



**Conference Call Transcript
IRB Brasil
3Q21 Results
November 12, 2021**

Operator:

Good morning, ladies and gentlemen, and welcome to the earnings review call of IRB Brasil RE for the accrued figures of 2021 and 3Q21. Today's conference call includes Mr. Raphael de Carvalho, Company's CEO, Wilson Toneto, COO, Willy Jordan, CFO and IRO, Mr. Carlos André Guerra Barreiros, General Councilor for Risks and Compliance Officer, and Mr. Daniel Veiga, Chief Underwriting Officer for P&C and Specialties.

We would like to inform you that this conference call is being recorded, and all participants will be in listen-only mode during this presentation. Right after that presentation, we will hold the Q&A session, and if you need any support, please press *0.

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References to continued operations, one-off operations and runoff effects will be presented in the managerial format. The unaudited businesses are going to be presented here for the best management purposes.

Mr. Raphael de Carvalho, CEO, will start with his presentation.

Raphael de Carvalho:

Good morning. Thank you all, and welcome those of you attending this conference, and thank you very much for your interest in this follow-up.

Despite the introduction, some of the people have been mentioned here, but I would like to reinforce here that we have some new names in the leadership of this Organization. Just to my side, we have



Toneto and Guerra, who are well known to you from other calls, but we have a couple of new names, starting by myself, Raphael de Carvalho, I am taking the CEO position since beginning of October, and we also have our Investor Relations and CFO Willy Jordan, who also recently joined our team in mid-October.

And I also would like to remind you something that was shared a couple of weeks ago about a reorganization that we did here in our business area. We basically split the old structure that was called Reinsurance VP in two business units that report directly to me. I will get into the details towards the end of this presentation, but that basically talks a lot about the executive strategy and the leverage advantages.

The first one is the Life department, that I actually would like to announce, it will be occupied by Ronald Poon Affat. Ronald is a very experienced businessperson, insurance and reinsurance, life specifically, both in Brazil and Latin America. He will take this position next Wednesday, and he's the head of one of the largest life reinsurance companies of the world.

And the other structure, as it was mentioned at the beginning of the presentation, is a Chief Underwriting Officer for P&C and Specialties. And to this, we elected Daniel Veiga, who has got a 20-year career, has been through basically all our business units, is a specialist in underwriting. And even more important than that, he knows our clients' portfolio deeply.

And having said all that, now I would like to invite Willy to share our earnings with you.

Willy Jordan:

Thank you, Raphael. Good morning, everyone. It is a great pleasure for me to take part for the very first time and be earning results call of IRB. And starting with slide number three, we had for the fifth consecutive quarter a positive cash generation, with an accrued amount of R\$1.5 billion over the 9M. And even if we disregard the nonoperating events, such as the court settlement that was received from Eletronorte in the 1Q, and the payments received from the subsidiaries, we generated positive operating cash of R\$1.1 billion in 2021.

And we should also highlight that the cash generation results should converge on the long run. In the past, IRB used to give positive results, but it was burning cash. And after the restructuring, we paid this debt with accounting results, which are still negative, but our cash generation follow-up indicates that we are on the right track.

Another important information is that from the current figures, when we exclude the discontinued businesses in the recurring expenses, we have had a net profit in the 9M21 of R\$670 million higher than last year, going from a recurrent loss of R\$568 million in the 9M21 for a recurring net income of R\$102 million in 2021.

And this, to a certain extent also demonstrates that if we look at the long run, the remaining contracts and the run-on, we have already started to show a much better performance. Again, showing that we are on the right track.

Now, going towards slide number four, we would like to present you with the net income for the accrued figures of 2021, showing the impacts of the runoff and nonrecurring one-off effects. And as I mentioned, we have had R\$102 million in the one-off and discontinued businesses. The effect of the tail of the discontinued contracts was R\$539 million, partially offset by the one-off discontinued events.

The following slide demonstrates basically the same impacts in the 3Q, where the recurrent net profit was of R\$44.5 million. And we also observed in the 3Q a very important influence of the tail of the



discontinued claims, from the R\$456 million losses, the impact was R\$330 million, precisely because of the additional provisioning of R\$129 million in the life segment abroad. On the other hand, we had one-off gains, referring to PIS PASEP in August, with a very positive effect of R\$129 million in the net profit of the quarter.

On slide six, we would like to illustrate again the effects of the tail of the discontinued contracts. The tail of the runoff contracts have had a dilutive impact throughout the time, and will have a gradually lower importance in face of the businesses that were renewed and the new businesses, the new deals. And the impacts of the underwriting companies of the runoff businesses were negative in R\$753 million in 2020, and R\$538 million year on year until September 2021.

