

**Conference Call Transcript  
IRB Brasil  
1Q23 Results**

**Operator:**

Good morning, everyone, and welcome to IRB Brasil's RE 1Q23 results presentation.

Present at today's conference call are Mr. Marcos Falcão, the CEO and Investor Relations Officer of the Company; Mr. Wilson Toneto, Board Member and Technical and Operations Vice-President; Mr. Daniel Castillo, Underwriting Vice-President; Mr. Carlos Guerra, the Legal, Governance and Facilities Vice-President; and Ms. Thais Ricarte Peters, Internal Controls, Risks and Compliance Officer.

We would like to inform you that this teleconference is being recorded, and that all participants will be in listen-only mode during the presentation. Ensuing this, we will start the questions and answer session. Should you require any help, please dial \*0.

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Mr. Falcão, the CEO of IRB will now begin the presentation.

**Marcos Falcão:**

Good morning to all of you. 2023, we sped up the process that began and has been very important for us. In January, we have renewed some contracts and we had an increase in the share in some contracts and reduced in others, and a lower exposure to risk. We now have people focused on this and on the search of new businesses for the Company. Now we visited more clients than we had in the entire year of 2022.

And this has been transformative in our day-to-day work. After changing and overhauling the internal processes of our company, we will be working with a base 0 budget, which means that

we are beginning the year 2023 with a very asset-light company. In April, we signed contracts based on a completely different base.

And finally, what had an impact on the results of the quarter, we closed an agreement with the Department of Justice of the United States and the Securities and Exchange Commission. That eliminates an uncertainty from 2020 and will mean an improvement in our internal instruments in terms of compliance and much more.

Let's go on to the next slide and see the figures. This quarter, we had a net income of R\$9 million, R\$34 million normalized, minus R\$25 million in administrative expenses that are non-deductible to pay for the amounts from the agreement SEC-DoJ.

In the 4Q22, we were somewhat below breakeven, and this quarter of 2023, we already show you results a little above the breakeven, despite the impact of the Department of Justice agreement.

In this 1Q, we got a breakeven in our underwriting results. This figure alone should be observed as an evolution vis-à-vis previous quarters, but we are still attentive to the volatility of our activities.

Next slide, please. This slide shows you that, despite having consumed this quarter R\$411 million in operating cash, we had an important reduction in our provision for settled claims of about R\$3 million. This shows a significant evolution in the collection of premium and the recovery of claims, and we will speak about this further ahead, when Castillo speaks about technical provisions.

With this, I would like to give the floor to Daniel Castillo, our Chief Underwriting Officer.

**Daniel Castillo:**

Thank you, Falcão, and a good morning to all of you. After our strategy of concentrating in Brazil, on slide number six, you can see the 1Q21, 1Q22 and 1Q23 and the reduction of the international business of 46% to 33%. In the same period, we see an increase from 54% to 60% of our business in Brazil. We thus continue with our strategy of concentrating 80% of our business in Brazil, 15% in Latin America and 5% in international business.

At the top quadrant, you see a reduction of the total premium between 1Q21 and 1Q23. This is the result of the cleaning out of the portfolio that was accelerated in the 1Q23. In this reduction of 2023, although we accepted new businesses, we did decline others that were not profitable, always with the goal of having a better quality portfolio.

At the bottom of slide 6, we see the evolution of the combined ratio of the 1Q23 vis-à-vis the same quarter of 2022, a reduction of 8 p.p. The loss ratio went from 81% to 77%, commissioning reduced to 25%, expenses had a small increase from 12% to 14%. Because the ratio of expenses is calculated with a view to the premium, the percentage increases.

With our strategy to further concentrate in Brazil and Latin America, you can see on slide 7, on the upper part, that there was a reduction in the international premiums from R\$765 million to R\$577 million. This reduction is due to a reduction in global businesses outside Latin America, catastrophic businesses in the U.S. and Caribbean, agro in India. And we do not want to keep those businesses because we are not being appropriately remunerated for the exposure.

The reduction in premiums in Brazil has to do with the overhaul of our portfolio in January, as we thought for some businesses, the premium was not appropriate. And we also decided to reduce our share in some business lines, such as rural.

On slide 7, again, you can see the breakdown of business in our portfolio, especially property, 42% of the portfolio. If we look at the number of contracts renewed, we increased the number of these contracts from 86% to 88%, which means that we are underwriting a better quality portfolio with lower exposure contract.

