

## Q1 2022 Earnings Call

### Company Participants

- Raphael Afonso Godinho de Carvalho, Chief Executive Officer and Interim Chief Underwriting Officer
- Wilson Toneto, Chief Operations & Actuarial Officer

### Presentation

#### Operator

(Call Starts Abruptly) This presentation may contain information about the company that would reflect current situation or its expectations and its senior management related to its performance and future events. Future statements will include with no limitation any statement that include projections estimates about performance and future objectives. Words such as, believe, anticipate, we hope, we expect, estimate, project, among other similar words, these statements are subjected to risks, uncertainties and future events.

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Mr.Raphael de Carvalho will start his presentation now.

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

Good morning, and welcome to our first quarter results. I would like to start somewhat differently. Would like to say to our Willy Jordan, he was submitted to a very complicated surgery. If you can hear us, we're waiting for you, Willy. All the best.

Okay, let me now start with the results presentation, I'd like to give you an overview of the quarter. It's on Page 2. We've had substantial improvement of almost 60%, even -- it's even better when we compare to Q1 '21. This improvements have taken place to dramatic times during the pandemic. I'll be giving you further detail during the presentation. These uncommon results have impacted us. We have BRL150 million positive from lawsuits, premiums were up 3.9% when compared to the same period of last year. Improvements in Brazil was -- were at 19% level. We keep on focusing on where we have more competitive advantage, and having at least 2/3 in domestic operations. On the right, you

can see how disciplined we were in executing our strategy. Brazil accounts for 62%, an 8% increase when compared to last year.

Another highlight is the renewal rate, 86%, that indicates that our clients have been very confident. Our expended results was 97%, claims ratio and sales expenses along the lines of first quarter of last year. When we normalize these one-off effects about the weather and the pandemic that hit us in 13 percentage points, the expanded or the combined ratio was 83%, way better than those of last year. I'll give you more detailed information during the call. We've had robust financial results of almost BRL160 million. Even when we discount that one-off BRL150 million, we have maintained all the regulatory indices. I would like to highlight the high renewal rates. This is the most important period of the year as far as renewals go. We reviewed conditions and prices which makes -- or which make the process more complicated. Risk dilution is up next. Quarter after quarter, we have improved those numbers, both abroad and in Brazil. When we include that to the high renewal rates and risk dilution, we have almost 90 new businesses, in line with our goal to maintain sustainability. Once again, I would like to thank our customers and our brokers.

On Page 4, premiums. This first quarter issues -- our premiums written were up almost 4% over a little over BRL2 billion, when compared to BRL1.93 billion in the same period last year, BRL1.40 billion domestically 19% above the same period last year. Thanks to Equity, Life and Agricultural segments. Internationally, BRL765 million down, 14% when compared to last year, that drop was caused by more stringency in underwriting in our international operations. We have been focusing on Latin America and it's important to dilute risk, I just would like to mention that. On the top right corner, you see information on retrocession expenses were BRL607 million. The rate was 30%. Let me remind you that we had an LPT and when we discount these LPT effect, these premiums were BRL388 million and the retrocession would be 19%, showing that we had retained premiums at a higher volume, BRL1,150 million when we discount the LPT -- BRL1,270 million and they were concentrated domestically.

On to the next slide, I'll ask Toneto to discuss the cost of admin experience.

### **Wilson Toneto** {BIO 20892371 <GO>}

Thank you. Raphael. Good morning, ladies and gentlemen. And we should just -- to find ourselves, we are in Slide number 5 and if you check graph to the left and the trading costs and the commissioning index calculated over the one premiums. And if we check the amounts that were recorded in March 2022 were BRL293 million and that was the lowest observed in the last five quarters and commissioning rate that, if we check on the points above, is compared to the last two quarters. At first, seems reasonably high and 27.5% and 35.5% respectively, but as Raphael said himself, because of the LPT effects and excluding them, those rates are substantially reduced to 22% and 21% in the first quarter of 2014 -- last quarter of '21 and first quarter of '22 with 1 percentage point lower than the previous quarter, and that is obviously positive to our operational results.

And in the graph to the right and checking on the ADM expenses, the rates have been calculated over the (inaudible) prices with and without the LPT just as the commissioning expenses. So this is obtained excluding the LPT as well, we're deducting it. So the ADM

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expenses which are subject to management are reflected on the green line and in the yellow dots. And they range around 5% (inaudible) during this quarter. So pretty stable level if compared and that was BRL20 million lower than the last part of '21 and I remember well that in that year we have reported some non-recurring expenses. Now the overall expenses that also include the turnover tax represented by the blue line and the red dots represent approximately 10% of the premiums that were one slightly higher than the quarter-on-quarter comparison obviously in the other quarter that for exceptional reasons we've had negative tax basis and we obviously had negative results there.