And as you can see from the image, this impact came from four contracts that were terminated in July 2020. And for 2021, this impact of R\$538 million came aside to this four contracts that were also terminated in April and July.

So when we look at the bottom of the slide, this image illustrates very well the behavior of the stale. So in 2020, the full contracts have generated R\$753 million of impact in the underwriting results, and this impact in the 9M21 went down to R\$316 million, so less than half. And we have R\$221 million additional that were due to those 13 discontinued contracts in 2021.

Likewise, we can expect that the effect of this stale will still be felt in the coming quarters. However, we hope that they will become less representative over the years of 2022 and 2023.

It is also important to highlight that, although the impact of the one-off contracts will gradually fall with time, our activity is subject by its own nature to oscillating results. So in shorter observational periods, as we saw in this last quarter, we saw that we might have punctual deviations of this trajectory.

Moving on to the next slide, we see what happened with the premiums in the Company. Although the retained premium has fallen by 10.9% in the 9M21 as compared with 2020, I would like to highlight that in the domestic market there was a growth by 5.8%, which reflects our strategy of prioritizing our local market. As a consequence, production in Brazil accounted for 61% of the total, relative to half last year. Many of the discontinued contracts were international, and they were canceled or reduced due to their low profitability.

As regards retrocession premium, in 3Q21 and in the 9M21, there was a reduction in retrocession expenses as compared to 2020. This happened because the basis of comparison of 2020 included an exceptionally high volume of retrocessions because of the reduction of the exposure to foreign risk, and also due to the need to adapt the Company to regulatory limits. In 3Q20, we held LPT operations, loss portfolio transfer operations, which alone increased the retrocession ratio that quarter by 15 p.p.

As a consequence of the lower retrocession, the earned premium has been gradually increasing relative to previous periods in the quarter and the accumulated for the year.

Moving on to slide eight, the commission ratio fell from 24.7% in 3Q20 to 19.7% in 3Q21, reflecting the renegotiation of contracts at more appropriate levels.

Administrative expenses, once we exclude the nonrecurring effects of the payment of fines relative to PIS/COFINS, provisions for labor lawsuits and payment of indemnification, the administrative expenses remained flat at 5%..

On slide nine, we see an improvement in the loss ratio during the 9M21. The recurring ratio fell 7 p.p. and went from 02.1% in 2020 to 85.6% on the accumulated to September. Also looking at the



recurrences, but looking at 3Q, we saw claims, especially in properties, special risks and aviation, where the loss ratio was in line with insurance and reinsurance market, which had lower performance, generally speaking.

Also in 3Q20, we had LPT operations, which contributed further to the reduction of the loss ratio in the period. Our combined ratio also showed an improvement in 9M. And looking at the graph, the combined ratio on a recurrent basis was 118%, a 2 p.p. improvement relative to last year. Quarter on quarter, the ratio was impacted by the effects mentioned on loss ratio, which is the main component of this indicator.

And looking at slide ten, we are going to talk about solvency relative to regulatory requirement. The solvency is appropriate at 142% when we look at regulatory solvency, which considers adjusted net worth. If we look at the total net worth, which is what is used in other markets, our solvency goes to 264% of the minimum required capital.

The difference between the two indicators has to do with our tax credits, which are excluded in the adjusted net worth calculation. The decrease in the solvency indicators and the sufficiency of coverage implies an increase in technical provisions during the long tail, but as new contracts come on stream, the tail effect is going to be minimized.

On the lower part of the slide, you see how we calculate the minimum capital requirement. We demonstrate its breakdown, its composition, which considers risk capital for subscription, credit operation and market.

On slide 11, we show the sufficiency of our coverage for technical provisions. On the lower part, you see that, at the end of September, technical provisions were R\$15.8 billion, as compared to the volume of eligible assets for collateral, which was R\$16.2 billion. That is, we have a surplus of R\$347.4 million. If we include the safety margin, the regulatory safety margin, which is 20% on the risk capital, which is R\$304 million, we are still sufficient from a regulatory point of view.

As we informed last quarter, in July this year, the regulatory agency has established criteria which will completely contribute to the increase in our sufficiency, especially the change in the safety margin of 20%, and this is going to be effective in January 2022.

On slide 12, you have our cash position and investments, and this position is now stronger, having reached R\$10 billion. The growth in the period has to do with the actions taken in 2020, such as increasing capital stock, debenture, issuing LPT operations and sale of assets, and, of course, the greater operating cash generation in the last five quarters.

As regards the financial results, the growth in the quarter and in the 9M21 has to do with a greater balance of investments, the increase in the Selic basic rate, and also the monetary updating of the recovered PIS PASEP tax. Quarter on quarter, the drop in financial result is explained because of the interest paid on debentures in 3Q20, which did not exist in 2020.

