

## Q1 2019 Earnings Call

### Company Participants

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

### Other Participants

- Mario Pierry

### Presentation

#### Operator

Good morning and welcome to IRB Brasil RE's earnings conference call. Here with me today, are Jose Carlos Cardoso, CEO; and Fernando Passos, Deputy CEO and Chief Financial and Investor Relations Officer. This conference call is being recorded. And all participants, we will not be allow to ask a 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. This presentation may contain certain forward-looking statements and information related to the company reflecting current views and, or expectations of the company and its management concerning its performance, business and future events.

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Market and competitive position information, including market projections mentioned herein or obtained from in-house surveys, market researchers, public information and business publications. Mr. Jose Carlos Cardoso, CEO of IRB Brasil RE, will now begin the presentation.

## Jose Carlos Cardoso {BIO 20228447 <GO>}

Thank you all for participating in our first quarter earnings conference call. I would like to start with the highlights for the first quarter of this year.

Increase of 26% of the written premium, which reached approximately BRL1.8 billion. The growth was 13% in Brazil and 46% abroad. The expansion of 23% in the underwriting results reaching BRL315 million and financial results totaled BRL210 million in the first quarter of 2019. On the other hand, our administrative expense ratio of earned premium declined 1 percentage point to 4.2% in the first quarter of 2019 over 5.3% in the same period last year.

Our net income increased by 38% from BRL254 million in the first quarter of 2018 to BRL350 million in the first three months of 2019. The return on average equity ROAE rose 8 percentage points to 38% compared to 30% in the first quarter of the last year. We paid dividends and interest on capital totaling BRL893 million. And finally, on May 2 the company resumed its guidance for the full year of 2019, reaffirming the same indicators previously disclosed.

Having said that, we still have reasons to consider the year 2019 our milestone in our 80-year anniversary, which we celebrated last April 3. We expect it to be included in the Ibovespa Index in the revision of the portfolio for the fiscal year of 2019. As a matter of fact, according to the three previews already released, IRB has already been included in all those previews, being among the 66 assets with a 0.793% weight on the overall index. As you may know, Ibovespa is the most representative index of the Brazilian capital market, and now a potential inclusion on this index, reflects the liquidity we have achieved in almost two years of publicly held company.

Our expectation inclusion in the Ibovespa Index, which will become effective as May 6 come after a successful follow-on offer carried out in February 2019 by the shareholder-Caixa FGEDUC Multimercado, a fund managed by Caixa Economica Federal. The demand was 3.5x higher than the initial offer raising BRL2.5 billion. One highlight was the significant participation of foreign investors, which we believe shows their confidence in our capacity to provide excellent services to our clients and deliver results to our shareholders. Actually, between the IPO in July 2017 and the end of the first quarter of 2019, our market capitalization increased by 240% from BRL8.5 billion to BRL20.8 billion, with average trading volume of the BRL61 million since the IPO. And again, since our IPO we had built an exceptional track record with eight of 16 quarters of increasing results.

The first quarter of 2019 was not different. We managed to keep our expansion trajectory, proving by the growth in written premium, operating results and net income compared to the first quarter of 2018. These results also reflect the evolution of the insurance market in the period according to the Brazilian Confederation of Insurers, CNSeg. The Brazilian insurance market recorded an expansion of 13% in the first two months of 2019, driven by the property and life segments, which definitely is a good indicator for our reinsurance market.

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We have been seeing promising signs for the sector. The key positive impacts for our market should derive from investments in the oil and gas and shipbuilding sector boosted by international players that have acquired pre-salt area, which mean more insurance and reinsurance contracts. The transfer of the agribusiness risks to the insurance and reinsurance sector, driven by the government's decision to raise the subsidy to agribusiness insurance and the resumption of the infrastructure construction works, especially our airports and highways. I would also like to emphasize a great achievement that's related to the quarter, but disclosed in April, which was the Willis Re 2018 annual reinsurance market report and has consolidated IRB among other players there, the reinsurer with the best combined ratio and the reinsurer with the best investment management.

In terms of combined ratio, according to this report I just mentioned, this combined ratio differs by 16 percentage points from the average ratio reported by the global players in 2018. Also according to Willis report, the administrative expense plus acquisition cost ratio of global players were 32% on average in 2018, while the IRB reported ratio was only 24%, or in other words 90 percentage points below the average global ratio in 2018. The key factor driving IRB to report the best combined ratio of the industry is its efficiency in managing its administrative expenses plus acquisition costs. And most of these improvements derived is from IRB's lower expenses.

