

Y 2021 Earnings Call

Company Participants

- Raphael Afonso Godinho de Carvalho, Chief Executive Officer and Interim Chief Underwriting Officer
- Willy Otto Jordan Neto, Chief Financial Officer and Investor Relations Officer
- Wilson Toneto, Chief Operations & Actuarial Officer

Other Participants

- Daniel Vaz
- Guilherme Grespan
- Kaio Prato

Presentation

Operator

Good morning, everyone, and welcome to the Earnings Call of 2021 and Q4 2021 of IRB-Brasil RE. We have Mr.Raphael de Carvalho, Company's CEO; Wilson Toneto, Technical and Operations VP; Willy Jordan, Financial VP and IR Director; Mr.Carlos Andra Guerra Barreiros, our Risks Conformity and Legal VP; Mr.Daniel Vega, Damages VP, Responsibilities and Special Risks; and Mr.Ronald Poon Affat, Life Director are here with us today. This call is being recorded. Participants are in a listen-only mode. We will then have a Q&A session. (Operator Instructions)

This presentation was prepared by IRB-Brasil, and should not be considered as a reference for investment decision making. This presentation was made based on future and information related to the company that reflect the current expectation of the company and its performance, future business and future events. This includes any statement that may vary substantially based on current and future market economic conditions, words such as we believe, we expect, we project, we foresee, among other words with similar meaning. These statements are subject to future events. Important factors may make these results differ materially, that's why that will impact, and they are different from the statements made during these presentations.

In any circumstance, the company, its subsidiaries, board members, directors, agents, employees should not be considered responsible based on decision or decisions made based on this presentation. The market and competitive information including market projections mentioned during this presentation were based on internal and market research, public domain information and business publications.

I turn over the floor to Mr.Raphael de Carvalho, the President and CEO of IRB-Brasil.

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

Good morning, and once again welcome come to our earnings calls for Q4 of 2021 and for the entire year.

Let me start by talking about the year as the whole. 2021, we have managed to reduce our negative results by half of the previous year. We have implemented important improvements in the organization that indicates that we are heading in the right direction. Of course, we haven't reached our goals. However, the management team I must say and will show that we are heading the right direction as I said. This was a year that was impacted by other conditions rather than what we were expecting back in 2021 -- 2020 rather, that had direct impacts in our organizations, almost BRL150 million that we have provisioned for COVID-related claims, as well as the impact in the company's growth.

The good news is our business is resilient and we see some recovery signs already. Let me point out still that 2021, we have consolidated the leadership role of our organization and we are in closer contact with our customers. Daniel Vega is here with us, heading the Subscription Department and Ronald that has just joined the team to focus on Life. This is going to give us a more closely directed relationship with our customers and also addressing the re-subscription department. This is going to become even more natural to address the current businesses. This is no longer our number one energy consumption activity, but in any operation that deals with risks, this happens time and time again.

Let me talk about business as usual. The second half of the year indicated that we started our new strategy. I think we can move on to the first slide of our presentation now. One of the highlights of our new strategy is growth with profitability. And in order to do so, we must use our competitive advantages. What are they? They're more closely related to the domestic market. The top portion of that slide, you can see that we have increased the part of domestic market when compared to international markets. This is consistent, this is sustainable, and that accounts for two-thirds of our domestic operation.

Abroad, you can see Latin America. This is a natural progression area. The rest is supplementary to what we do to both in Brazil and Latin America. Another important message in that slide is that it represents one of the pillars of our strategy. We can see the customers rely on our organizations. 85% of the renewals were renewed both in 2020 and 2021. It shows how confident our customers are. It's based on a sustainable business and how we can build on a sustainable business.

On to the next slide, please. This is a prudential management of risk, grow with profitability, and profitability in the risk business means prudential management. There are two components I would like to point out. That's the top of the chart. This is our reserves and these are the top two to make sure we make all our payments, claims, provisions, and the reserves related to non-informed claims yet. And we made a comparison of reserves and premiums.

