

Q3 2020 Earnings Call

Company Participants

- Antonio Cassio dos Santos, Interim President, Executive Director, Member of the Executive Board
- Carlos Andre Guerra Barreiro, Executive Vice President of Risk & Compliance, Member of Executive Board and Legal Director
- Isabel Blazquez Solano, Executive Vice President of Reinsurance
- Werner Romera Suffert, Finance and Investor Relations Executive Vice President, Member of the Executive Board
- Wilson Toneto, Risk and Compliance Officer

Other Participants

- Eduardo Nishio
- Guilherme Grespan
- Mariana Taddeo

Presentation

Operator

Good morning, and welcome to IRB's Conference Call to discuss the results for the third quarter of 2020. With us today are Mr. Antonio Cassio dos Santos, Chairman of the Board of Directors and CEO; Mr. Werner Suffert, CFO, and IR Officer; Mr. Wilson Toneto, CTO and COO; Mrs. Isabel Blazquez Solano, CRO; and Mr. Carlos Guerra Barreiros, VP for Risk, Compliance and Legal.

We would like to inform you that this call is being recorded and all participants will be in listen-only mode during the company's presentation. After that, there will be a Q&A session when further instructions will be provided. (Operator Instructions) The presentation has been prepared by IRB Brasil and should not be considered as a source of data for investment.

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The market information and competitive position, including market projections in this presentation, were obtained through internal research, market research and public domain information and corporate publications.

Mr. Antonio Cassio dos Santos, CEO and Chairman of the Board of IRB Brasil, will now start the presentation.

Antonio Cassio dos Santos {BIO 17256477 <GO>}

Good morning, everyone. It's a pleasure to be with you this morning. I would like to address this presentation to those who believe in the company, who believe in the management of the company and particularly the thousands of individual shareholders, who, with great effort, spent their savings and invested in this organization. And we -- and I speak on behalf of my management, we are pleased to represent you.

To begin our presentation today, I try to have a very dynamic explanation, which you see on Slide 2 of my presentation. This will elaborate on the receivables activity. You are probably aware of how our accounting books work. But most people are not very familiar with this type of accounting practice of insurance companies. The idea here is to leave the regular jargon and then adopt a language that is common practice in our everyday life. So that our investors or the ones who are interested in the company have a better understanding of our business and will learn more about the key aspects that we take into account whenever you invest in a company that works in the insurance industry, in our case, reinsurance.

So moving on with the presentation here, in a very educational or didactic way, we talk about the balance sheet using the base data of September 30, starting from left to right. Here, we detail what everything means. If we look from left to right, the letter A accounts for the total liabilities of the company that adds up to BRL18.4 billion. The liabilities of a reinsurance company, like with any other activity, consists of two blocks. In our case, one block is called technical provisions, which is the B block, and C would be other liabilities.

The B chart refers to technical provisions for our reinsurance companies. And this relates to the total right that customers have on the company, meaning all of the obligations that we have vis-a-vis the clients. Who are the clients? The insurance companies who have receivables with us or the assignors, which is the reinsurance of the insurance who receive

insurance from us. Meaning the assignor client, this is the name we give to our clients, assignors. It's like the name you give to clients from a retail industry. So for us, we call our clients assignors. They assign their insurance to us.

So the B part represents -- it's BRL14.5 billion, represents all of the obligations that they have vis-a-vis their clients. And basically, this refers to payment of indemnifications that will take place in the future, meaning the right of the clients over us and IRB's obligations vis-a-vis the clients. So this will be a technical provision. In other words, it's what we owe to our clients.

And the C block represents all of the other creditors, who the clients owe to. They also owe their employees. I mean accounts payable to their employees, accounts payable to suppliers, from the supplier who supplies coffee. It goes all the way down the line. And also the government in taxes that IRB has to pay. So this is included in the BRL3.9 billion in the B block. If we add B and C, we have the total liabilities that add up to BRL18.4 billion.

In the middle block, we have one thing that is absolutely accounting. I mean, anyone will find that very easy. And that refers to shareholders' equity. What is shareholders' equity? Well, this is what we have for the shareholders. And this is represented by the letter D. So it's the summation of all of our shares plus all of the accrued interest that has historical value. Therefore, it is what the company holds, basically, at the limit of the shareholders.

Then there are also two types of insurance activities. One is letter E, which is the adjusted shareholders' equity. What do I mean by adjusted shareholders' equity? When you look at the balance sheet of a reinsurance company and they say, there are some assets that are there. I'm not saying that they are not good or of poor quality, but I will not consider that for your activity. So what are these assets that are excluded from the total shareholders' equity that will allow me to arrive at this adjusted shareholders' equity represented by letter E. These are all low liquidity assets.

What are low liquidity assets according to the regulation? These are investments from controlled companies or affiliated companies. These are deferred assets of a tax nature or other of similar nature. And here, we see our assets represented by letter D. That's the whole set of assets that are represented in the insurance company balance sheet. They are of low liquidity. If we exclude from letter D, what is on letter E, we arrive at the adjusted shareholders' equity. And that's what the regulating agencies look at and they compare that to the minimum capital required to operate IRB. And the minimum capital for an insurance company to operate is BRL60 million. That's low when compared to the whole high.

So by legislation, we are obliged to make calculation of all the different kinds of risks that are inherent to an insurance company. So we have to follow the regulation. It's not only a Brazilian regulation but it's international regulation, the rules of all reinsurance companies all over the world, and they look at capital based on risk. So the volume of capital that an insurance or reinsurance company need is something objective. There is a calculation that will allow you to arrive at that number.

