

December 2011

# Terra Report

## Publication on the Brazilian Reinsurance Market

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(a) *Local Reinsurance Company in the process of approval by SUSEP*

Published on May 22, 2012

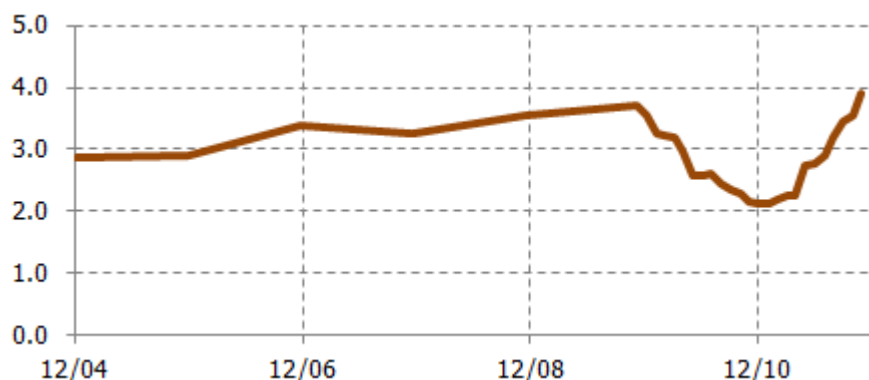
Majority Shareholder:



An equity investment by the International Financial Corporation (IFC), financial arm of the World Bank for the private sector, was approved and is underway.

- In 2011, the Brazilian Reinsurance market had an accelerated growth in the volume of written premium in the order of 32% (gross of ceding commission.) In the same period, the insurance market grew nearly 15%.
- The group comprised by local reinsurers, after falling in 2009 and 2010 with the entry of more than 80 foreign reinsurers, reacted strongly in 2011 with a volume of premiums larger than the volume of the entire Brazilian market prior to the opening of the reinsurance market in 2007/2008 (see graph below.)
- The IRB was largely responsible for this reaction, with a significant recovery of market share from 26% to 43%. Other local reinsurers increased from 22% to 23% while admitted/occasional reinsurers fell from 52% to 34%.
- We expanded our analysis about the capacity of the local reinsurance market. The conclusion, unaltered, is that the local market continues entertaining enough capacity to meet all the necessities of the Brazilian regulation.
- In Exhibit 1 we review our work in adjusting the values presented in SUSEP's new plan of accounts, necessary for the correct evolutionary analysis of the market.
- In Exhibit 2 we begin to create a list defining Terra Report's frequently used technical terms.

Reinsurance Premium (gross of commission) of Local Brazilian Reinsurers (R\$ bn)



Source: SUSEP, Terra Brasis Re



## Introduction

The highlight of this issue of Terra Report is, without a doubt, the new Plan of Accounts implemented by SUSEP in May 2011.

A year after its implementation and after a long period in which SUSEP did not divulge the market data, we are now, for the first time, able to publish the information from our reinsurance market with reasonable integrity and consistency.

The Terra Brasis team had to undergo extensive adaptation between the concepts of the plan's previous numbers and those of the new plan. The changes and adaptations that were made so that we could correctly analyze the evolution of the market are described throughout this report, and, more specifically, in Exhibit 1.

Our conclusion, with comparable data after the adaptation of the concepts, is that the Brazilian Reinsurance Market, comprised of the Local, Admitted, and Occasional Reinsurers continues evolving at a rapid pace, having grown approximately 32% in 2011 in comparison with 2010, as can be seen in detail from page 9 onwards.

The local reinsurance market, comprised solely of Local Reinsurers, reacted strongly, especially the IRB, and now already represents a market larger than the entire Brazilian Reinsurance market before the opening of reinsurance, as detailed on the first page and in the Flow of Reinsurance Premiums from page 12 onwards.

The study, made for the first time in this issue of Terra Report, of the Capacity of the Local Reinsurance Market, presented on page 16, which analyzes a subject that has generated some controversy amongst the participants of our industry innumerable times, also deserves to be highlighted.

Much still needs to be done in order to facilitate the correct understanding of the implications of the new Plan of Accounts in the analysis of the Reinsurance Market and its players. We begin this work with this report, and hope to continue in the next issue.

Sincerely,

**Paulo Eduardo de Freitas Botti**

Chief Executive Officer

Terra Brasis Re

## SUSEP's New Plan of Accounts

SUSEP's new Plan of Accounts, implemented in May 2011, brought about a series of changes in the traditional concepts of the insurance and reinsurance markets. Whereas before we were used to seeing data referring to the production retained by insurance and reinsurance companies, now, at first glance, we have come across data referring to total production, gross of reinsurance or retrocession.