In the past two years, we have been focusing substantially in reporting these reserves and bring them back to the levels we wanted. What does that mean? Even knowing that we

FINAL

Bloomberg Transcript

are in a volatile business and any major changes, the more reserves were here, we have the easier, it will be to minimize these impacts. And this is how we are prepared to execute in 2022. The bottom portion of that slide gives us an indication of our new strategy. What are these risks? Growing sustainably is our main goal.

We are considering being more present in more businesses. But with a more controlled exposure, more diversified, less participation, less risk, less volatility in a nutshell.

I'll turn over to Willy, so he can talk about the main results.

Willy Otto Jordan Neto {BIO 15002562 <GO>}

Good morning, everyone. I'd like to start on Slide 4. You can see our results broken down for the quarter, the fourth quarter. The impacts was expenses with retrocession. These are operations conducted in the quarter BRL485 million and by withheld claims reached almost BRL1.3 billion in the fourth quarter. On the other hand, financial results and tax results positively contributed to our business. All these accounts will be broken down shortly. It was negative BRL371 million, 42.4% below our negative results of Q4 2020. The bottom chart shows us the results for the year 2021. It was minus BRL683 million, 54% below the negative results we have in 2020. As Raphael said, despite being far from where we would like to be, we're moving in the right direction. Results in 2021 were mostly impacted by the almost BRL6 billion in withheld claims, I'll be talking about them in a minute.

On Slide 5, you see the results variations for the quarter and for the year when compared to 2020. And in the quarter, the major negative variation was withheld claims. On the other hand, we have some contributors to improve results especially those claims with less LPT for the quarter when compared to 2020, when we had BRL823 million for these operations, and also financial and tax related results. For the year 2021, results were negatively impacted by fewer or less claims or as premiums rather because of our re-subscription program, but it has improved on the backboard claims. The negative results of the company went down from less than half of what we had the previous year.

On to Slide 6 now. This is the progression of the expended index or the IRB Index for both 2021 and also the fourth quarter. That index had an improvement of 10 percentage points for the year, especially those reducing the 8 percentage points reduction in claims rate and 2.24 commissioning. In Q4, we had give or take the same variations, but different magnitudes. We have improved 16 percentage points in the expanded index 5% claims rate and 17 percentage points in commissioning expenses.

We can now see the development of our premium. In the fourth quarter of 2021, the total volume of our premium issued presented some stability when compared to 2020 reaching BRL2.62 [ph] million when compared to 2.80 [ph] million in the same time in the previous years. And in Brazil, it was BRL1.062 million in to 22% greater than in the same period of 2020. Thanks especially to the growth of 46% in the property area and 45% in life, and that is according to our strategy for the local market. And it is BRL812 million in

FINAL

Bloomberg Transcript

FINAL

this fourth quarter, representing a decrease of 3% to 4% when compared to 2020. This reduction is also in line with our underwriting strategy.

In the 12 months of 2021, the total volume of premium issued had a decrease of 8.7% when compared to the 12 months of 2020 totaling BRL8 billion and BRL64 billion. The premium issued in Brazil was BRL5.369 billion, an increase of 9.3% indicating the greater volumes issued in Life where we had a an increase of 47% and in Agriculture where we had an increase of 23%. And the main reductions in the year were in the Life segments, where we had a decrease of 55%, Agriculture almost, 35% Aviation 33%, all of the reductions resulted from the underwriting, which did not renew contracts with insufficient technical margin.

The overall expenses in the fourth quarter had a decrease of 17%, going from BRL1.648 billion to BRL1.374 billion, whereas the retrocession ratio went down from 69 to 77. So, it had a decrease of 12.3 percentage points. It's important to remind that both in the fourth quarter of 2020 and 2021, we had the LPT actions. And with that, it would have been 34.1% when compared to, I don't have the figures here, but when compared -- I don't know the figures, when compared to 2020. But in the 12 months of 2021, expenses with retrocession had a decrease of 41%. And with that, the retrocession rate went down 4 percentage points from 44 to 36 in 2021. And if we take into account that retrocession rates, excluding the LPTs, this would go to 28.9% in '21 with a decrease of 3 percentage points.