So how do we arrive at letter F, BRL1.9 billion. This is the required capital and required capital for IRB to operate. So if our capital is below that amount, we cannot operate. In this particular case, we have shareholders' equity, letter D total shareholders' equity, adjusted shareholders' equity letter E, and minimum required capital to operate. So every time that E is higher than F means that the company is solvent.

On the right-hand side, we have letter J, right at the far right. This represents the total asset of the company. You have two ways of looking at it. You have the total asset of the company, meaning the whole set of goods and rights that the company holds. And so if you go back to the left-hand side, here, we are talking about clients, letter D, employees, the government, suppliers, letter C, and shareholders which appear on letter D.

So using a color code, if we take letter J. J is the summation of A and D or J would be the summation of all the assets held by the company. And here, we have an idea of how these assets are distributed by looking at letter H, I and G.

Letter I, what do we have here? If on the other side, letter D, we have everything that the company owes to its clients, letter I shows everything that IRB's clients owe IRB, meaning premium that are not yet received or claims that will be reimbursed and reimbursements that the insurance company pay to reinsure and they have to return part of that to IRB. So in this case, the BRL14.4 billion, which is what customers owe to us, it's very similar to BRL14.5 billion, which is what IRB owes to its customers.

Well, having said that, all we have now is letter H. Letter H is the total number of high liquidity assets of the reinsurance company. These are almost cash assets. And at the base data of -- date of September 30, we had BRL7.4 billion of these high liquidity assets. Once you put everything together, here, we are also including debentures, which already appeared on H2, and the difference between the controlled companies that amounting to BRL100 million and so.

So here, we are saying that the company's cash position is BRL7.4 billion, which appears in the balance sheet that has been published last night. Once we compare BRL7.4 billion, what do we compare it with? We can compare it with many things, but we can compare it with the parts that are part of the technical, which is B2, which is what the Brazilian regulation requires us to have as high liquidity assets. On a simple observation, here, we have BRL7.9 billion of provisions for high liquidity assets, and then we have at B2 and B4 on September 30, BRL7.4 billion.

Moving on now. The comparisons we can draw, I mean, we can draw many comparisons in terms of the cash. But before arriving at these comparisons, there are three undisputable facts. So once we analyze the balance sheet and also considering that the reader understands the balance sheet of an insurance company, we try to put this in a language that applies to insurance or regulatory. In any part of the world, this balance sheet could be easily interpreted.

Well, but there are, I think, three things we have to notice. First, IRB is a very robust company with assets amounting to BRL23.1 billion. No other insurance company and very

few international insurance companies have the same level of assets. The second important aspect and undisputable is that IRB is a very sound company. And this soundness has translated into the size of its shareholders' equity of BRL4.9 billion. And the third aspect that sometimes is confusing in terms of insufficiency, et cetera, is that IRB is a liquid company. We have BRL7.4 billion in total -- in cash or cash and cash equivalents on September 30. And this leads us to think about some differences that appear on the next page.

If we were to do some very basic calculation. Well, the first thing you could do everywhere, what is the total solvency of an insurance company. And then you take letter D divided by letter F, and then the result is the total solvency of a reinsurance company. I mean, when you have the required capital, considering all the risks that the company took, what do we have to have in terms of cash? In our case, we have 259.5% of the required amount.

So now let's go to the second point here. What is regulatory solvency? So we take the adjusted shareholders' equity, which is the regulatory equity, which is letter E, and we divide E by letter F. And then we have the company's regulatory solvency. So if you take a company in China, another one in Hong Kong, one in the U.S., one in Germany, one in Switzerland, one in Spain or even one in Colombia, this is a standard calculation, no matter the company and no matter the size. So we look at this number to learn whether the company is good or not good, whether it's solvent or not, whether it's okay or not.

So these two first items of this list, they are very basic in insurance, in the insurance industry. And this number has to be mandatorily above 1. So how much further away from that means that they are better or the sounder the company will be. And the three left items is just a silly comparison that you can draw with any other activity. You can take the industrial activity, retail industry, services industry. So this applies to how much cash do you have vis-a-vis my total shareholders' equity. So I take cash equivalents of BRL7.4 billion and I compare it with my shareholders' equity. So this number allows me to say that IRB has 1.5 times the shareholders' equity in cash. This is an important piece of information.

Now secondly, I take the same cash, letter H, and then I compare it to the adjusted shareholders' equity, the regulatory shareholders' equity, which is what I have in D in terms of equity to comply with the obligations of the company. And here, we eliminate everything that is of low liquidity. So I divided H by E. And the answer is that IRB has more than twice the amount of cash when compared to shareholders' equity, adjusted shareholders' equity.

And the last item, which is quite interesting. Here, we know how much cash do I have when compared to the required risk-based capital? And here, we have almost 390% of the required capital in cash. So people say, well, IRB is illiquid or there is lack of liquidity. But this is a fallacy. This is not true. And therefore, this allows me to say and also to prove with concrete numbers that this is a very sound company. It has BRL4.9 billion of shareholders' equity, and it's also a very liquid company because we have BRL7.4 billion in cash or quasi-cash. This is an investment of D plus 1, D plus 3. It's not D plus 500. But I'm talking about liquidity.

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Having said that, we go to the second part of the presentation. So first part, IRB, I mean, it's undisputable that IRB is a very robust and solvent company, and that was proven by the numbers. Now here, some of the challenges that were posed to us in the past, particularly by one analyst. I mean, he was saying that IRB did not generate operating cash in 2019. And in fact, if you look at the company's income statements and the cash statements according to the company's balance sheet or if you take any publication, you look at them and it is undisputable.