On the following slide, on the upper part of the chart, you can see we retained premiums. We are retaining more. As we underwrite more risk of better quality, we are also retaining more and this has to do with the fact that we are underwriting lower limits. We want to acquire retrocessions that are more appropriate to our exposure.

On the lower side of slide #8, we see the reduction in the earned premiums in the 1Q23, abroad and in Brazil, which results from our strategy to overhaul the portfolio in the January renewals to have better quality portfolio with less exposure. The re-underwriting process resulted in a reduction in premiums in 2023. And in 2024, we should go back to growing.

I now turn the floor over to Toneto, who's going to make some comments about the loss ratio.

**Wilson Toneto:**

Good morning to all. We are now on slide 9. There is no doubt that loss ratio is the most relevant factor to allow us to achieve the expected results. We also need to highlight the volatility of that ratio in our industry due to several factors.

As we all know, the loss ratio of a reinsurer results from contracts signed in previous periods and depend essentially on the process of assessing risks as they are presented and of appropriate pricing. Therefore, it is more important to analyze the trend of the ratio rather than the quarter.

Having said that, I invite you to have a look at the upper part of the slide where we see the changes in the quarter of the amount of retained losses, retained claims. The last quarter of 2022 had an impact coming from the catastrophe of agribusiness in Brazil. When we compare 1Q22 to 2023, we see that the volume of retained claims is flat and is R\$933 million. Above the bars, you see the loss ratios with and without the effects of LPT.

In 1Q23, the ratio was 77%, which was the lowest in the period and one of the lowest ever since the 2020 started. On the lower part, we see the breakout of the loss ratio per geography. This could have been better, but we had an uptick of claims coming from abroad, especially in life, having to do with contracts that were not renewed and also on major events in aviation in Brazil and abroad.

In this quarter, we had no relevant impact coming from agribusiness and very few claims related to COVID-19. We believe that the actions mentioned by Castillo in terms of adjusting prices, reducing exposures by decreasing our share in several contracts and the alignment of commercial conditions and technical changes in the renewed deals should contribute to improve this ratio during this fiscal year.

We are now going to move to the next slide. On the upper part of slide 10, you see the 2 main provisions of the Company in net of our protections in retro, IBNR and OCR. Since 2021, the volume has changed and has remained so, despite the reduction in premiums and the dilution of risk which began in the beginning of 2020.

This is a strong indication that our balance sheet now has robust provisions and that we are managing our reserves for claims in a very prudent manner. This reduces the risk of deviation in the results.

On the lower part, you see the breakdown of our technical provision in gross values. In 1Q23, they amounted to R\$13.7 billion. The reduction relative to December 2022 has to do with a higher volume in the payment of claims that can be seen in OCR. This provision reduced by R\$903 million, which affected our operating cash.

We also had a reduction of PPNG include of the lower volume of underwritten premiums. The actuarial provisions trended in a different direction and had a growth in the last few periods. Robust provisions are necessary to face up to the risk of our portfolio.

On slide 11, we see the cost of acquisition of the Company, which in 1Q23 was R\$233 million, a 20.5% reduction relative to 1Q22. If we exclude the effects of LPT, the commissioning index would be 21% in 1Q22 and 19% in 1Q23. The smaller share of this, which is the second biggest cost of the reinsurer is in line with the strategy to improve the combined ratio and on changes in the mix of segments.

On the lower part of the slide, you see SG&A in 1Q23, which amounted to R\$88 million. Despite the effects of inflation on contracts in our staff and personnel costs, the nominal value remained flat relative to the last few quarters of 2022. The administrative expenses ratio was 7.3% in 1Q, and if we exclude the provision for the payment to DoJ and SEC, this would be 5.2%.

On slide 12, on the upper part, we see the changes in our financial assets. The portfolio amounted to R\$8.6 billion in 1Q23, up R\$400 million increase relative to 1Q22 and a reduction by the same amount relative to December 2022. This reduction relative to 4Q22 is in line with the comments that we made relating to our operational cash, that is it has to do with disbursements to pay for claims. Despite that, as we will see, this has not affected our regulatory sufficiency index and the coverage for technical provisions.

Now looking at the lower part in 1Q23, the financial result was positive by R\$146 million. When we compare this with the last quarter, this remained practically flat. If we exclude the one-off effects of previous quarters, the trend is positive and consistent. In 2023, we had no nonrecurring events.