In Slide 8, we show the diversification of our premium per business lines. And Property and Agriculture, where we have our main lines followed by Life and Special Risks. It is the results of these segments that define at the end of the day, if the company is going to do well or not.

And then in Slide 9, we have a new area of claims for the company and that's very important for us to understand our results. On the left side, we can see that 70% of the claims in 2021 referred to underwriting years that were prior to our process, which started in 2020. This percentage was 96% for claims in 2020, demonstrating that naturally as we get further away from years before 2020, the contracts that had different criteria from the ones we are delivering now. We'll have a lesser impact in our results. Both in 2020 and 2021, about 80% of the claims in our balance sheet refer to the three prior years.

In 2022, our claims will come from the 2020 and 2021 crops, and the impact of the crops before that will have a significant decrease. And I think that it's worthwhile thinking that as we showed you in Slide 3 as demonstrated by Raphael, our balance sheet has better provisions, decreasing the risk of deviation between claims and provisions, which cause negative results. Segments, Life and Agriculture, represented 46% of the claims in '21 with a prevalence from the results coming from abroad. Also for 2021, we have contracts abroad indicating that claims will tend to decrease because of what we are pursuing in the domestic market. And then finally, I'd like to remind you that into 2021, the effects of COVID-19 had an impact in the claims retained in BRL43.3 billion with -- and that was prevalent in the Life segment.

FINAL

In the next slide, we can see that the expenses for the fourth quarter totaled BRL22 billion, an increase of 9.4% when compared to 2020. The administrative ratio was 9% in the quarter and it was also affected by the effects of LPT, which is the denominator of this ratio. When we decrease this effect, it would be 6% compared to 5% in 2020. And I'd like to remind you that we had a decrease of the premium because of the underwriting. And then we had an increase of 28%, totaling BRL337 billion with an administrative expense ratio as you can see on the slide. And then we had an increase of 85.3% and that was due specially to payment of fines of PIS and COFINS. Regarding the regularization of taxes resulting from our statements, it was done through credit compensation and also payment of penalty, provision of bonuses, provisions of labor claims and also prior results for the transformation of this item. We have different projects as strategic consultancy and so on and so forth. PREVIRB special reserve had an increase of almost 40%, a significant one.

And then in slide 11, we can see our position regarding the regulatory aspects. On December 31, we could not cover the technical provisions. They were BRL225 million when compared to BRL42.6 million in December 2020. Regarding the insufficiency of our assets, our indicator was basically BRL90 million, with an indicator of 322%. And because or as we had mentioned, it is our duty to evaluate the optimization of these amounts on a permanent basis to maintain sustainability of the business, guarantee that we will comply with regulations and continue growing. We have different alternatives to supply for these demands. And if needed to implement one of them, we will inform the market.

Finally, in Slide 12. We present the financial results of the company for the fourth quarter of 2021. The results were positive BRL68 billion, and we had a negative result of BRL3.6 billion in the last the last quarter of 2020 and the results for the fourth quarter of 2021 had an impact mainly because of our investment portfolio, it benefited from the increase in the selling rate. We also had positive results coming from the exchange rates. And basically, these were the main factors in the quarter. In the year, the financial results went up reaching BRL618 million and the main contributing factors were similar to the quarter, an increase in the investment portfolio with more assets and an increase in the interest rate, the diversification of investments with a greater exposure in variable revenue, and the increase in titles related to the dollar in the year and other financial revenue --. We want a suit on these interest rates and also the asset area, revenue.

And these were the components of our financial results. And now I turn over to Raphael.

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

Well, thank you, Willy.