Cash generation in the first quarter of 2019 did not generate operating cash. And in the second half of 2019, the company did not generate cash, even in the first half of this year. But it did generate cash in this past quarter. Therefore, this is an indicator that shows that the company is better managing its cash and little by little, we are proving that we are becoming more capable of generating cash because of these activities. So I'm saying that IRB is now generating operating cash once again. So we are back to a normal quarter after a long period like in the past with non-cash generation.

Now we go to our executive summary on Page 5. But before I give the floor to my colleagues to elaborate on this subject, I would like to explain the accounting figures of the company. The accounting figures represent A and B put together. This morning, I was reading a report that said that in order to show good results -- companies only like to show their good results. No, you cannot compare that credit from a bank with receivables contracts or canceled contracts.

So when we discontinue a contract, it means that I had a contract for two or three years, this contract did not bring any good results to the company, neither it brings future expectation for results. So the management of the company decides to cancel the contract or not renew the contract. That means that the contract may have a cause. What is this cause? I'll try to explain this.

If IRB would be just a car insurance company, after the claim for that automobile, how long does it take for a client to notify that claim? Let's say, your car has been stolen. How long does it take for the client to notify the company? I mean, it's not days, unless the guy is on vacation, it's just a matter of hours before the client notifies the company. So the closest it is the notification date vis-a-vis the date of the claim's occurrence, this is a short cause.

Let's say, a person dies and it has a life insurance, let's imagine that we are talking about a funeral insurance. How long does it take for the client to be notified? If you do not notify at the date of person dies, I mean, the person will not receive the insurance or a regular life insurance, it's just the necessary time for the family to realize that the beneficiary had an insurance policy or a pension fund. That means in the payment of savings or indemnification to the families in installments through monthly payments that could be life payments or until a certain time. How long does it take? Approximately a month. Okay, the person dies in one month, next month the beneficiaries want to make use of that money. So this is a claim that is of short duration, the cause is short.

So now let's talk about an explosion in a boiler of an HPP, of a hydroelectric power plant. So the boiler explodes today, so what happens next? You have to first investigate the

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nexo causal or the reason that led to that event or to that explosion. The forensics to find out why there was that explosion and who was responsible for that, that could take years. And that's why an insurance company that covers a hydroelectric power plant has to be well provisioned. It has to have the necessary reserves to face that challenge. And in this case, the cause is long.

Now imagine a climate event or like something that happened, like an event that happened in New Orleans with the the hurricanes. I mean who will be responsible for that? You have to distribute the responsibility. So the cause is longer or the tail is long. The tail is long, when the event occurred and is reported in a longer period of time. And the tail is short when the notification happens close to the date of the occurrence of that event. So you can have a long tail or a short tail. In the very specific case of IRB, in the discontinued contracts after September 30, most of them, 70%, are contracts with a short tail.

When we are talking about life insurance or life insurance to cover pension fund. So the families want to receive that savings, and they will like to receive that money a month after, the death of the beneficiary. So we also have the average tail, but none of the contracts that we discuss here have a very long tail. We are talking about contracts that the tail is, at the most, 18 months. Meaning how long does it take for, let's say, a plane that crashed has its responsibility already assigned? Therefore, it's important that we make things clear that the discontinued business in the insurance activity are very specific because of the tail issue.

Now what are the remaining businesses, are businesses that are still part of our portfolio. They are still part of our current portfolio and they will generate results for the company. They leave a margin for the company. These are businesses that the company retains in its portfolio to be able to then make face to its future payment. Every time we discontinue a business, there is a tail effect. And one way or another, the company has to make provisions depending on the size of the tail.

Having said that, now I give the floor to Werner. So discontinued business are contracts that were not renewed or have been canceled have some kind of tail. And remaining business are business related to contracts that constitute the company's current portfolio, more than 90% of the company's portfolio. They will remain in our portfolio generating results, not only in the third quarter but also fourth quarter. And in the next two years or at least in the next year and a half, when we look at the continued result, we are here looking at the main indicator that an analyst should look if he wants to find out where the company is heading to. He is not looking at a point, but he's looking at a journey, and this is what should be in the mind of analysts. And certainly, in the minds of those who invest in shares of the company.

So thank you. Now I'll give the floor to Werner.

Werner Romera Suffert {BIO 18657101 <GO>}

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Thank you. And now moving on with the presentation. We are now on Slide 6. I also have a disclaimer about discontinued business. Month after month, the company is giving this information to the market. Therefore, the company acts in a very transparent way. We bring this information on a monthly basis to the market, both for retained and discontinued businesses.

We also take into account different assets for every segment just to improve the visibility of investors in relation to this segment of the company. We also provide quarterly information and attempt to provide more details about the variations of both revenues and expenses of the company. This is an important aspect so we provide monthly updates. And on a quarterly basis, we provide a document with a more detailed analysis.

Now moving to Page 6. Here, we have our gross revenue. There was a very strong growth of almost 30% in written premiums when compared to Q3 of 2019, Brazil 38% and abroad 17%. Due to the high level of renewals of contracts, we were also able to grow in parallel with the depreciation of the Brazil BRL which favor the growth of our portfolio.

Here, today, in the last nine months, written premium grew 17%. And when we look on a quarterly basis, we had 5.7% in Brazil and 32% abroad. Here, I would like to emphasize that, that was even with a reduction related to discontinued business, especially in the life segment. Now going to the next bullet point, earned premium. We had, in the third quarter, earned premium grew 9% in Q3 of '20 in relation to Q3 '19 and 18.3% growth in the last nine months.