Both the acquisition cost and the administrative expense compared to the global players. When it comes to our employees and still focusing on team restructuring and motivation, in the first quarter, we adopted a new organizational structure that prepare us to respond to the challenges facing a publicly held international company. We had created a Strategy & Innovation department, with a Director in charge of predicting market trends and monitoring what's being developed both locally and globally. The first initiative was the creation of the Insurtech Innovation Program in partnership with PUC-Rio, a new university in Rio; and Mongeral Ageon, whose goal is to force the development of the new products, services and processes based on technology trends such as the Internet of Things, Blockchain and other technologies.

We have also created a specific function with a Manager for retrocession, which directly reports to the International Underwriting Department in order to improve the management of our retrocession programs. The Investor Relations Department was also strengthening with a Director in charge of meeting the increasing demand from our investors and shareholders. All of these actions are meant to reinforce our position as a market leader with a 37% market share by the end of the fiscal year of 2018. Being a market leader requires that we innovate and focus on profitability and in efficiency, which are the drivers of our business.

We want to do more and better. As we have said in our 80th anniversary, what moving us is the certainty that together, we can reinvent the future. Now Fernando, you continue this presentation with more details on our results.

**Fernando Passos** {BIO 20117537 <GO>}

Good morning, everyone.

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Let's begin with Slide number 3. In this slide, we show the company's net income and the return on average equity, ROAE Net income went from BRL254 million in the first quarter of last year to BRL350 million in the first quarter of this year, an increase of 38%. In terms of ROE, the company posted an ROE of 38% in the first quarter of 2019, against 30% in the same period last year. We have some relevant drivers that were important for us to achieve this 38% increase in net income, in the first quarter of 2019.

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First of all, 26% growth in written premium, 32% growth in earned premium, 23% growth in underwriting results, more efficiency with the reduction in administrative expenses ratio, and 38% growth in financial results. On the following slides, we will discuss in detail these figures. The Slide number 4 shows the history of our overall written premium by quarter. In the first quarter of 2019, our written premium increased by 26% compared to the first quarter of 2018, achieving more than BRL1.7 billion, of which BRL962 million, were written premium in Brazil and BRL802 million were written premium abroad.

Written premium in Brazil increased by 13% in the first quarter of 2019 compared to the first quarter of 2018. This growth was driven by our extended market share in Brazil and also by the local markets' growth, especially in the property segment due to the real estate assets appreciation. Another important drive to the local premium growth was the new contract executed in the period especially in the oil and gas segment. Written premium abroad increased by 46% in the first quarter of 2019 compared to the first quarter of 2018.

This growth was sustained by our increased share in existing contracts, and the weighted average appreciation of about 20% of the dollar in the first quarter of 2019 compared to the first quarter of 2018. Our strategy in the international market is to seek business opportunities mostly in South America, focusing on line of business we have expertise such as Life, Agribusiness and Aviation. The Slide number 5 show the dynamics of written premium account. We have reinsurance contracts in which premiums are recognized based on estimates, estimated premium and the RVNE premium.

And we also have contracts in which premiums are recognized based on effective base -- effective premium. Contracts executed based on the estimated are adjusted after the insurance company provides us with its accounting report. And then, we revert the estimated premium as a counterpart amount of the effective premium. Given the increased system integration between IRB and the insurance companies, which are our clients, the effective premium has been increasing quarter-after-quarter, as you can see on the graph shown in Slide number 5.

Such dynamics, in addition to other factors, help us to improve our floating. On Slide number 6, we will talk about the dynamics of our retrocession cost. Our retrocession ratio dropped to 24% in the first quarter of this year, against 25% in the same period last year. The reduction in the retrocession ratio during the first quarter of 2019 is a red, a reflex of better negotiations with the retrocessionaires for the 2019 fiscal year, given our proven track record of low loss ratio during the last four years.

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As long as the premiums effectively written during the 2019 underwriting year gain a greater proportion as a percentage of the company's total written premium, when compared to the premiums written in previous underwriting years, the company's retrocession costs will show a greater reduction since the retrocession contracts applicable to the 2019 underwriting year have proportionally, lower retrocession costs when compared to the previous years. The Slide number 7 shows our retained premiums in the first quarter of this year, which increased by 27% when compared to the same period last year, achieving BRL1.340 billion in the first quarter of 2019. This growth is driven by the expansion in written premium and the reduction in the retrocession ratio. Now, on the Slide number 8, you can see that our earned premium in the first quarter of 2019, increased by 32% when compared to the first quarter of 2018, achieving over BRL1.2 billion in the first quarter of 2019.