The main alterations were:

**Earned Premium:** Normally based on retained premium, it is now based on the written premium. Besides, in the case of the reinsurers, commissions paid to cedants are considered a discount on the written premium.

**Losses of Competence:** Previously understood as the retained portion of occurred losses, it is now considered the total losses occurred.

**Commercial Expenses:** It is now based exclusively on the brokerage fees paid to insurance and reinsurance brokers. As to Insurers, the commission received from cedants is no longer considered a deduction of this expense. As to the Reinsurer, it does not recognize the commission paid to cedants, or the ones received by the retrocessionaires.

**Results of the Reinsurance or Retrocession:** It is now emphasized, involving ceded premiums, paid and received commissions, as well as loss recoveries.

With these changes, the technical indexes that we are accustomed to follow now have another meaning and may present considerable numerical variation from the previous plan to the new plan.

During the course of this report, we will highlight these possible inconsistencies, but our readers should be aware of the analysis of the numbers and indexes presented, given these changes.

The following tables summarize the changes and their implications for Insurers and Reinsurers.

In Exhibit 1, the Adjustment Methodology for the New Plan of Accounts that we adopted to facilitate in continuing our analysis is presented in more detail.

### Insurers: Concepts in SUSEP's Old and New Plan of Accounts

	<b>Insurers</b>	
	<b>Up to May 2011</b>	<b>After May 2011</b>
Earned Premium	Based on Retained Premium	Based on Written Premium, gross of Reinsurance
Losses of Competence	Based on the retained part of the incurred losses	Based on total incurred losses
Commercial Expenses	Based on insurance brokerage paid minus reinsurance commission received from reinsurer	Based on insurance Brokerage paid
Administrative Expenses	Total Administrative Expenses Incurred	Total Administrative Expenses Incurred

#### **Technical Ratios of Insurers - Inconsistencies between 2010 and 2011**

Loss Ratio = Losses of Competence / Earned Premium

If, in 2011, the loss from the retained part is different from the reinsured part, there will be a greater or smaller difference.

Commercial Expenses / Earned Premium

There will be a larger difference if there was an overriding in 2010

Administrative Expenses / Earned Premium

The greater the reinsurance index in 2010, the smaller the difference

Source: Terra Brasis Re

### Reinsurers: Concepts in SUSEP's Old and New Plan of Accounts

	<b>Reinsurers</b>	
	<b>Up to May 2011</b>	<b>After May 2011</b>
Earned Premium	Based on Retained Reinsurance Premium (written minus retrocession)	Based on Written Reinsurance Premium minus Reinsurance Commission Paid to Cedant
Losses of Competence	Based on the retained part of the incurred losses	Based on total incurred losses
Commercial Expenses	Based on the reinsurance brokerage paid to the reinsurance broker + reinsurance commission paid to the cedant - retrocession commission received by the retrocessionaire	Based on the reinsurance brokerage paid to the reinsurance broker
Administrative Expenses	Total Administrative Expenses Incurred	Total Administrative Expenses Incurred

#### **Technical Ratios of Reinsurers- Inconsistencies between 2010 and 2011**

Loss Ratio = Losses of Competence / Earned Premium

There will be a greater difference if a reinsurance commission is paid to the cedant. There will also be a greater or smaller difference if, in 2011, the loss from the retained part is different from the retroceded part

Commercial Expenses / Earned Premium

Usually, the difference will be smaller

Administrative Expenses / Earned Premium

The smaller the commission paid to cedants in 2011, the smaller the difference

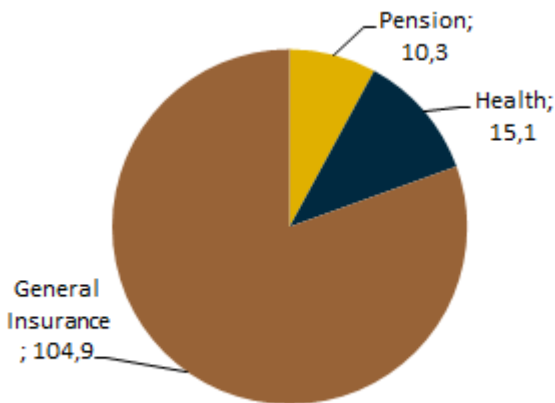
Source: Terra Brasis Re

## Brazilian General Insurance Market

We begin the report with a brief analysis of the general insurance market.