Now going for retained claims, it's important to highlight. Now, according to the concept that Ant?nio just explained, we have the run-on business or remaining businesses. In Q3, the loss ratio of the remaining businesses reached an excellent performance of almost 56% in keeping with what was previously anticipated by management when we gave you information about that on Q2, when we talked about the expectations for Q3. So for the remaining business or run-on business, we reached an excellent performance of 56%.

In terms of acquisition costs, we had a slight increase from 23.3% in Q3 '19 to 24.7%. So in the third quarter of 2020, this improvement was mainly due to the business mix with grew in written premium in the property segment and also an increase in proportional contract businesses.

Now going to the last bullet, administrative expenses and earned premiums. Administrative expense ratio was 5.1% in Q3 '20 and 4.8% in the last nine months. This is a very good indicator when you compare to other domestic peers and excellent once compared to international reinsurance companies. I mean, IRB has a very good and sustainable competitive position, and we want to continue to improve this further.

Next slide, we have our financial and real estate investment. We reached a result of BRL115 million in the quarter, which is the equivalent to a ratio of 7.5% of the earned premium in terms of financial results. Now the combined ratio, which is the main indicator of the industry when we look at run-on or the remaining businesses. And in the insurance business as a whole, we are reaching 92.2% of remaining businesses in the quarter.

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In terms of net income, we have a chart on the same page. And as we said before, we have the remaining businesses, profits of BRL149.4 million, a combined ratio of 92.2%, as I mentioned before, and loss ratio of discontinued business of almost 56%, 55.9%.

Now when you look at these numbers, you have a picture of our continuous activity. Now we invested almost 40% in technical provisions by September '20, which is adequate to our EBT numbers, reaching BRL14.5 billion in September 2020, when compared to BRL10.4 billion in December of 2019.

Now here, now we have information on our main investments. As it was mentioned before, we invested BRL7.4 billion. That do not include the first issuance of debentures of BRL115 million in October and neither the capital reduction of BRL115 million, against BRL4.5 billion that we had back in December 2019, meaning an increase in our portfolio of 64% excluding the issuance of debentures and capital reduction and 80% if we include debentures and capital reduction in subsidiaries in terms of high liquidity.

Now let's move to Page 8. Now here, we have a summary from left to right, comparing the end of September of 2019 and September -- the end of September of 2020. Here, we move towards where our remaining businesses are pointing to. Looking at the results of Q3 '19, the combined ratio was 121%, and it was worse, I mean, if you look at this quarter vis-a-vis the quarter of the previous year. But when we look at the continuous or the remaining business, we have an indicator that appears in yellow, down below in the first column of 92.2%. And throughout the quarter, we noticed that it tends downwards. This is an important piece of information to bear in mind.

What do I mean when I talk about the combined ratio? It's the summation of the low operating expenses or expenses plus administrative expenses put together divided by the premium. So every time this number is below 100% means that the company is generating operating margins. The business portfolio -- the continuous business portfolio is what will define the results of the next at least 18 months of the company and has a very clear trend, which is defined by this 92.2%, meaning that the company during this period generated 7.2.

In this basic comparison, we are now directing the future of the company. If we look at the right-hand side, we have the underlying result, which is the contribution margin of the company, which are premium allocated in the quarter minus commercial expenses, we reached to 14.1%. This is an excellent margin of underwriting results. This is a very sound margin. And in this portfolio, the continued portfolio of the company, the remaining business, we have an amazing result, and our operating result, because we don't have any extraordinary event, our net result came out to 10.1%.

Just to give you an idea, like-for-like comparison in international insurance and reinsurance, this line for them was 4% to 5%. Therefore, this shows that we are on a journey that will lead us to the top. This is a path that leads the company to where it has to be. So these are indicators that once added to cash flow, plus these other four indicators here, then we have in terms of future guidance, here, you have part of the future guidance.

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Next page, I'm not going to elaborate on the numbers, but I will just talk about the main highlights. What are the main highlights of the company's portfolio at the moment. Loss ratio is 55.9%, as I said in Q2. General admin expenses, which is one of the most efficient ones in the world, even if we exclude earnings from businesses that would help the company, we reached 5.4% in Latin America. This is really good, meaning that to operate, we are much more efficient than other companies whose ratio is over 13%. Our contribution margin is 14.1%. And our net result came out to 10%. So net result of 10%. If this would be extrapolated, you can draw the future of the company.

There is another important information when it comes to the tails is this new information. In the third quarter, the main account that was discontinued is an account coming from a pension fund, a large pension fund. We provisioned the tail. So the tail for that account has been provisioned.

Thank you. And now I give the floor to Wilson Toneto, who will talk about corporate solvency.

Wilson Toneto {BIO 20892371 <GO>}

Thank you, and good morning. The idea here is to talk about solvency and liquidity assets of the company to comply with regulatory mandates, and also our -- how do we comply with the legislation.

Going to Slide 11. I think it's important to note, as our CEO has already mentioned that we have one of the highest solvency standards of the industry. I would just like to highlight some concept, especially the concept of the minimum capital requirement, which complies with the current regulation, meaning that the company has good base capital and risk capital.

Base capital is important because this capital is close to BRL70 million and risk capital sometimes is higher, and that is shown on the chart to the left on Page 11. So this credit risk follows the ongoing regulation, it was close to BRL4 billion. And then we add up other things according to the remaining risks.

We have BRL100 million in operational risk, BRL11 million in terms of market risk. And because of the diversification that the company had, we have a decline of BRL13 million, arriving at a minimum capital requirement of BRL1.9 billion. This is what is required by the legislation in order for us to operate.