Now if I could ask you to please move now to Slide number 6. We will check now the quarter progression of the main cost of the company which are our claims. So you can see that the nominal amount of claims recorded in this quarter has reached BRL933 million, which is also the lowest if compared to the five previous periods. Now the 81% claims ratio, initially confirms the seasonal production that was observed in this Q1. However, if we observe it with the year-on-year first quarter 2021, the very first index there, we will check an apparent increase of 9% and I say, apparent, because as we will see in the following slides, this rate was also subject to the LPT variations us aside to some of your typical events that Raphael mentioned, that will be mentioned in the future. So let me just highlight that as said by our CFO, during this quarter, the claims derived basically from the previous years of 2020 and 2021 confirming a reduction of the impact of the previous production years. So this is an important information that confirms our previous forecast. So we don't really have major effects of claims that were inherited from previous contracts to 2020.

So let's now move to Slide number 7 and I would like to, with your permission, start by explaining from the conceptual perspective how is it that we register and record the agri or rural insurance in the IRB? And I think it is important for us to understand how this product works. So we are observing here two fiscal years, 2021 to the left and present year to the right. And so, it basically tells that during the year of 2021, we have unwritten contracts that were contemplating both winter and summer seasons or crops so -- and half of the sales were for summer crops and the others for the winter crops. So those contracts they transcend and the fiscal year of 2021 and most of them are in the year of 2022. And likewise those contracts they got parts, part of the claims results in 2021 predominantly from the winter crops and also in 2022, in particular, counting on the summer crops and if we check the year of 2022, we can see that the renewals have already started, in other words, the contracts that have started -- are being renewed. So those contracts that we're standing before they migrate results to the impact of 2022 and 2023.

So it's an interesting dynamics and the conclusion is that during the fiscal year of 2022 we will see effects of contracts that were in 2021 and also the effects of contracts of this year itself. And it's good to remember that the renewals in 2022 have been done in adjusted -- in specific conditions given the claims ratio of the previous years. So many contracts have been terminated and canceled, but most of them have had the rates reviewed, the technical conditions reviewed and the IRB share was also reviewed. So all that should contribute to improved results for the fiscal year of 2022. So I think it is important for us to understand those movements, and once we conclude this conceptual explanation.

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It's important for us to start and pay attention to the climate conditions and the climate conditions in this list we could work as part of them in 2021, but part of them also happened in 2022. And therefore, they are reflected in this 2022, Q1 and as those conditions were extremely relevant to the market as a whole and they hit important production areas both went winter and summer crops rather atypically in much more intensely than usual. And so, it is important for us to talk about this severity and according to the public figures ever since the -- insurance subsidy program was created 19 years ago. This was the forced and the historically speaking and we check the state of our NAV this was worst and they were grounded us all the events have had basically the whole state. And was the worst the drought in the last 70 years, and we had heat waves and more than 300 municipalities have declared emergency state due to the drought.

And so, I know that the IRB results have been affected partly with less orders of 2021 and the first quarter of this year. And in terms of the performance reports and you can see that the claims ratio and if we want to compare, Q1 of 2021 rural insurance was 73%. Now in this quarter, if we check the year-on-year the adjustments was really pretty relevant and has reached 72%. So I also would like to give you an important example here, which is obviously the insurance part and we are insured against catastrophes and we have reinsurers and reinsurers themselves have their own mechanisms. And this is usually higher than the international market. So in the case of the agri business in particular, we have the stop off which is limiting the losses for the company to a specifically claims ratio. So this is an important point to be highlighted.

Another important point is the geographic diversity, in other words, the risks are pretty spread in an relatively interesting way through the national territory, and we also have to consider abroad. So considering the domestic environment, we have the risks with different conditions obviously with different insurers. So -- and all those all those aspects considered diversity, different conditions, contract for contract basis, different protections and extrapolating the losses in the insurance market as, without checking or without taking all those details into account, might lead to inadequate conclusion. So, this is a good caveat for us to start with.

And it's also important for us to consider that during this -- Q1 considering all the geographic spread and expansion and all the considering our portfolio insurance, our company has a pretty robust reserves to deal with the underwriting year contracts of 2021. And according to our better understanding, they are more than enough to face all the losses that could possibly come from the portfolio. And only when we do the accountability for the Q1, then we might be able to adjust our forecast. And based on what was said and everything that was said above, we obviously can't consider the volatility of the agri because of the second quarter effects. We understand that such potential volatilities can be compensated by the results coming from the contract renewals that we also mentioned.