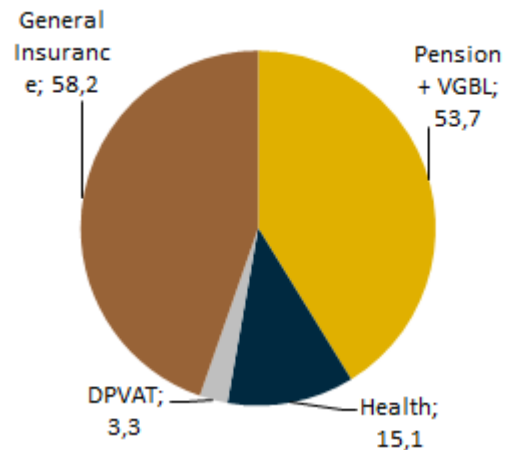
In line with previous issues of Terra Report, we removed the modalities DPVAT and VGBL of the general insurance segment, as illustrated below.

2011: Official Segment of the Market by Premium Written (R\$ bn)



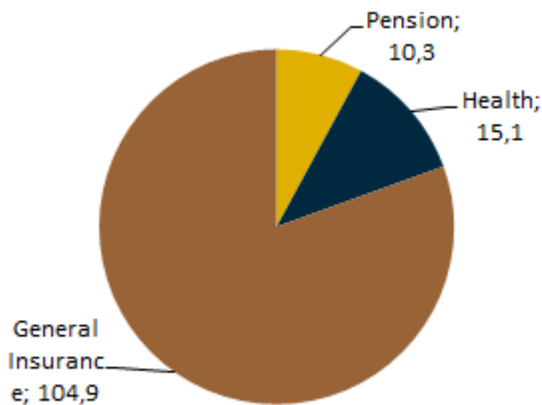
Source: SUSEP, CNSeg, ANS, Terra Brasis Re

2011: Segment Used by Terra Brasis by Premium Written (R\$ bn)



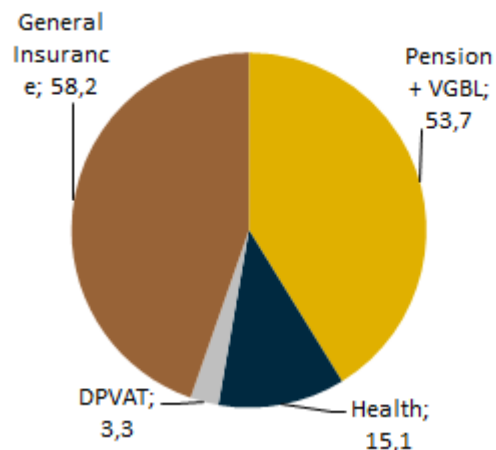
Source: SUSEP, CNSeg, ANS, Terra Brasis Re

2010: Official Segment of the Market by Premium Written (R\$ bn)



Source: SUSEP, CNSeg, ANS, Terra Brasis Re

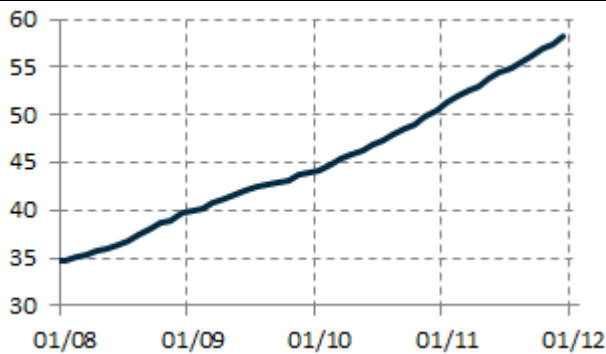
2010: Segment used by Terra Brasis by Premium Written (R\$ bn)



Source: SUSEP, CNSeg, ANS, Terra Brasis Re

With the exception of VGBL and DPVAT, the General Insurance segment continues to evolve (in nominal terms) at a rate of approximately 15% per year. The volume of general insurance premiums written for the year 2011 was R\$58.2 bn, compared with more than R\$50.5 bn in 2010.

Evolution of Insurance Written Premiums (R\$ bn)



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Growth of Insurance Written Premiums



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

The variables presented in the charts below are based on the Old Plan until May 2011 and on the New Plan from then on. Therefore, the concepts of the Loss Ratios, Commercial Expenses, and Administrative Expenses changed from 2011 onwards with the arrival of the New Plan of Accounts, as described in the previous section of this report.

Even with this change, the loss ratio has been stable and relatively low when compared to historical data and around 48% of the net earned premiums.