Now looking at the right side of the chart, here, we have our net income less taxes. So our total shareholders' equity is BRL4.9 billion. This is what is necessary for us to operate. When we look at the right-hand side, again, there are some assets that the regulation requires them to be removed from the calculation of the shareholders' equity. So that is the BRL3.4 billion. And then we arrive at BRL3.4 billion.

But even then, when we look at the minimum regulatory capital and the adjusted, we have -- we are in the surplus by 82% in terms of what is required for us to operate. There are

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many things here that allow us to be in a very comfortable position to proceed with the things that the company has to do.

Now then, I'll give the floor to my colleague who will talk about what is in force at the moment.

Carlos Andre Guerra Barreiro

Thank you, and good morning, ladies and gentlemen. Now we arrive at Slide 12. The idea here is to talk about the regulatory eligible assets compliance. I will reiterate some of the concepts that have been mentioned before. Technical reserves as of September 30, we look at those on the right-hand side of the slide, close to BRL14.5 billion, and they refer to our obligations vis-a-vis our clients, clients, assignors, et cetera.

When we look at the regulation, the regulation indicates that we have to have eligible assets in the amount equal or higher than the regulatory requirement indicated through technical reserves. So if you look at the left-hand side, the three first column refer to retrocession assets, other non-eligible retrocession assets and credit receivables. And the three first columns come up to BRL3 billion. So once added to eligible assets of BRL6.4 billion, we arrive at BRL12.9 billion of available eligible assets. Well, when we compare that to the number of technical reserves, we know that as of September 30, as indicated by Note 2.5.2, we arrive at BRL1.6 billion related to technical reserve.

In the next slides, we will present some more recent actions that have been concluded as well as other actions that will be concluded by the end of this year. When we plan and present you the numbers in the last quarter, the reduction in the deficit, it's very clear. And this is because we had to fit into the regulation and be compliant to the regulations in terms of our assets.

Now we look at Slide 13. When we look at the first column, technical reserves, BRL14.5 billion. There were two assets, BRL12.9 billion. And we would like to add that some -- there are three things that should be considered on top of the two already concluded and one with a high likelihood of being materialized. Why am I saying this? I mean the insufficiency position or our deficit position in September, part of it is already moving towards a solution, and this is what I am about to comment.

The first refers to a reduction in the capital of a controlled company above BRL40 million, which was already realized in the past month. That means that through a reduction in capital, we try to manage that deficit. More recently, at the end of October, we concluded this other case, amounting to about BRL600 million. And then there is a new situation, and we named it an interest-bearing account, about USD800 million. This is an account deposited abroad and the amount are not eligible to cover the technical reserves. And these are amounts guaranteed by some U.S. and Canadian regulators, and they are not considered in Brazil as a reduction for technical reserves. So for the same obligation that I have to pay to the assignor, I have a collateral in Brazil and I also have a collateral abroad.

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Right now we are concluding the presentation of our solutions, solutions that will comply with the requirements of foreign regulating agencies and domestic regulating agencies. Therefore, we are about to conclude that case. This new fact came on board in September, and now we are reporting it to you.

So the summation of these three cases is BRL1.5 billion with the insufficiency of that, that in September was BRL 4 billion. Without considering any other move, only considering these cases, this will be soon reduced to a BRL100 million. The record deficit we had back in June of this year of approximately BRL3.4 billion. Today, it's very close to a final decision due to all of the actions that have put in place in October in addition to what we did in relation to that interest-bearing account.

And now let's move to Slide 14, our next slide. And I would like just to open a parenthesis here to say that the current regulation foresees that in addition to having eligible assets to cover for technical reserve, both local and international reinsurance companies, they also have to present a margin of regulatory provision. They call this liquidity. You have to apply 20% of the minimum required company capital, which is called CNR, and the resulting effect of that amounts to almost BRL400 million, BRL372 million less insufficiency. And this could change, but recently, the SUSEP, the regulating agency, presented a proposal that should be concluded in the next few days. They preserve the compensatory MCR, and this is based on best practices adopted in other countries. So if this proposal is materialized, our budget will be positively impacted by almost BRL15 million as presented in the previous slide.

Now moving to Slide 15. Here, we present the same rationale as presented two slides back. But now we are considering the maintenance of the regulatory safety margin. If they do not eliminate the requirement, what would be then our position, our position with the addition of almost BRL400 million? Once the same actions are maintained, like capital reduction, debentures issued and the interest-bearing account and also the insufficiency would be now close to BRL500 million. Therefore, this insufficiency, even with this scenario, will go through a substantial reduction.

And finally to conclude this part, I would move to Slide 16. Here, we see the contingency plans under control. We were able to reduce and to file for the final regulatory compliance still in 2020. Here, we have in September the variation of BRL14.5 billion to BRL14.9 billion if we consider the confirmation or not of the regulatory operation we mentioned. So this is what you see in the slide, the compliance and the base scenario.

And we have assets that go over this period of time. The company considers additionally, as we have mentioned, a whole set of actions to be implemented. We are not going to go into the details here, but we highlighted three of the main actions that we'll start working on right now. The first one is the completion, still in this year, of the second debentures issuance. We published yesterday a material fact stating a debentures issuance of BRL300 million. That's the first action.

The second is an asset sale. And these assets today are not eligible for this regulatory coverage. And they might range from BRL300 million to BRL400 million, the BRL400

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million in a more optimistic scenario. Here, we are not going to disclose which are these assets, but these are the main figures. And the third action is what we call structured operations of retrocession in the total amount of BRL200 million to BRL400 million, these structured operations somehow will reduce the obligations for technical provisions, therefore, reducing also the need for compliance.