To summarize and looking forward, we believe that the improvements in the results shown here, even though they suffered a significant impact from the previous years, we can see that 2022 will be a year where the company's results will improve and we have had robust results in solvency and assets as well. Our strategic plan for the implementation, and I'd like to mention implementation based on discipline and we nicknamed it pools.

FINAL

And then at the end of 2021 and throughout 2022, we will see the results of this business in due time, and this will start working clearly actually in 2022. We believe that 2022 will have more positive facts. For all of those working in this sector. As leaders of this sectors, we will probably have more significant impacts. With less impact from COVID in the economy, we expect that COVID is not the main impact to our businesses in 2022. The interest rate scenario is also more positive, and so, we expect to benefit from this scenario in 2022 and above all and very importantly to wrap up. This is the year when our clients have demonstrated their trust in organization and we have shown the high renewal rates of our contracts, both in 2020 and 2021. That along with more mature results from the underwriting policy, we believe this is going to be a more positive year for the organization.

With that, I thank you for your participation. We are ready for the Q&A.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we'll start the Q&A session now. (Operator Instructions) Here's the first question.

Q - Daniel Vaz {BIO 20331316 <GO>}

Good evening, Raphael. This is from Credit Suisse. And about claims crops or claims have come from recurrent contracts. What's the expectation for 2022, 2023? We had a vision of a tail behavior most contracts being terminated in 2022, 2023. Can you give us an update on that front?

Operator

I'll turn it over to Toneto. Because he'll address the second question and then Willy will address the first part of your question.

A - Wilson Toneto {BIO 20892371 <GO>}

Okay. Good morning, everyone. First off, let me point out, in previous presentations, we have pointed out the recurring claims from discontinued contracts. We mentioned 17 contracts, that were relevant. They're not the only ones that were discontinued but they were the most relevant there. As of June 2020, they were impacting company results. Those 17 discontinued contracts brought an effect of BRL687 of losses to our businesses in 2020, 2021. This is before taxes. 50% of our losses, 50% of the negative results we had came from these discontinued businesses.

Just like Willy said, when we look at the claims ratio for fiscal year 2021, how many of those registered claims came from previous years or rather from contracts that were signed in previous years. The trajectory you can see on a chart as we move along, fewer

and fewer claims will impact our results. We can project an improvement, therefore, and why is that? The company will have more reserves, we'll have more prudential strategy so to speak and we believe that these effects on our reserves will be reduced in the next year. These are our projections. I hope, I have answered your question.

A - Willy Otto Jordan Neto {BIO 15002562 <GO>}

There's just some comments I would like to make. We tried to show that on Page 9. To indicate the company's claims in any year. This is an average of several underwriting contracts several years. And I was under the impression that people would relate claims to the businesses we were performing today. And we can clearly see on the chart, it's an average of many years back and we try to present that vision. Despite the effect of those 17 contracts being very relevant, we provided a more holistic view because these are not the only contracts. It's the entire underwriting portfolio of previous years.

Operator

The question was asked by Mr. Daniel Vaz from Credit Suisse. Next question is from Guilherme Grespan from JP Morgan.

Q - Guilherme Grespan {BIO 19926617 <GO>}

Thank you for taking my question. I have two questions, actually. The first one is LPT Operation. Despite, you've done that in the past, it has never been clear to me. Can you elaborate on the impact of LPT in numbers in your P&L?

A - Willy Otto Jordan Neto {BIO 15002562 <GO>}

I believe it's BRL485, but there's a counterpart in claims that is positive.

Q - Guilherme Grespan {BIO 19926617 <GO>}

And what's the difference?

A - Willy Otto Jordan Neto {BIO 15002562 <GO>}

I believe that it has to do with the cost of the operation that you are compensating the underwriter.

Q - Guilherme Grespan {BIO 19926617 <GO>}

Can you explain whether there was a benefit there? And how do you pay that operation? Is that something that is recurring or is it a one-off when you accrue the premium? I would like to better understand the operation. And the second question, there was a BRL0.5 billion reversal. What does that mean? What industry? And what is the reason behind it? If you can, please?