Loss Ratios / Earned Premium



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Commercial Expense / Earned Premium



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Commercial Expenses show growth, ending the year with 27.7% of the earned premium compared to 24.4% as of the end of 2010.

Administrative Expenses decreased, ending the year with 16.5% of the earned premium compared to 17.4% as of the end of 2010

Administrative Expense / Earned Premium



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Note: Percentage values Referring to the Official Insurance Market

Reinsurance Result / Earned Premium



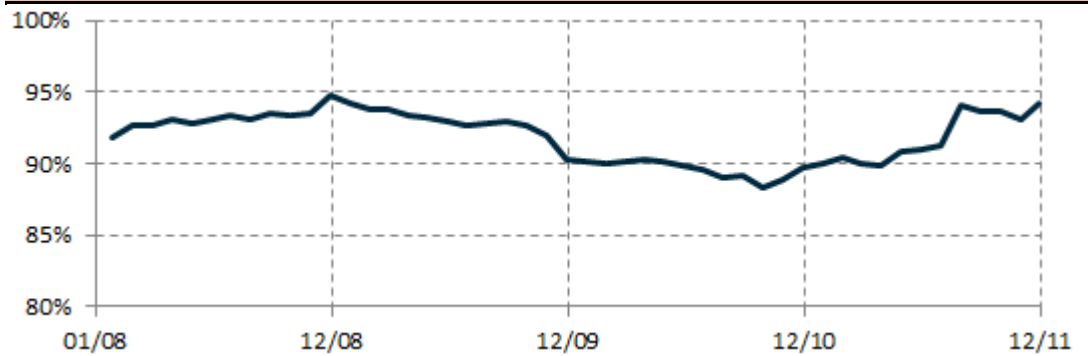
Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Note: This variable only exists from the implementation of SUSEP's new plan of accounts.

The increase of Commercial Expenses and reduction of Administrative Expenses must be a consequence of the change of concepts, as well as the appearance of the category "Reinsurance Result."

The Combine Ratio, including Reinsurance Result, showed growth, ending the year at 94.2% compared to 89.7% as of the end of 2010.