I now turn the floor over to Raphael for his final remarks.

Raphael de Carvalho:

Thank you, Willy. In the beginning, I said that I have been in the Company for 40 days. I would like to share with you how I used these 40 days.

I concentrated most of my energy. In reviewing the strategic planning and focusing on the future, obviously, without putting a lot of energy in getting to know the organization and also thinking about



the short term.

If I had to summarize our vision for the future, I would say that we have to resume growth with profitability. This is our motto, our objective, and this is our mandate, the mandate of the Company's management.

How do we intend to do that? First of all. We are going to explore and tap the competitive advantages of our Company. Our main competitive advantages are, first, IRB has a deep knowledge of the local market. One of our Board members likes to say that nothing relevant happened in Brazil in the last 80 years that required protection and that could do away with IRB. So this is with us. We see that in the data, in the statistics, in the actuarial experience that we have. We are uniquely positioned to make all of this available to our clients.

A second point, and that is where I am going to stop, we believe that our ability to serve our clients in Brazil is unique. Our ability, because of the size of our balance sheet, of our book in the country, and the size of the team, the degree of specialism and the volume of businesses that we make available to our customers and commercial partners. IRB is a Brazilian company. We make decisions here, and we are able to serve and understand better the needs of our clients.

In order to do that, we have implemented initiatives under our strategic plan, and we have three major strengths. We are going to focus on greater efficiency in business, it has to do with underwriting, process improvement, especially when claims happen and when clients exchange data with us; and we have efficiency in capital, where we allocate capital and we can focus on those areas where we can make a difference, and less energy in those areas where we do not make so much of a difference.

And then we are going to focus on cultural transformation, and this is going to happen on two pillars. The first one is a total focus in decision-making, thinking primarily on our clients. And then innovation, that is the second pillar. We know the local market and we have what competitors do not have.

So speaking of our initiatives, our competitive advantages make clear where we are going to focus our energies to resume growth with profitability. We are going to focus on Brazil. And just to give you some numbers, Brazil has to account for 2/3 of our operation, from 2/3 to 3/4 our operations. We have been doing work to that end and we are going to do even more to acquire new clients and to sell more to current clients.

And to extend this area of differentiation of IRB, we are going to focus on Latin America, focusing on some countries, and especially on those areas where we are strong in Brazil. This means that we are not going to leave other geographies, but we are going to be more selective, and we are going to get in those areas where our tax structure and our cost structure can be used to our advantage. And especially when we can earn business that is complementary to what we do in Brazil and in Latin America.

So this is how I summarize our vision for the future. Again, this is where I focused most of my energy in this 40 days, and this is where the Organization is going.

And now I would like to open for the analysts to ask their questions. Thank you very much.

Daniel Vaz, Credit Suisse:

Thank you. My question has to do with the announcement you made relating to the division and the new Vice-President for Reinsurance. You will have Life, P&C and Specialties. You have announced



Mr. Ronald Affat to head Life and Daniel Vega to head P&C and Specialties. So what is your idea in terms of having this new structure in place? Can you give us some more color about the objective of having these two executives, who are very experienced, working in the Company in this way? What value is going to be added, and what contribution can they make?

Raphael de Carvalho:

Thank you very much for your question, Daniel. You got it right. Two units, one for Life and the other one for P&C and Specialties. Both of them reporting to me, so yes, you did get right. So what is the reason for us to split the business like this? So that we could be more customer-centric, but with specific knowledge for each one of those units.

Those are units where we have different weights and different relevance within our Organization. P&C was considerably larger than Life today. However, we firmly believe that the Life market has a huge growth potential, not only in the country but throughout Latin America as a whole.

So one of the reasons for us to do this break down was to better embrace this opportunity. It also reflects how our clients are organized. A major part of our clients is organized like this, so that basically improves our mediation capacity to what our clients are used to.

And last but not least, it also allows us to get closer to our underwriters, to our business units and to our clients, ultimately. So when we split this into two units, the level of expertise and specialization, it is also very important, and this is something that we cannot simply forego when thinking of the business as a whole.

Operator:

We would now like to close our Q&A session, and I would like to hand the floor over to the Company for the final remarks.

Raphael de Carvalho:

Thank you very much for the questions and for the interest. I would like to reinforce our future vision, which is to resume growth with profitability. We have to be as profitable, as robust, and looking ahead very optimistically towards the future of this Organization.

Thank you very much once again.

Operator:

We would now like to close this IRB Brasil RE call. Thank you for your participation. Have a nice day.

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