reimbursements. IRB and its clients following the established contractual guidelines actively look for amounts to be reimbursed administratively and through agreements and lawsuits. The salvage and reimbursement line is considered relevant in the company's business as is the case with reinsurers in operation for a long time. Just as a mirror example, salvage and reimbursements are part of the DNA of a reinsurer activity, as credit recover is part of the DNA of bank activity. In other words, underwriting risks, paying claims when those occur and being efficient in their recover of the amounts paid to their counterpart, which caused the claim is part of the core business of a reinsurer. Since its privatization, the company has a structure, an area dedicated to the recover of salvage and reimbursements. Aware of how important this line could be for its results.

As it happens with the main reinsurers, we have operations in a long time, as show in the table at the top of the slide, as sooner of the amounts of salvage and reimbursement recognized in 2018 and 2019 financial years. Additionally, we present in the table at the bottom of the slide a summary of the various lawsuits supported by the company and its clients with the goal to recover salvage and reimbursement, which are not -- whatsoever recognized in the company's assets nor are contributing to the reducing the OCR and are not impact the company's results. But have a potential to affect positively the results in the future. These are not case whose effectiveness depend only the company [ph]forward, but they have potential to help the company as a result. On slide 15, we highlight the balance of claims from years prior to 2014 in two views, gross and net of retrocession. The claims related for prior years in year 2018, was RBL1 billion, net of retrocession. This was reduced to BRL236 million in 2019. All of this change the line of

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claims paid, the lines of administrative claims and judicial claims imply in a reduction in the cash position of the company but with no impact in the company's results.

The change in IBNR and IBNER, naturally comes with the dynamics of the business. There is always a change in the balance of liability from previous years as the risk begins to expire, which especially impacts the IBNR and the IBNER. The claims are paid and the legal disputes come to an end. However, as the years go by additional provisions will be made for the new risks that will be part of the company's portfolio until its net effectiveness were not when the contracts will expire. In the claims triangle show on the previous slide, it's possible to see that when considering the year of 2019, which is the period that a REIT concentrates the most current portfolio of the company, there was a constitution of BRL968 million of provision for claims, BRL116 million of OCR and BRL851 million of IBNR. In the view net of retrocession our preparation for the next contracts that should expire late. It's also important to highlight here the change in salvage and the reimbursement estimate of BRL65 million. The change in salvage and reimbursement estimates is that a reductor of the OCR base. Considering the change in the years, in the underwriting years before 2014, this changes in salvage and reimbursement estimate was a change of BRL65 million. Considering all the underwriting years, we will have more BRL35 million in the years after 2014 and considering all the period something like BRL100 million in terms of change in salvage and reimbursement estimates.

On slide 16, we are going to talk about the underwriting result, which achieved BRL1.5 billion, an increase of 31% over BRL1.2 billion recorded in 2018. These increase reflect the combination of the main factors we have already discussed. In the fourth quarter of 2019, the underwriting result achieved BRL543 million, an increase of 51% of their -- over the same period of 2018. On slide 17, we show that the general and administrative expense achieved BRL283 million, an increase of 24% over the previous year. The amount represents 5% of the earned premium, in line with the ratio of 2018, which was 4.8%. In the first quarter of 2019, general and administrative expenses achieved BRL105 million, represented, 6.5% of the earned premium. The main factor that impact the administrative expense in the fourth quarter was the post-employment benefit, the change between assets and liabilities of the social security and health benefit plans of the company's active and inactive employees in 2018 generated a positive contribution of BRL65 million to the company's administrative expenses and in 2019 they contributed with only BRL5.4 million. The pension benefit plans are in excess and have asset allocation based on their ALM assets and liability management.

Moving on to slide 18, we show the result of company's investment portfolio. In 2019, the consolidated financial result of the parent company and its subsidiaries and branches was BRL733 million compared to BRL629 million in 2018. The performance of the management of the consolidated financial assets without the real estate assets of the parent company and its subsidiaries and branches was 122% of the CDI in 2019. The performance is caused by allocations made in fixed rate and inflation index at government securities, which were positively impacted due to the closing of the interest rates in 2019 as well as some exchange rate in variable income operations. The company's investment portfolio decreased when compared to December of 2018 due to the payment of dividends in April of 2019, the payment of interest on capital in December of 2019 and especially due to the relevant volume of claims payment with immediate cash effect. However, whose

recover with reinsurer does not happen in the same year following specific basis of the protection contracts that will allow us to receive the money from the retrocessionaires during the year of 2020.