Having said that, let's check the scenarios. We work with the three actions in this base scenario and a more conservative approach, and they add BRL0.8 billion. And the second chart, we have an optimistic scenario. Here, we have the extremes of actions two and three. So in both scenarios, the company projects going back to the regulatory compliance and that can be confirmed by the figures around, with a yellow circle around them. You see here intervals of BRL14.8 billion to BRL15.2 billion, facing what we have already indicated.

So we want to make it very clear that also any action submitted that by for some reason is not carried out and we do not believe that, but we also do have additional plans. And because of matter of strategy, we are not going to disclose them right now. But we wanted to let you know that we are sure that by the end of this period, as Mr. Antonio Cassio has already said, the regulatory compliance will be complied with. So I wanted to bring to you these strategies.

And now I will turn the floor to Werner, and he's going to talk about the technical reserves and other aspects of the company.

Werner Romera Suffert {BIO 18657101 <GO>}

Thank you very much. Let's turn to Slide 17 now. And here, we know that we will have better days in the future. The past belongs to the past. So let's turn to Slide 18. And here, we have our current level of technical reserves. And when we look at the current level of reserves for technical reserves in the company, it has increased from BRL6 billion when we took over this management to BRL10.3 billion now in September of 2020. That is a significant growth in technical provisions. And you can see that this company is fully prepared for its operations.

Then we have the provisions in USD and according to the regulatory provisions. And here, what we have within the company, we have an excellent coverage ratio for this provision of around 70%, and to our bottom right chart, the assets over liabilities coverage in USD. Now we are considering all positions, not only technical reserves and all assets and liabilities here. In dollars, we have a hedge that is basically perfect, 97%. So any changes in the exchange rate will not have a relevant effect on the company's results. And this is what is most important specifically for the solvency of the company. This is the first topic I wanted to mention.

On Slide 19, we then have our financial assets. And I think it's important to say, as it already was mentioned, the growth of financial assets, approximately 50% from BRL5 billion that we had in March to over BRL7 billion, the BRL7.4 billion now, if we consider the last movements in October, we are then already at BRL8.1 billion of financial assets. And

compared to our shareholders' equity, we have an amount of cash and cash equivalent of high liquidity assets.

That's very relevant if we compare that to our shareholders' equity, which is of BRL4.9 billion. And remember that this had a positive effect by the capital increase, which happened in the third quarter of 2020. Therefore, we had BRL2.6 billion. And also, these assets, these financial assets then have had a positive impact by the first debentures issuance of the company, which happened in October.

Now financial assets breakdown. We are a company basically with not much leverage, a very little leverage, very little risk in its assets and equity, and private credit amounts that are very low. But we have funds already over BRL8 billion as I said already in October.

Now, Isabel will talk about our operating result.

Isabel Blazquez Solano {BIO 21843037 <GO>}

Thank you, and good morning or good afternoon. There is -- Okay. The marginal contribution went from minus 71.5% in 3Q '19 to 22.9% positive in 3Q '20. The trend for improvement is also clear if compared to the second quarter of 2020, the same year.

About the margin abroad, we have seen a deterioration in 2020 because of discontinued businesses as we already mentioned. So this trend also continued. And we had, again, an impact on discontinued businesses. The discontinued businesses are the ones in which we have no participation considering these business are for now all regarding abroad operations. If we consider the run-on business, the remaining businesses, we already see a change in the trend with the underwriting result of BRL108 million positive.

And in total, the underwriting result for the company was negative in 2020, BRL393 million for 3Q, 2020. And if we consider the remaining businesses, we have a positive contribution margin of BRL209 million, which corresponds to 14.1% of the accrual period revenue. So therefore, the results are moving towards the expected level. We have already seen positive effects of the operations and actions we are taking.

So I will turn the floor now to Mr. Antonio Cassio for his remarks.

Antonio Cassio dos Santos {BIO 17256477 <GO>}

Thank you very much. So now concluding our presentation. If we analyze the financial economic indicators that we have brought to you, I would like to make some comments and ratify information here in this company.

So our priority is to conclude the plan for liquidity regularization, as we already mentioned. Second, we expect to see stability in the results. If that doesn't happen because that could happen in our activities, any abnormal problems that might happen and considering

we have made the provisioning of the main run-off account, we expect that the effects of discontinued cases should abruptly fall.

Third, we are going to go even deeper in our strategy, and this is a strategic exercise that we are performing with a managerial focus. Also we are working with the Board of Directors for the next three years, '21, '22 and '23. We are putting together a work front, and this is going to be crucial for the company's plans for the next three years.

And finally, which is very important at the moment, we are right now also working on a plan to start working with what we call smart working. And smart working is what we call home office within our -- this is in our strategy. This is a digital company. This is a company that is focused on turning into more digital in all the activities for reinsurer company and the relationship between our assignors and the regulating agencies. And the company has been able to operate in a very satisfactory fashion during the pandemic because of the digitalization of our activity. And our industry demands that. And also taking into consideration all labor issues, the labor laws, and we are taking measures, so that starting next year, we can have, in fact, be working with the smart working. That's part of our strategy for people in our company.

And of course, we have underwriting projects and also our officer, Isabel, is working with us for these underwriting projects. And we definitely want to follow the only path possible, which is doing the right thing, doing what is expected from a reinsurer. And that is to do a good underwriting, to well control the assets of the company and to have the company follow its path of performance, and that it is where it should be.

Thank you all very much. And now I will turn the floor to the operator.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now start to the Q&A session. (Operator Instructions) Our first question comes from Mariana Taddeo, UBS.