So now that we are -- let's now move to Slide number 8, where we will basically focus on another important point, which is the COVID-19 effect on a company's results. So, here we are Slide number 8 and the pandemic has indeed had an important role in almost all insurance companies around the world and the effects of course, have impacted the reinsurance market as well. IRB is no different. And we can see here some important

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figures impacting the company. Since March 2020 to 2022, we have recorded, 232 million of impacts in our results and allegedly caused by COVID-19. That impact was observed in many of our -- in many different portfolios, but in particular to the life one and then personal insurance, as you can see. And as we mentioned, since 2021, IRB started to offer COVID-19 coverage to our clients with a specific pricing for the life portfolio. And such coverage is accounted for almost BRL64 million in Q1 of '22 and basically derived from the Omicron. And it's important to highlight that those coverages, they will result in additional income to IRB, not only in this year, but in the coming years as well. I mean, if except, for any other incoming adverse conditions, this -- we hope that the claims ratio is going down during the next semesters.

And then we would like to now -- moving to Slide number 9, we'd like to report in a summarized manner, the progression of the amplified combined index, as Raphael said that contemplates financial results as well. So in Q1 of 2022 that index was presented here in 97% in the graph, that you can see on the screen and in the previous years we could see an important cooling of the market. So we can see, that if we compare this to the first quarter of 2021, we can see a slightly lower results of it's 94% against 97%. So it's important to say that for a good comparison, we need to, number 1, deduct the LPT and just for you to visualize in the last column, we can see the COVID effects and the agri apart. So when we do this balancing and exclude those effects, it's the best figures of the last quarter's. So it is very important for us to acknowledge this atypical effect on the agri sector. It's not recurrent, but it's rather atypical and the COVID effect. So it's really important for us to -- once those two those two events have been excluded, we can clearly see a growing trend and in a more (inaudible) in the actions taken by the company, and how they conduct the businesses.

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And just to complete -- let's now move to Slide number 9. And I do not intend to spend too much time here, but the combined index or rather -- still on the Slide number 9. Rather Slide number 10 -- sorry, I got myself a bit mixed up here. So Slide number 10 and we can state that our balance today has much better provisions, if compared to before and we have reduced the deviation risks in between the claims and provisions. So that could obviously result in important negative results. And we would like to highlight that in the past, we had an important growth in the premium with the higher risk exposure, and in terms of the reserves 60% of the premiums won. So that was the worst. And this is a trifold pretty consistent vis-a-vis to Q1 of 2021, the year-on-year and so that indicates that we are competently managing the claims reserves.

And so now, let's move to Slide number 11, where we'll talk about the regulatory entities. In this slide, I'll show you our position as to the regulatory indicators. IRB had sufficient adjusted equity at BRL65 million, very similar to what we had in 2021. The 231% rate remained unchanged as of December '21, when we talk about sufficiency of technical coverage, we are at BRL17 million when compared to BRL160 million we had in Q1 '21 and BRL236 million in Q4 of '21. I would like to once again repeat that statement. It's up to the management to analyze IRB capital structure to keep the company afloat whilst maintaining all the regulatory requirements. We have used some levers this quarter such as the LPT. If necessary, we'll implement other measures and we will of course keep the market informed.

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Moving on. This is our cash flow, in Q1, we had negative cash in hand when compared to Q1 '21, a change of BRL463 million. This is the operational cash flow that is derived from the amount of premiums, less sales volumes, especially abroad. The local currency appreciation, our balance sheet is in reals, in local currency, it was substantially appreciated. And we have better deposits. Other receivables, we had an important variation that is due to that settlement of this third-parties or deposits that haven't been identified. They affected our receivables. On the other hand, claims payment nominal values have remained the same with that smaller premiums and improving the settlement process, this effect impacts our cash in the quarter, improvement in processes, speedier settlements have kept that volume of claims when compared to '21. Non-operational cash generation showed important changes there. Reimbursements paid out, it's a one-off event and that reimbursement to (inaudible) just like we said last year. This is our cash position.

On to the last slide before I give the floor over to Raphael again. On the top chart of Slide 13 on your left or top left chart financial assets, BRL8.2 billion in Q1 an BRL800 million decrease when compared to December '21. That drop can be explained by the fact, that we have an (inaudible) significant exposure in foreign currency when you take the appreciation of real in the quarter, that impact alone brought those assets by BRL500 million. And the remainder of that difference is the operational cash that I talked about in the previous slide -- 82. When you add up these two effects, you have that BRL800 million drop in our financial assets.