A - Wilson Toneto {BIO 20892371 <GO>}

Good morning, Guilherme. This is Wilson Toneto speaking. Let me address your first question. LPT is a very common instrument in our industry. And it allows reinsurers to

transfer eight claims portfolio to a retrocession agent and they will then, who will be responsible for that amount of that portfolio. This is through retro session. As you've properly said, we have an effect on the premium because of that, retrocession, and the fee and we have an effect in withheld claims because they reduce the same amount excluding the fee.

The delta will be the fee of the operation. How do you account it? That depends on the portfolio and the year of subscription that can be at the top on the same year, depending on the characteristics. It can be deferred throughout the coverage of that contract. Most of these LPTs had that cost deferred. When you see the anticipated expenses, you can see a variation there resulting from that operation, that will be reflected in the months to come. I believe I have answered the first part of your question.

Let me talk about IBNR[ph]. Let's go back to Slide Number 3, Slide 3. We talk about a more prudential approach in our management strategies. On the orange bar, you can see the IBNR decrease. Are you less conservative? No, we're not. IBNR was reduced nominally speaking, but PSL increased normally. The relationship between them is increasing when compared to the premiums, and there is very important information here. The risk exposure was dramatically decreased, despite having a minor, nominal variation on the IBNR. But the exposure is dramatically less. When you look at the relationship, that is very important that gives us assurance that we are well prepared, we are prudentially reserved as we would like to put it. This is a normal process, less exposure, less provision of claims, but proportionally based on the premiums we gained here, the relationship is much better than that of 2022 and way bigger than the previous years. In 2019, for example, that ratio was 60%. Provisions amounted to 60% of premiums. Today, this is 110%, 1.1 as you can see on the chart. So, we believe that with that support, the variations that we may have in these provisions will impacting future results. That impact will be less. That's it. Thank you. Thank you, Guilherme.

Q - Guilherme Grespan {BIO 19926617 <GO>}

Thank you, everyone. Perfect.

Operator

Our next question is from Kaio Prato from UBS Bank. Mr.Kaio, please proceed.

Q - Kaio Prato {BIO 20631854 <GO>}

Good morning, everyone. I thank you for the opportunity to ask this question. You just commented about the LPT operation, you had this quarter, but I can see that your liquidity went down. I want to know what your plan is looking forward and what you're planning in terms of growth and restructuring of the company. You've mentioned some options such as the sales of property, but I wanted to better understand how you're going to move forward regarding the LPT operations? Thank you very much.

A - Wilson Toneto {BIO 20892371 <GO>}

Hello, Kaio. Willy?

FINAL

A - Willy Otto Jordan Neto {BIO 15002562 <GO>}

I will reaffirm here. What we've often said, it is a duty of the administration to evaluate the optimization of the capital structure on a permanent basis to make sure that we can comply with legal requirements and also to sustain our growth strategy, which is to grow with profitability. We also mentioned that we have different options to be able to comply with these demands. Among them, we have, for example, operations which will reduce these provisions, such as the LPT part of the previous questions. We can also transfer runoff portfolios. We have an opportunity to reduce real estate investments, which suffer from both regulatory indicators, also our subsidiary capital, as well as we can evaluate the possibility of subscriptions of shares among others. We have different alternatives; this is a normal activity in any company. Especially, companies that are part of the national financial services, but it's normal in the administration of any company. We are in the normal course of our business actually.

Q - Kaio Prato {BIO 20631854 <GO>}

Thank you very much.

Operator

We're now going to end our Q&A session.

A - Willy Otto Jordan Neto {BIO 15002562 <GO>}

Well, on behalf of our management, I would like to thank you all for your presence for the questions asked, and I hope to see you soon. Thank you very much.

Operator

IRB-Brasil conference is now over and we thank you all for your participation. Have a great day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.