Combined Ratio, Including Reinsurance Result



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

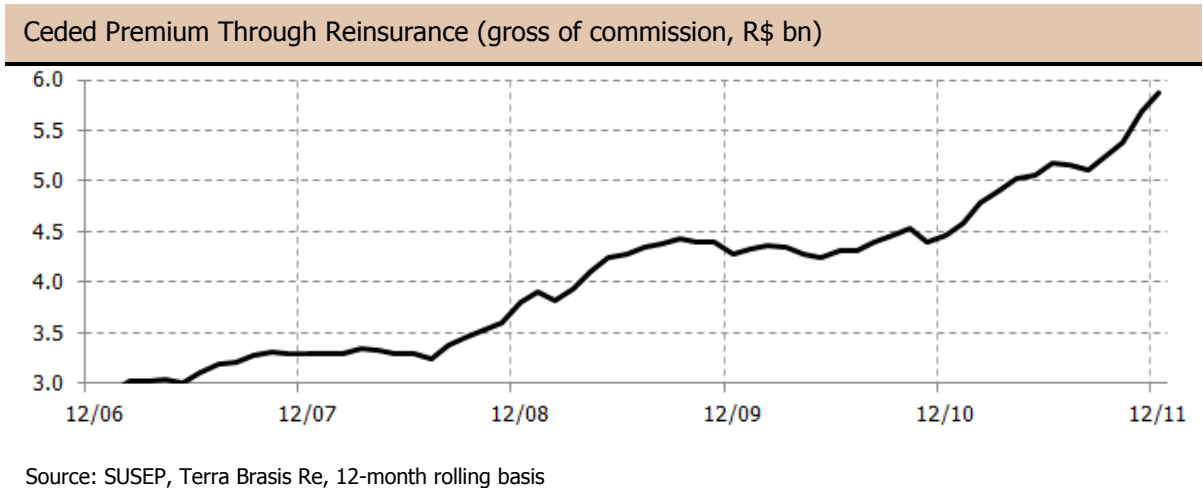


## Brazilian Reinsurance Market

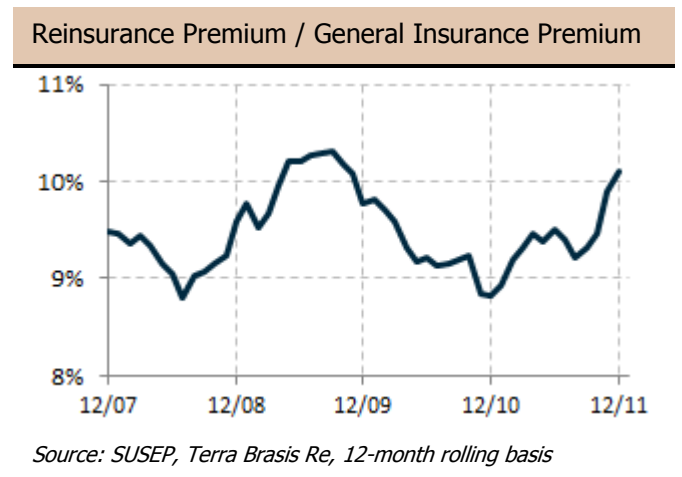
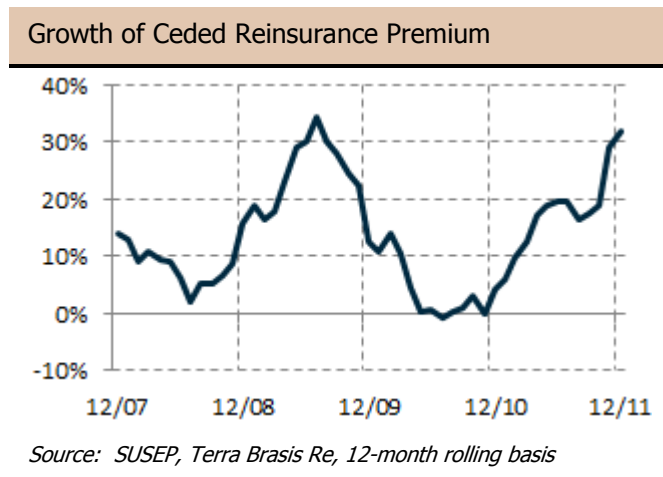
The change in SUSEP’s Plan of Accounts had a severe impact on our databank. We will comment in detail about these changes in Exhibit 1 of this publication.

The following analysis was based on data consolidated from Brazilian cedants and **adjusted to the concept of the previous Plan of Accounts.**

According to our adjustments, premiums gross of commissions, ceded through reinsurance by Brazilian cedants, increased nearly 32%, from R\$4.46 bn to R\$5.88 bn in 2011, which is a considerably greater evolution than the previous year in which the market grew 4%.

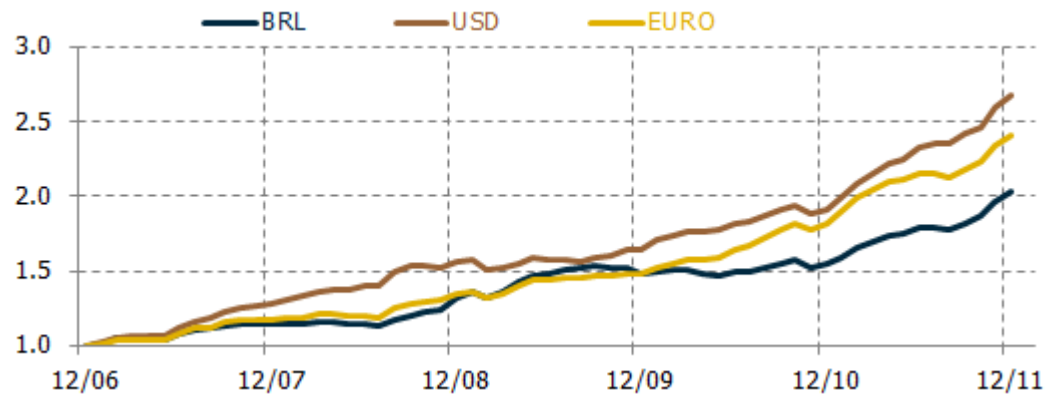


The ratio between reinsurance premium and general insurance premium reversed its fall and ended the year at 10.1%. At the end of 2010, this ratio was 8.8%.



It is worth remembering that the growth in the volume of reinsurance ceded premiums is still larger if it is calculated in foreign currency, given the Brazilian currency's appreciation in recent years. To better study this movement, we have constructed the chart below.