On the bottom left chart, this is the nominal evolution BRL260 million in the quarter. Just like Raphael said, BRL150 million was a one-off event when we booked lawsuits something that we made available to you in detail, higher interest rates, it's worth mentioning too, that benefited our results and profitability of assets in reals were at 131% when compared to the CDI. On the pie chart on your top-right portion of the slide, you can see the breakdown of our portfolio. 59% is in local currency, 41% pegged to the dollar that change in foreign currency from 36% to 41%, when you look at the first quarter of 2021 that is caused by more technical reserves in foreign currency as a consequence. We have to maintain more assets in the same currency to have the required hedging. That concludes my presentation.

And I'll turn the floor over back to Raphael for his final remarks. Thank you.

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

On to the final remarks, and this is what we can expect for the future to a certain extent. I would like to once again restating our commitment to be very disciplined to the strategy we came up with. Local businesses will be on the rise because it's there that we have more competitive advantage and IRB can make a difference in price setting realm. Another pillar to reduce concentration by contracts will remain the same. Of course, there's a limitation there and just like we see opportunities to de-concentrate, we're paying very close attention during the renewal phase to improve our positions even further in those contracts we are interested in to acquire new businesses. Admin expenses demand our full attention and they may be varying below inflation rates, helping us have more scale.

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Conditions and prices will be adjusted according to the risk, that is our guiding principle. Toneto just mentioned how important it is to invest in the country. With higher interest rates and expanding operations in the country, we expect to have positive effects in the quarters to come. And finally, just recently, we had an assembly -- shareholders' assembly, we changed our bylaws to adapt to the B3 requirements having better governance and we also had a BRL1.2 billion increase in authorized capital, because that had all been used. We have recently hired financial consultants to keep on helping us to do what makes sense to us, which is to assess options to optimize our capital, that's a commitment on our part and we'll keep doing it. That is key to make the best out of all the possibilities.

I'll turn over back to the operator for the questions.

## Questions And Answers

### Operator

(Question And Answer)

We'll now start the Q&A session. (Operator Instructions) The webcast platforms brings us the first question. Tesley Takahashi [ph] asks the following question. Will the company give you any more guidance?

### A - Wilson Toneto {BIO 20892371 <GO>}

2020 we have withdrawn some forecasts and informed that as soon as the high management would be comfortable with assumptions and forecasts, we would release them again. So we would assess how convenient it would be to release them. So -- and what I can say is that this we are keeping the same stance and IRB committed to being extremely transparent towards stakeholders and shareholders and we will keep everybody posted as soon as we have relevant information to be shared.

So far we think it's doesn't really makes sense for us to have any guidance be released.

### Operator

(Operator Instructions) Maurilio F Kruse [ph] asks the following question. For a layman investors, what are these LPT operations? What are the fundamentals there? What are the benefits for the company?

### A - Wilson Toneto {BIO 20892371 <GO>}

Well, Maurilio, well, let me go a little deeper on the LPT. So in reality what we do with that is as follows. So we try to look for a set of risks and claims that were taken up by the company, and we sort of transfer those claims through retrocession operations to other reinsurers that might be interested. We usually from abroad even here in the domestic market, so we basically assign those portfolios, and this assignment basically exempt us from covering reserves and as provided we pay a fees.

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So this, the assumption of those responsibilities or the reassignment of that to third-party will obviously result in a cost, but on the other hand, this will increase and improve the technical provision indexes and the regulatory compliance and this will have some seasonal effects and the solvency at the company. So this is the tool that our IRB has resorted to the four other times. And this is obviously something that other insurance companies do as well. And we obviously, keep it up our sleeves, just to maintain the company within the regulatory standards that are required by the legislation. So in short, that would be it.

## Operator

(Operator Instructions) We do have a question here. What are the next steps to cover provisions? Can you give further detail?

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

Well, I guess Toneto has covered one of the tools that we have been resorting to the provisions coverage, which is LPT that basically exempts us from using in reserves and bear in mind that we have a few tools which not only capital tools. So -- and maybe the question is, if we have something planned about the capital and I would like to remind you that we permanently assess capital opportunities and not only to be fully compliant from the regulatory arena, but obviously, in order to give good deliveries and we have been assist by Itau BBA and Bradesco Investments in order to identify opportunities to be more assertive with our strategies, in the execution of our strategy.

## Operator

Please hold, we're still selecting a few questions. (Operator Instructions) This concludes the Q&A session. I'll turn over to Mr.Raphael Carvalho for his final remarks.

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

I would like to thank you all for your interest and participation and if for whatever reason due to connection problems, we have left any questions unaddressed, please feel free to just send it to us and see you in next call.

IRB-Brasil conference is now closed. Thank you for your participation and we wish you a great day.

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