On this slide 19, we show the breakdown of income from operations of IRB, investments and Participacoes Imobiliarias, our real estate company considering the shopping malls rent and sale. The year of 2019 was marked by the sale of the interest in the company's shopping malls. As show in the table of this slide, we can see that the sale of shopping malls was responsible for our capital gain of BRL103 million in the year. Moving on to slide 20, we present the company's net income, which increased almost 45% compared to 2018 from BRL1.2 billion to BRL1.8 billion, almost BRL1.8 billion. In the fourth quarter of 2019, reached BRL632 million, almost 70% higher than the fourth quarter of 2018. On this slide, for anyone, we present the specific events that impact the result for the year 2019. The result of the company for 2019 some specific events were recognized and were positive. Other events were recognized but the contribution was negative. The first one is the negative impact of the agro segment on the 2019 underwriting result. In 2019, the agro segment in Brazil contributed in a negative way to the company's underwriting result due to the El-Nino effect. We had an increase in the company's loss ratio of this specific segment of BRL697 million when we consider the loss net of retrocession as show in the graph. In addition, a typical impact due to the El-Nino effect recorded in its retained claim, the company also stopped using a relevant part of the tax benefit which comes from this segment in Brazil, which reduced the tax effect in 2018 by BRL123 million and in 2019 reduced the tax effect by only BRL31 million according to Note 25.10 to the financial statement. So this is only fact which happens in general, however, [ph]for years, created a relevant negative impact on the company's results.

The positive impact of the capital gains on real estate assets. The capital gains of BRL103 million impacted the company's annual results as explained in this section about IRB investment and Participacoes Imobiliarias, our real estate company. Another impact, the deferred tax credit on the laws we have an international branch, London branch, in accordance with the Brazilian and London rules, in the amount of BRL146 million was recognized in the fourth quarter of 2019 impacting the result for the year in this amount.

Now I give the floor to Cardoso for his final remarks. Cardoso, please.

Jose Carlos Cardoso {BIO 20228447 <GO>}

To conclude, on slide 22 we will talk about our expectations for 2020. For the guidance for year 2020 we have included a new indicator, the retrocession ratio, given the relevance of this indicator for our results. With this, the company expects that one, the written premium in Brazil compared to 2019 grow between 22% and 27%. Second, the written premium Abroad compared to 2018 grow between 23% and 28%. Third, retrocession rate between 17% to 19% in 2020 and fourth, the amplified combined ratio in the range of 69% to 73% in 2020 and the administrative expense ratio between 4.6% and 5.2%.

Now sirs, a final message that I would like to leave with you. I've been working the reinsurance market for almost 40 years and I can say that I know the main companies in this sector very well. Obviously, I have known IRB for 40 years too and I can tell you that, I

have never seen a group of employees from any reinsurer in the world as motivated to deliver the best of themselves to a company, as I see in IRB employees today. As a matter of fact, I've never seen in my entire career in any company I go a group of employees as committed as IRB employees are today. Each one of our employees have told us personally over the past few days, that they will work this year of 2020, as they never worked before in their lives. The feeling of ownership and the team spirit of the team, which was already high, rose significantly in the last few days. I have no doubt that the guidance above will be achieved and 2020 will be the best year for the company. In the same way, I see the company's customers even closer to us in the last few days and our retrocessionaires are working even closer. We are all very confident.

With that I hand our presentation and that we will open for question and answers. Thank you very much.

Questions And Answers

Operator

Thank you. The floor is now open for questions from investors and analysts. (Operator Instructions). Our first question comes from Henrique Navarro, Santander.

Q - Henrique Navarro {BIO 16188960 <GO>}

Hi, good morning everyone and thank you for taking the question. My question is on the salvage and reimbursements. You just disclosed a number, which is BRL3.4 billion. As far as I understand this is -- this account is off-balance. And as you explained, it works pretty much like when a bank has a recovery of some loans. So I would like to get from you some idea of what is the potential of this amount to be activated which basically means, I mean, how long does it take for you to fully utilize this amount and how much of this like 30%, 50%, 100% of this BRL3.4 billion amount could actually be activated and ended up in the P&L of your balance sheet? That's my first question. Thank you.

A - Fernando Passos {BIO 20117537 <GO>}

Hello Navarro, good morning. Thank you for your question. Yes, you are right, this figure, BRL3.4 billion is completely out off-balance. This is just to give you, just to give to the market an idea of the book we have working to recover the total amount of salvage and reimbursement net of retrocession. Of course, the full decision is not in our hands but as you can see is massive number. We have this number spread out in different phases, some phases is just in phase, is just in the moment where we are discussing with the counterpart an agreement. We have this BRL3.4 billion out off-balance. There are in the courts, but we also have the salvage and reimbursements that are administrative, we have a team focused on try to recover the amount we paid of claims. And we really believe that year-after-year this line became more important and more important in our P&L. Our team that is focused on this kind of job is working hard and Cardoso could do complement about the team SAS.

A - Jose Carlos Cardoso {BIO 20228447 <GO>}

Okay Fernando. Thanks Navarro for your question. As a matter of fact, what have you seen in the latest few months or more especially in the latest weeks, is a commitment that I never seen in my life, in my entire career. IRB's team, working for this recover bringing us new ideas, take a lot of initiatives to make it faster, to make it even better the process -- to make shorter the process of recover of these amounts that Fernando just said. It's important to mention that the commitment of those people and not only them, but the entire company changed and changed quite dramatically in the last few weeks and this is one of the reasons why we also are fully confident that we are going to achieve our goals, our guidance for the coming year.