Evolution of Reinsurance Premium in BRL, USD, and EUR



Source: SUSEP, Terra Brasis Re, 12-month volume accumulation, Value from 12/2006 = 1.00

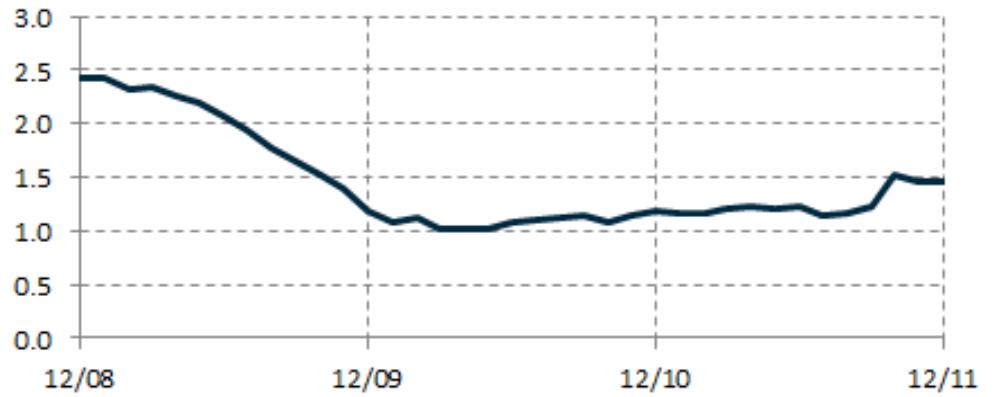
For each month, we converted the volume of premiums ceded in that month into foreign currency, based on the average exchange rate of the respective month. We then constructed three historical trends (Reais, US Dollars, and Euros) of the volume of the premium accumulated in 12 months. For the three trends, we used December 2006 as a reference, dividing the value of each month by the value of December 2006.

In the chart, one may notice that the volume of reinsurance in 2011, if measured in Reais, is approximately 2.0 times greater than the volume in 2006, whereas, if measured in EURO, is 2.4 times greater, and 2.7 times greater if measured in USD. This, among other factors, helps explain the growing interest of international companies in the Brazilian market.

The recent devaluation of the Real only partially equalized the difference between the market's growing rates in different currencies.

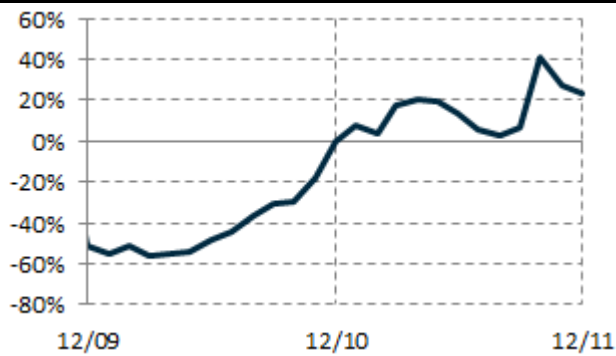
Ceded premiums in coinsurance show a volume of R\$1.5 bn for 2011, equivalent to 2.5% of the volume of insurance premiums, excluding VGBL and DPVAT. This volume represents an increase of 23% in 2010, maintaining a percentage between 2.0% and 2.5% in recent years, in relation to the insurance premium, a percentage that has already been 6% in 2008.

Ceded Premium in Coinsurance (R\$ bn)



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Increase of Ceded Premium in Coinsurance



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Coinsurance Premium / General Insurance Premium



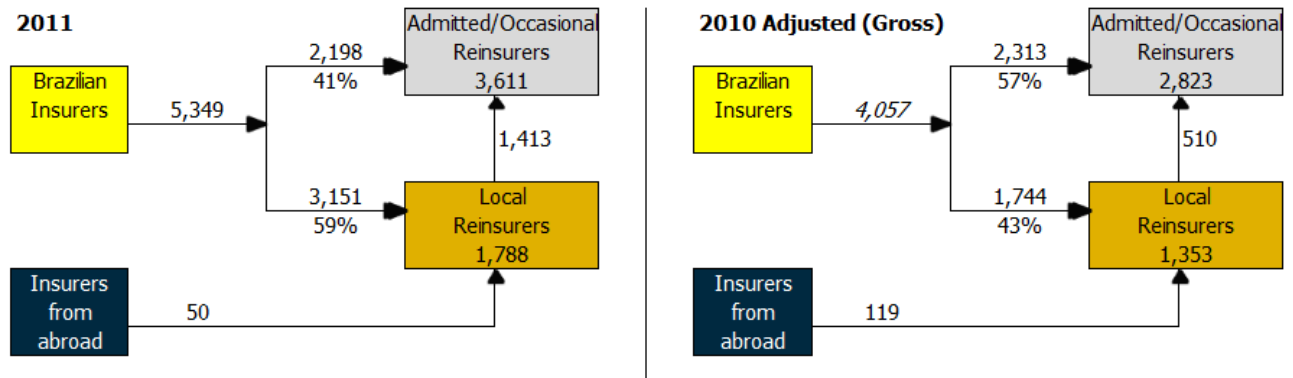
Source: SUSEP, Terra Brasis Re, 12-month rolling basis

## Flow of Reinsurance Premium

The flowcharts below show the volume of reinsurance and retrocession premiums in the Brazilian market from 2007 to 2011.