This growth was driven by the increase in written premium combined with the lower retrocession ratio. On the Slide number 9, you can see our loss ratio performance. Our loss ratio increased from 50% in the first quarter of 2018 to 54% in the first quarter of 2019. This 4 percentage points expansion in the total loss ratio, was driven by the increase in IBNR, the incurred but not reported, claims which is an actuarial reserve based on the statistics to prevent future claim reports.

In the first quarter of this year, the loss ratio measured by OCR, the Outstanding Claims Reserve which reflects claims really reported in the period, remained almost stable at 49% of the earned premium compared to 50% of the earned premium in the first quarter of last year. On the other hand, the loss ratio measured by IBNR corresponded to 5% of the earned premium in the first quarter of 2019. This increase in the IBNR during this quarter had as main drivers the assessment done by the company, which indicates an increase in the loss ratio related to agricultural segment in the current crop. On the Slide number 10, we will talk about our underwriting result.

The underwriting result achieved BRL315 million in the first quarter of this year, an increase of 23% when compared to the first quarter of 2018. The Slide number 11, shows our administrative expense as a percentage of earned premium, which was 4.2% in the first quarter of the year, a 1.1 percentage point below the 5.3% reported in the first quarter of 2018. Such performances confirms our management's commitment to increase the efficiency of our company and improve our profitability. The Slide 12, shows our financial and real estate investments.

Our consolidated financial investments, including the parent company, subsidiaries and branches achieved BRL197 million in the first quarter of 2019, against BRL139 million reported for the first quarter of 2018. The consolidated performance in reals of the management of financial assets of the parent company, subsidiaries and branches was 129% of the CDI in the first quarter of 2019. The average daily balance of the financial investment portfolio, excluding the real estate portfolio was BRL7.3 billion in the first quarter of 2019. The performance of our investments in the first quarter of 2019, of 129% of the CDI, was mainly driven by the following factors: first, the pre-fixed government bonds portfolio, with a return of 119% of the CDI; second, the inflation plus coupon government bonds portfolio with a written of 118% of the CDI; and equity investments, with a return of 11% in the period which were the key driver of our investments portfolio,

even though the equity portfolio has a relatively small weight on our overall assets in the period.

Please note that, even though our results from foreign exchange hedging for transactions abroad are included in our financial results statements. These are not consolidated for managerial calculation of the investment portfolio's performance. On the other hand, our real estate investment results that is our net revenue less expense from property for lease remained stable at BRL13 million in the first quarter of 2019 compared to the same period last year. Before I close this presentation on Slide number 13, we want to discuss our guidance for the full year of 2019.

Just to remember, on February 7, we disclosed to the market our guidance for the full year of 2019. On February 15, due to the FGEDUC's follow on, our Board of Directors decided at an extraordinary meeting and by unanimous vote to discontinue the disclosure of the guidance for 2019. At the same meeting, the Board of Directors also delegate to the executive officers the decision of analyzing the possibility of resuming the guidance disclosure. Therefore, on May 2, the executive officers resumed the disclosure of our guidance, confirming the assumptions in the material fact.

We then confirmed the estimated growth of 17% to 24% in written premium compared to 2018 and an amplified combined ratio ranging from 69% to 73%. Regarding our administrative efficiency, we confirm an administrative expense as a ratio of earned premium ranging from 4.6% to 5.2%. This guidance is the same guidance reported on February 7. Now, Carlos will make his closing remarks.

### **Jose Carlos Cardoso** {BIO 20228447 <GO>}

Well, I would like to thank you once again for your interest in our company. We are very proud of the results we achieved in the first quarter of 2019, and remain confident that the now our hard work and dedication, we once again -- are leading us to exceed our target. As a matter of fact, in the year we celebrated our 80 years anniversary of our foundation. I want to reaffirm my commitment to managing IRB with a focus on value creation, efficiency, the sustainability of our results and social inclusion.

We now close our presentation and open the question-and-answer session. Thank you all.  
(Question And Answer)

### **Operator**

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions).

First question comes from Mr.Mario Pierry from Bank of America.