A - Fernando Passos {BIO 20117537 <GO>}

And just complementing Navarro, we are not considering any recover from this amount out off-balance when we reported our guidance for amplified combined ratio. So, if it comes, it will be an improvement to the company. Another point, we disclosed the effect that we received this year from agro due to [ph]aluminium. As you can see in the pay on page 21 of the presentation, this year, we received that over BRL1 billion in claims reported linked to agro reinsurance in fact, BRL1.79 billion net of the retrocession and it impacted our balance sheet, it impacted our loss ratio, it impacted our P&L. Due to aluminium, in the year of 2018, the net impact of agro in terms of claims was only BRL382 million, in 2017, BRL431 million. So, 2017, 2018 were years [ph]we fought aluminium. 2020 will be a year according to the specialists we [ph]fought aluminium. So this impact from agro insurance should be normalized, should be equal the years of 2000 or similar to the years of 2018 and 2017. So it is another point that is important highlight to clarify that the loss expected to the year of 2020, will not receive this specific impact of agro reinsurance and agro reinsurers. And as you know, it impacted also the tax grant that we have from the agro insurance operations. So the agro events linked to aluminium affected us in two negative ways. First of all, in the claims ratio. And second, reversing reducing the tax credit that we have from the agro tax benefits.

Q - Henrique Navarro {BIO 16188960 <GO>}

Okay, thank you. If I may ask a second question, is on your retrocession ratio. The guidance for 2020 points to very low number 17% to 19% range. This is a quite a drop, if we compare to 2019. So if you could please highlight on the reasons for this I would say very low guidance. I mean, if this is related to the rating improvement that you guys got in 2019, I mean -- what were the reasons for to consider such a low guidance for 2020? Thank you.

A - Fernando Passos {BIO 20117537 <GO>}

Thank you Navarro. I'm going to talk about the figures and Cardoso can comment about the quality aspects. In fact, if you compare the full year of 2019 with the full year of 2018, the drop in the retrocession ratio was only 1 percentage point but if you compare the fourth of 2019 with the fourth quarter of 2018, you will see a material drop of almost 7 percentage points, because the retrocession ratio in 2000 -- in the fourth quarter of 2018 was 35.9%. In the fourth quarter of 2019, only 29.3%, a drop of almost 7%. As you know, we buy our retrocession in a full package in October 1. So I believe that these figures will be the base to show how sustainable is our guidance for the full year of 2020. Carlos?

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A - Jose Carlos Cardoso {BIO 20228447 <GO>}

Complementing what Fernando said, the process of buying retrocession is a process very sensitive, but not only sensitive to claims but also sensitive the quality of information that is provided for the retrocessionaire. Over this year, five years ago, when we started to negotiate -- to renegotiate some retrocessionaires, we have a very poor base, only Excel sheet, these type of things. Nowadays, we have a full system, the information is digital and online, much more reliable, much more updated. These give us to the retrocessionaire a more clarification about we have done. On top of that over these years, we have been showing to our retrocessionaires that the claims that came to us are fully analyzed by our internal teams in the claims depart. This is also is a very important qualification of our team to that gives to our retrocessionaire a kind of certainty that we have been paying the amount that is absolutely correct. All of these aspects combined and plus the fact that we also changes the way of buying retrocession. We invited the retrocessionaires to participate not only in one line of business, but we spread our portfolio -- our entire portfolio to them and allocate then according to their wish. Therefore, it's a much better dispersion and much better balance for them. All of these aspects together making us capable to negotiate a better conditions in terms of price, a better conditions in terms of coverage, a better conditions overall. This is explain why we put some these points in our systems and as Fernando explained to you.

Operator

(foreign language) The next question comes from Andreas Valanides, Sloane Robinson.

Q - Andreas Valanides {BIO 19798866 <GO>}

Yeah, hi. One quick question, I'd like to ask regarding the cash balance and the prospective buyback that you announced today. So in terms of the cash balance, there were some questions whether the which number is actually right for the flow that, I guess that's more of a definition issue rather than an actual problem but when it comes to the buyback that you announced today, how do you plan on funding that.

A - Fernando Passos {BIO 20117537 <GO>}

The buyback, if we really implement the buyback is an authorization, if we decide really to implement and when we decide, we will will use our own cash. As you can see in our balance sheet there was a big amount that we paid to all the Brazilian insurance companies but we didn't recover from our retrocessionaires up until the end of December. Now we are receiving this amount of money in January and February. We also have the money that we are receiving from the real estate assets that we sold. So we have enough cash -- enough cash to sustain the buyback.

Q - Andreas Valanides {BIO 19798866 <GO>}

Okay, thank you.

Operator

This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Jose Carlos Cardoso, for any closing remarks.

A - Jose Carlos Cardoso {BIO 20228447 <GO>}

Thank you all for your participation and interest in knowing and discussing our results and our review for the future. Having said that, I invite you all to our Annual General Meeting, which will be held in Rio de Janeiro at the company's headquarter on March 30. Good morning everyone and thank you very much.

Operator

Thank you. This does concludes today's presentation. You may disconnect your line at this time and have a nice day.

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