Q - Mariana Taddeo {BIO 15009172 <GO>}

(Technical Difficulty)

A - Antonio Cassio dos Santos {BIO 17256477 <GO>}

I'm sorry, it's totally inaudible. I'm sorry we cannot hear her question at all. Mariana, we cannot hear you. Let me see, if we can improve quality of the audio to hear you.

Just one second please. I'm talking to our technicians to see if he can improve the sound of your question, because the audio is totally impossible to hear. Can you repeat your

question, please? Let's see. Excuse me Miss. Mariana.

Operator

Our next question is from Mr. Eduardo from Genial Investments. Eduardo, please go ahead.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Hello, everyone. About your operations, can you give us some color about 2021? What can we expect for next year?

A - Antonio Cassio dos Santos {BIO 17256477 <GO>}

I'm sorry. We are also having a hard time hearing you. If you can talk closer. That's noisy, and we can't hear you.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Is that better? Well, my question is about the discontinued operations or discontinued businesses. And what is your projection for 2021? Are we going to see any remainder of those operations there, we will have discontinued businesses then as well?

A - Werner Romera Suffert {BIO 18657101 <GO>}

I'm sorry, it's inaudible. Let me see if I understood the question. I will try to repeat the question to see if we can answer the right way. The first part of the question has to do with businesses to be discontinued in this quarter. This is the first question. Second, if the discontinued businesses will be affecting and how they will be affecting the results of the fourth quarter and possibly in the next quarters?

I will start by saying that the second question, as I said when I talked about one of the slides here, Slide number 9 of the presentation, the main discontinued account is a life account, and we have provisioned 100% of the effect for this account for the future. So it's already provisioned.

The second largest account, actually, it is over, the contract. And we believe that it might have, yes, some impact in this fourth quarter and also throughout the next year. But this is a marginal, very small impact considering what we had in terms of the cancellation of this life account that has caused many millions of losses for the company this year, specifically in this past quarter. About new operations or new cleaning operations, I will turn the floor to Isabel.

A - Isabel Blazquez Solano {BIO 21843037 <GO>}

Eduardo, good afternoon. The discontinued businesses that we still have in this fourth quarter, for those, we do not have any renewals. And if there are any other changes, we will let you know. We will have discontinued business, but that's going to be starting next year. But for the next quarter, we won't have any actions there about the future, and I'm anticipating myself, obviously, we are talking about this operation and we have an

underwriting operation as well. And that indicates that there will be discontinuation of businesses. And we talk of discontinuations, and we will have them.

A - Antonio Cassio dos Santos {BIO 17256477 <GO>}

And we will have also in the business, just like any other business, any other companies, and we might have changes. And naturally, what she means is that starting next year, we are going to be working in business as usual. So we might have contracts discontinued or not. So some contracts will be discontinued where you cannot renegotiate, for instance, but that's business as usual.

This year, considering these were large amount contracts, and the analysts and the market have required us transparency on what we were doing. We started disclosing the details so that you could better understand it. For the next year what we intend to do is, that's going to be within our normal activities. And we will be still working on those terms, but we don't see anything relevant that could have a major effect to remember.

We had as a consequence of a request of greater transparency of what we were doing. And the answer was that within July, we started informing and going into details. And in the last ITR, you can see that effectively we do have that information. And when we look backward to our action plan, you can see the potential impacts of this plan. And this plan was called Clean Fix and Growth. Thank you.

Operator

Next question from Mariana Taddeo, UBS.

Q - Mariana Taddeo {BIO 15009172 <GO>}

Good morning, everyone. Is it better now?

A - Antonio Cassio dos Santos {BIO 17256477 <GO>}

Yes.

Q - Mariana Taddeo {BIO 15009172 <GO>}

In the quarter, you had the operation of transfer. Can you go into the details of the accounting impact of this operation? And the balance sheet and your financial income after the increase of retrocession, would you have a reversal of the technical provision? If you did not have that operation, the effect would have been the same. And about the impact and the amount when you talk about the guarantee asset. Well, what is that? Is a direct cash, this difference for the retrocession company is done in some type of account? If that is, who is the responsible agent to manage the loss ratio if there is a claim, the retrocessionaire, or is this higher or lower than what was provisioned and who would have this gain or this loss?

A - Antonio Cassio dos Santos {BIO 17256477 <GO>}

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Well, Mariana, your question is very technical. So I will ask our team to send you the answer with all the details on how this operation was made, what are the accounting details, the accounting differences. Because if I try to explain that here, I think I will make people more confused. So after that, I will ask Sandra to send you an answer, and if it's needed, she can talk straight to you.

But that operation does not affect the results. So this is a typical international operation just to adjust technical provisions. Usually, that is used when we have these matters of asymmetric regulations between countries so that we can have some symmetry in our own activity. This is an operation that for us that I reassure is simple, but it can be very sophisticated when we have to explain it to a third party. So I will ask Sandra from our RI and also Isabel, our officer, to help you. But after you understand the operation, it becomes very simple.

Just one more thing here on that piece of information. We also are going to add the information to the website, a detailed explanation. We will do that as well. So that everyone that is interested can check that information on the website.

Q - Mariana Taddeo {BIO 15009172 <GO>}

And can you do a follow-up about the retrocession ratio? Are you at a reasonable level for the next year? We understand that you might generate guarantee assets, so it should be at a high level. And if you can mention how the last renegotiation cycle was in this hard market moment, and was that a price change vis-a-vis last year? Thank you.