We organized the data in two ways. Initially, we will use the definitions of SUSEP's new Plan of Accounts, which consider premiums as net of commissions.

### Flow of Premiums in the Brazilian Market in 2010 and 2011 (net of commission, R\$, mm)



Source: SUSEP, Terra Brasis Re, R\$ million, numbers net of reinsurance commissions

In the flowcharts above, the data was obtained through SUSEP's databank and published balance sheets. The analysis shows an annual increase of 32% for the volume of the ceded premium. The volume of the premium accepted by local reinsurers increased approximately 81%, from 43% to 59% of the market.

### Market Share Reinsurance Premium (net of commission) Ceded by Brazilian Cedants

#### Market Share of Ceded Premium by Brazilian Insurers (net of commission):

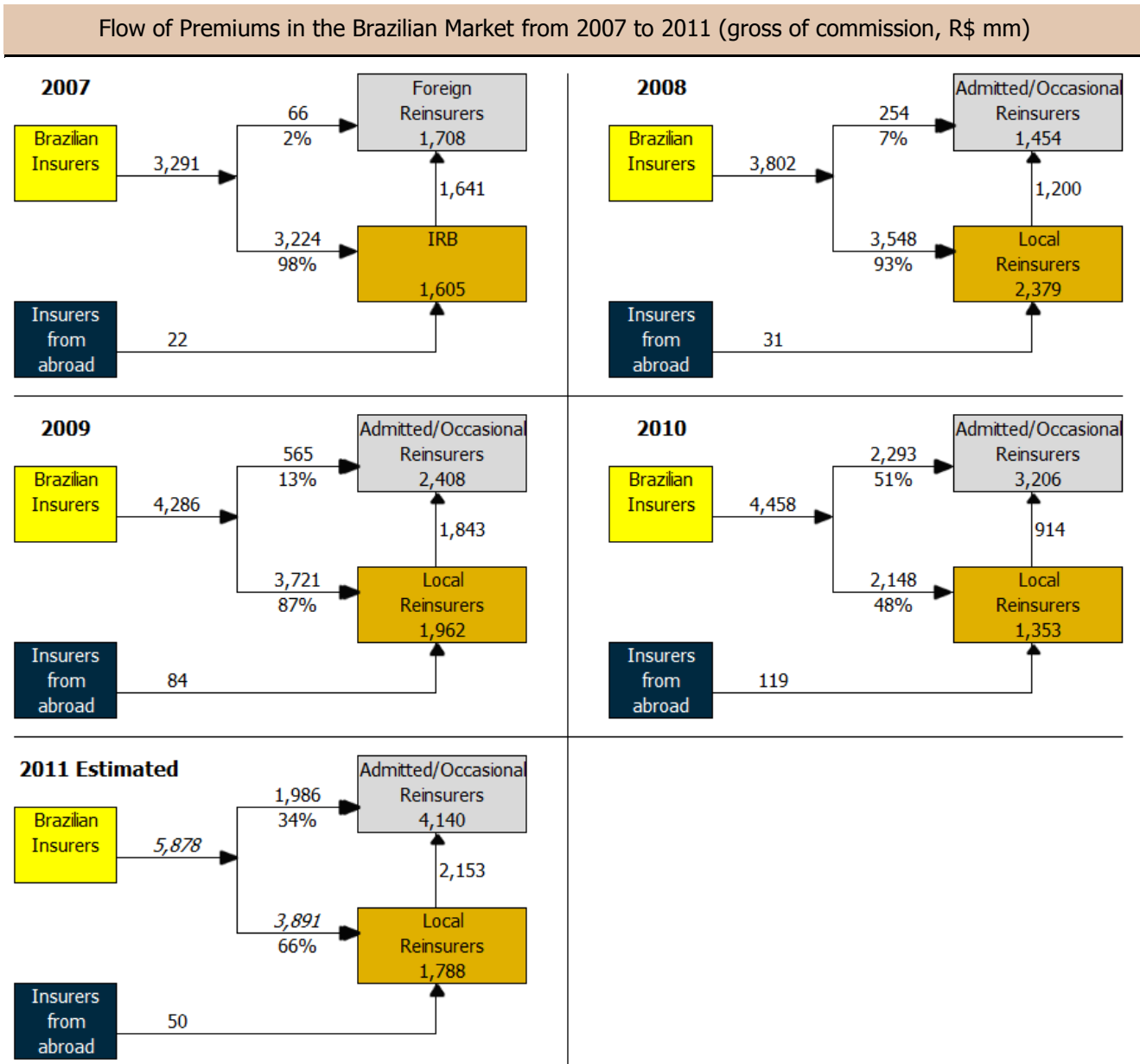
	2011	2010
IRB	38%	19%
Other Locals	21%	17%
Admitted+Occasional	41%	64%