### **Mario Pierry** {BIO 1505554 <GO>}

Good morning everybody. Congratulations on your results. Let me ask you two questions Fernando if I may.

First one, is with regards to your loss ratio right? You showed this 400 basis points increase on a year-over-year basis. Some -- as you're seeing some concern on the agricultural segments, if you could be a little bit more specific here is there any specific region or any specific crops or is this specific product that you're concerned about? Also on the loss ratio, also if you could discuss the impact of Brumadinho, if that already impacted your results and the value of that? So that would be question number one. Question number two, is related to your written premium growth. As you showed, you're growing above your guidance at 26%, you're near, but growth in Brazil is trailing at 13%.

If you can give us some type of guidance for the remainder of the year. It seems like the Brazilian economy is slowing down. It's growing a little bit slower than people were expecting. So if you can just give us like if you could break down your guidance between growth abroad and growth in Brazil that would be great? Thank you.

### **Fernando Passos** {BIO 20117537 <GO>}

Thank you, Mario. Thank you very much. First of all about the loss ratio, if you see the figures you will see that the OCR is the part of the loss ratio that represents the claims we really received from the insurance company. This part of the loss ratio was stable compared in the first quarter of this year against the first quarter of the last year.

The ratio was 49% this year against 50% last year. In fact, the loss ratio increased due to the IBNR. The IBNR is a prudential reserve to prevent against the future claims report. And the main driver to this IBNR increase was really the Ag Group insurance. In fact, in some parts of the country, we all have problems with the crops.

And from our point of view, it's better prevent throughout the IBNR and prepare to a loss ratio around 80%. That is the top of our net retention. As you know, we have a stop loss in our retrocession programs, when the loss ratio up until 80% is in our net retention and above 80%, 81%, 82% and above, we will recover from our retrocessionaires. So the strategy was clear to prevent against the future report in our IBNR.

About Brumadinho, the accident of Vale, of course, we cannot comment about the specific case. But all the claims occurred on January and reported are in our OCR, are in our loss ratio. So again, we cannot comment the specific case, but all the claims reported are in our OCR and that is part of our loss ratio. About the premiums growth in Brazil, we don't have a specific guidance to premiums growth in Brazil and to premiums growth abroad.

But we can talk a little bit about the perspectives in Brazil. First of all, we are really seeing some important growth coming from profit side due to the real estate price appreciation. And I think Cardoso can comment a little bit more about oil and gas business interruption and the other line. Cardoso?

**Jose Carlos Cardoso** {BIO 20228447 <GO>}

Mario, as Fernando said, beyond this growth related to the -- in the profit side, the oil and gas segment are quite active due to the previous pre-salt tenders that Petrobras and others made in the past.

Now we've seen some oil companies landing in Brazil, bringing their oil rigs, bringing their platforms, FPSOs, whatever to start to produce. It means that this segment is extremely linked to the reinsurance activity. Therefore, this is one of the reasons why we are growing in Brazil. Another segment, even though the expansion in the economic activity is not so perceived so far, we've seen some clear indications in terms of policy involving risk engineering.

That means that we've seen some projects become materialized through this type of insurance. And do not forget that due to some concession and also recently some railroads, this is going to generate also new source of insurance and reinsurance. Therefore, what you've seen in some areas, infrastructure, for instance, we start to see some materializing cases that are in the Brazilian market.

**Mario Pierry** {BIO 1505554 <GO>}

Okay.

That's clear. Can I just go back then to the loss ratio? When you talk about right, the expected losses in agriculture, why -- like you mentioned some crops, but there's some specific like products that you're seeing problems already. Is it related to weather, what exactly is your concern?

**Fernando Passos** {BIO 20117537 <GO>}

Okay. Mario, the concern is linked due to the weather conditions, especially in cultures like soybeans, beans, corn and rice, especially these four cultures.

**Mario Pierry** {BIO 1505554 <GO>}

Okay. Thank you.

**Operator**

Excuse me. This does concludes today's question-and-answer session.

I would like to invite Jose Carlos Cardoso to proceed with his closing remarks. Please go ahead, sir.

**Jose Carlos Cardoso** {BIO 20228447 <GO>}



Thank you, once again, for trusting our company. I count on your presence at our earnings conference call for the second quarter of 2019 scheduled for early August 2019.

Thank you very much. I wish you all, a nice day.

## Operator

That does concludes IRB conference call for today. Thank you very much for your participation, and have a nice day.

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