A - Isabel Blazquez Solano {BIO 21843037 <GO>}

Hello, Mariana. Now talking about the retrocession, we have renewals and provisions for retrocessions. And we tried to protect a little bit there the company to avoid volatility. And we're able to improve there. And obviously, we tried to purchase additional protection when compared to last year, this has generated an additional cost regarding retrocessions. So once again, we can break down this retrocession figure in several parts. So this has been affected with the current renewal, and because of the hard market we did have a lower cost.

And now regarding the retrocession ratio, there was a significant increase in Brazil for strategic actions. For oil and gas specifically, there is one account, as we already mentioned, that was in the second quarter. It was postponed. It was renewed now in this quarter. And it has a retrocession that is significant. It also has impacted the retrocession ratio.

If we remove these two effects from retrocession, because if we talked about CLPC and if this specific retrocession is taken into consideration. So if we remove that, the retrocession ratio is exactly the same as we have for the nine months of 2019. So I would like to let you know that the level is not increasing. And that means that there was an effect of two specific items in the retrocession ratio. I hope, I have more or less addressed your question.

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Q - Mariana Taddeo {BIO 15009172 <GO>}

That's great. Thank you

Operator

Next question is from Mr.Guilherme from JPMorgan.

Q - Guilherme Grespan {BIO 19926617 <GO>}

Good morning. Thank you very much for taking my question. We have two questions here. The first one about dividends. How can we think if everything is working well, if you have the compliance by the end of the year, so what is your mindset in terms of going back to paying dividends? And if you are going to pay them, how much is that going to be vis-a-vis the capital gain?

And my second question is about the financial result. We have here the financial results considering the size of the investments. And if we do that, we have a reference rate that is very high. And you have some impact of FX, right, in the quarter, so just to understand. And you mentioned in the presentation that you have the hedge of the balance sheet. But if we do have an impact of the FX, do you have any counterpart to the P&L lines? And how is the exchange rate affecting that?

A - Werner Romera Suffert {BIO 18657101 <GO>}

Guilherme, hello. Good afternoon. Well, your first question is about dividends, right, the payout. We are in a moment where we are restructuring ourselves. We are recovering the technical margin, as Cassio well said and Isabel talked about our strategy, so we should expect to go back to our levels in 2021. And the Board of Directors in 2021, by looking at this new scenario, the market scenario will then make this decision about the dividend payout. Now remember that this payout that the company had has always been approved of 25%. And in practice, it happened higher than that up to 2018. But our main commitment now is to bring the company back to normal. And in 2021, we will start discussing that topic with the Board of Directors.

And the second question about the financial result and FX exchange, FX variation and its effect, well, we have the results before the FX exchange variation. And we now see that there was an increase in the quarter. We have the private capital increase also coming in, in August, helping us to improve our assets. Therefore, we had a different margin in the first six months. But with the increase of provisions, we also see the FX effect, which has been adjusted, and you can see that on the slide that presents the hedge on the balance sheet. And then the company is hedged, is 97% hedged considering assets and liabilities. So we will not have financial impacts in the long-term in our company's results, okay?

Q - Guilherme Grespan {BIO 19926617 <GO>}

Okay. Very clear. If I can just add a follow-up. When you talk about financial result, we have a difference on the composition on the remuneration of the quarter and the interest rate. We had 7.4, if I'm not mistaken, in terms of investments. We get to 300 over to Selic's return. So what I understand, what is the main driver there?

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A - Antonio Cassio dos Santos {BIO 17256477 <GO>}

Can you repeat the question, please?

Q - Guilherme Grespan {BIO 19926617 <GO>}

Perfect. Just a follow-up on investments. When you consider the financial results of the third quarter and the investment position that you mentioned of BRL7.4 billion, that is a return on Selic's rate over 300%. Do you have any specific instrument there that explains this so that we understand your rationale and so that we understand what is the rate that you have there for the quarter?

A - Antonio Cassio dos Santos {BIO 17256477 <GO>}

Guilherme, we presented information on the result and performance analysis. But here, what we have is, what really changed the quarter here were our assets. That is really how we were able to improve our cash. There was no other relevant effect that allowed us to have a major increase in our financial results. We did have the debentures issuance. That's it. Thank you.

Operator

We now end the Q&A session. I would like to turn the floor to the company for their final remarks. Please, you may proceed.

A - Antonio Cassio dos Santos {BIO 17256477 <GO>}

I would like to thank you all very much for participating in this call with us. It is a pleasure to have been sharing with you the results of this company. And before I end with my final remarks, I would like to say that IRB, for you investors and thousands and thousands of investors that are hearing us, IRB is a company that is a sound company, a liquid company and a company that has committed officers to do the best, committed officers to run this change in the company in the most appropriate fashion.

And we are fully committed to comply with all the regulations to do what is best for the company and in a way that our actions really translate themselves into value generation for our shareholders and for all the stakeholders of the company, our employees, our business partners.

And also a final comment about this. And I can gladly tell you that the growth in revenue and the growth -- considering all the circumstances that the company has faced in the first half of the year, we intend that to turn into a revenue growth. And the growth that we had in this quarter and over the year, that is something really that shows the reliability, the confidence that the stakeholders have in the company. That based on that confidence, on that trust, we will re-establish as fast as possible by our actions, and we know that there is a lot of work to be done. And this credibility is needed so that we can, and then we deliver also to our shareholders, investors all the best.

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And I then conclude this conference call thanking you all very much, and I wish you all the best on these times here in Brazil and in the world. Thank you very much.

Operator

The call for shareholders, investors and analysts for IRB Brazil has ended. Thank you very much for your participation, have a nice day. Thank you.

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