As I said before in previous presentations, the increase in the interest rate in Brazil and internationally, especially in America, contributed in an important manner to obtain those financial results. Also, once again, we have an ALM strategy and we need to provide guarantees to international operations.

And therefore, 43% of our financial assets are linked to other currencies and have profitabilities which are not linked to the CDI. We expect that the reduction of our businesses abroad should allow that assets in other geographies should migrate to Brazil.

I now turn the floor over to Castillo.

**Daniel Castillo:**

Thank you, Toneto. I would like to make some comments about the changes in the combined ratio in 1Q23 relative to 1Q22.

On slide 12, in the upper part, you can see the changes in the combined ratio in 1Q23 with and without the effects of LPT, which was carried out in January 2022. There was a reduction in loss ratio and in commissioning. Expenses increased slightly in percentage terms. And although they are stable in absolute terms, the percentage increases because this rate is calculated relative to the earned premiums.

So the combined ratio went from 114% to 109%. On the lower part of the slide, you can see the amplified combined index, which includes financial results. In the quarter, this went from 106% to 97%.

I now turn the floor over to Thais, who's going to talk about the regulatory ratios.

**Thais Ricarte Peters:**

As you all know, SUSEP monitors 2 regulatory indicators which should be covered by the Company. The first has to do with the sufficiency of adjusted net worth relative to the minimum capital requirement, which is a bit different from the general concept of solvency. The second indicator assesses the coverage of technical provisions, that is the need for coverage with the guaranteed assets.

In terms of the first regulatory indicator, it was R\$72 million in terms of sufficiency that is 105%. The indicators supported one-off events as the agreement with the DoJ. When we look at the total solvency of the Company, the indicator jumps up to 260%. In the quarter, you will see that the regulatory indicator was at the same level as 1Q22, but the general solvency of the Company went from 231% to 260%.

The second indicator assesses the amount of eligible assets according to SUSEP to pay for the actuarial commitment of IRB and that was positive throughout 1Q23. And at the end of the quarter, the sufficiency was of R\$239 million.

The regulatory index considers R\$7.2 billion in guaranteed assets, which is below the financial assets of the Company, which were R\$8.6 billion in the period, a difference by R\$1.4 billion. The Company's projections indicate that those indicators should remain within the regulatory standard requirements.

**Marcos Falcão:**

Thank you, Thais. I am going to end this presentation by telling you that we have been working with the Company by establishing clearer and more officious targets in order to give good results to the shareholders. In the first week of June, we are finally going to move to our new offices in Rio. We are going to leave the historic building in Marechal Camara to the Ventura building, in front of the Metropolitan Cathedral.

Our team is going to work in a more integrated manner and rely on modern devices. We are also going to be dealing with the debentures that mature on October 15. We are discussing alternatives to refinance those debentures and we are very optimistic in the sense that we are going to present a solution very shortly to our shareholders.

We will now be going to move to the Q&A session.

**Gabriel Gusan, Citibank:**

Good morning. There has been a great deal of seasonal fluctuation, and it has been difficult for us to gain a true view of what is happening. This seems to be a somewhat lighter quarter in terms of your results in the 2Q and 3Q of year. Is this alluding to what happened in previous years? Are you sufficiently confident in this sufficiency of net worth when you think about the scenario? Thank you.

**Wilson Toneto:**

I am going to answer the first part of your question referring to seasonality in terms of the loss ratio. If we look at this historically, the 1Q tends to be more favorable because of the type of contracts that we have, our communication dynamics and much more.

Our expectation, although we may have the seasonality in the first half of the year, is that the activities that are underway in terms of underwriting should reflect higher numbers in the coming quarters, although we do have a very volatile activity, as it is said, with some seasonality.

But from the global viewpoint, we understand that considering the present day outlooks, we are considerably better vis-à-vis, the previous year, considering the lack of catastrophic events for the time being in agribusiness as we had last year.

I do hope to have answered the first part of the question. Falcão will now go on for the second part of the question.

**Marcos Falcão:**

Gabriel, if you could please repeat the second part of your question. Your sound was a bit cut.

**Gabriel Gusan:**

The second part refers to the sufficiency of capital. And it seems that there has been a somewhat worse seasonality in terms of your loss ratio.

**Marcos Falcão:**

Gabriel, we are quite calm when it comes to our needs for capital in coming quarters, especially as I have noticed, we are already decreasing the volume of premiums for concentrating our portfolio in Brazil with more selective contracts and therefore, this reduces our need for capital. We are quite calm. The results are moving forward well. The trends are positive and we do not expect any surprises going forward.



**Gabriel Gusan:**

Thank you very much.

**Marcos Falcão:**

We have received some questions over the chat. I can review some of them and I will answer them not specifically one by one, but I will give you a bird's eye view of these questions.

We do have some questions referring to our debentures, which I think I have answered. We still have 5 months before maturity. We are quite comfortable with the alternatives we are negotiating. We should get to October without further surprises.

On the offices of London and Buenos Aires, regarding the London office, it has been there for 40 years. And the goal of the management is to ensure that we can add these operations without any additional expenses and we are in the process of negotiating.

Regarding the office in Buenos Aires everybody is aware of its difficult position. There are elections in October, and that is a very interesting market, with highly trained professionals, and we foresee that Argentina could become a hub for 15% of the portfolio we would like to have in Latin America, as Castillo mentioned.

ILS and LRS, this is another question. This is a new instrument for negotiation that we approved last year. We have a plan to change that going forward. We have been here for only 6 months. We have a great deal of things to do, and this is one of them.

PDV, with all of the costs focused on the 2Q. This ended as we wanted, approximately 10% of the Company. All of this worked very smoothly. We treated people as they should be treated, because we believe this is the right form to deal with this very typical process.

We have another cost question, the cost for DoJ that was provisioned in the 1Q, we will have a follow-up of Department of Justice where the coming 3 years in our activities and to make a lemonade for lemons, we are going to strength this area, enabling us to have a truly impeccable company when it comes to that point. We have changed offices. We are highly enthusiastic with our new way of working.

And regarding the cash for the 1Q, I think Toneto referred to this. There is an important association between the use of the OCR that has been reduced by some millions and the accelerated payment of claims that we have operated with in this 1Q.

Regarding the guidance, of course, it's not our intention to give guidance. It's much too early. We would like to end the 2Q with all of these adjustments, and then we will think about this further ahead.

There is a question about nonoperational assets. Evidently, it's very interesting for the balance of a reinsurance company in Brazil to have sufficiency of capital, and of course, of there are many assets that are not eligible to guarantee the capital sufficiency. We will not use them. We need to have operational assets. Now we work with nonoperational assets in a very calm way, always seeking the best prices and not doing this desperately, of course.

This is what is presently on our agenda. The portfolio for financial investments, once we bring down the mix to Brazil of 80% for Brazil, 15% for Latin America and 5% abroad, through time, this portfolio will migrate through Brazil and this will enable us to grow our portfolio.

About the brand. We are working on the brand. And of course, this is important for our customers who have a very strong identity with us and we want something that will be more streamlined, somewhat lighter.

I believe that with this I have answered most of the questions that we received with the chat and I would like to return the floor to the operator.

**Gabriel Gusan, Citibank:**

Thank you for taking another of my questions. In the past, we spoke about retrocession. I would like to understand if what you attained in this last quarter is the level that you are truly seeking for the rest of the semester?

**Daniel Castillo:**

Gabriel, if I understood correctly, you are speaking about retrocession. Well, what are we doing? We are going through that process of cleaning out our portfolio between January and April. We still have other renewals this year. And the idea is to adjust our retrocessions to our present day portfolio. The intention, of course, is to reduce the purchase of retrocessions.

But I would like to underscore that because of the international market, we see that the cost of retrocession is increasing. This began last week. And we see that the cost of retrocession is increasing and the available capacity is quite reduced. Our expectation for this year is to reduce the purchase of retrocessions as we have limits in our portfolio that are much below what we had the previous year.

**Gabriel Gusan:**

Thank you very much.

**Operator:**

At this point, we would like to end the question-and-answer session. I will return the floor to the Company for the final remarks.

**Marcos Falcão:**

I would like to thank all of you for your attendance at the call. Remember that we have been managing the Company for the past 6 months, working very hard and seriously. And this is just the beginning. We hope that you will have patience.

We have seen your questions. We are going to address them slowly with focus and devotion and we believe that the year 2023 will be a year of turnover and 2024, we will begin with the Company as we want it to be.





Thank you very much. Thank you for your attendance and have a good day.

**Operator:**

The conference call of IRB Brasil Reinsurance ends here. We would like to thank all of you for your participation. Have a good day.

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