#### Market Share between Local Reinsurers (net of commission):

	2011	2010
IRB	64%	53%
Other Locals	36%	47%

Source: SUSEP, Terra Brasis Re

Given the lack of data on net of commission premiums for previous years, we have focused the remainder of the analysis on gross of commission reinsurance premium, as illustrated on the following page.



Source: SUSEP, Terra Brasis Re, R\$ million, gross reinsurance commission numbers.

In order to determine the volume of the reinsurance premiums gross of commission ceded in reinsurance by Brazilian cedants, as well as the reinsurance premium gross of commission written by local reinsurers for the year 2011, it was necessary to estimate commissions.

The final volume of premiums ceded in reinsurance in 2011 was R\$5.88 bn, an increase of approximately 32% over the previous year. This result comes close to the April 2010 projection made by Terra Report, where we projected R\$ 5.8 bn. In the June 2011 issue, our projection was R\$4.8 bn, given what we now know as having been a partial understanding of SUSEP’s Plan of Accounts.

In total volume of assumed reinsurance premium, the local market (local reinsurers) ended 2011 with R\$ 3.9 bn, an increase of 81% in relation to 2010. This volume is greater than the total market volume of 2007, the last year of a monopolistic market. The premium volume assumed by admitted and occasional reinsurers was of R\$ 2.0 bn, approximately 13% less than the volume of R\$ 2.3 bn produced in 2010.

With regard to percentage of the ceded premium, the local reinsurance market shows strong signs of recovery. The local reinsurers received 66% of the premium ceded by Brazilian cedants, compared with

48% in 2010. This was the first year since the opening of the market that the participation of local reinsurers increased.

The data still does not show that local reinsurers are increasing their assumed premium abroad, despite some ads from certain local reinsurers. In 2011, the premiums ceded by foreign reinsurers to local reinsurers were only R\$50m, less than the R\$119m ceded in 2010.

#### Premium Assumed by Local Reinsurers

##### Gross Reinsurance Premium accepted by Local Reinsurers (gross of comission):

	2011	2010	2009	2008	2007
from Brazilian Insurers	3,891	2,148	3,721	3,548	3,224
from Insurers abroad	50	119	84	31	22
<b>Gross Reinsurance Premium</b>	<b>3,941</b>	<b>2,267</b>	<b>3,805</b>	<b>3,578</b>	<b>3,246</b>
Retrocession	2,149	916	1,845	1,937	1,641
<b>Net Retained Premium</b>	<b>1,788</b>	<b>1,351</b>	<b>1,960</b>	<b>1,642</b>	<b>1,605</b>

##### Gross Reinsurance Premium ceded by Brazilian Insurers (gross of comission):

	2011	2010	2009	2008	2007
to IRB	2,562	1,181	2,915	3,219	3,224
to other Local Reinsurers	1,329	967	806	329	
to Admitted/Ocasional Reinsurers	1,990	2,310	565	254	
<b>Total</b>	<b>5,878</b>	<b>4,458</b>	<b>4,286</b>	<b>3,802</b>	<b>3,224</b>

Source: SUSEP, Terra Brasis Re

The 117% increase in the volume of the premium underwritten by the IRB in 2011 is mentioned. In that year, the IRB underwrote R\$2.562 bn of gross premium, while, in 2010, it had underwritten R\$1.181 bn. Other local reinsurers also had a significant increase of approximately 37% in the volume of the assumed gross reinsurance premium.

#### Reinsurance Premium Market Share (gross of commission) Ceded by Brazilian Cedants

##### Market Share of Ceded Premium by Brazilian Insurers (gross of comission):

	2011	2010	2009	2008	2007
IRB	43%	26%	68%	85%	100%
Other Locals	23%	22%	19%	9%	0%
Admitted+Occasional	34%	52%	13%	7%	0%
Total ceded by local cedants	100%	100%	100%	100%	100%

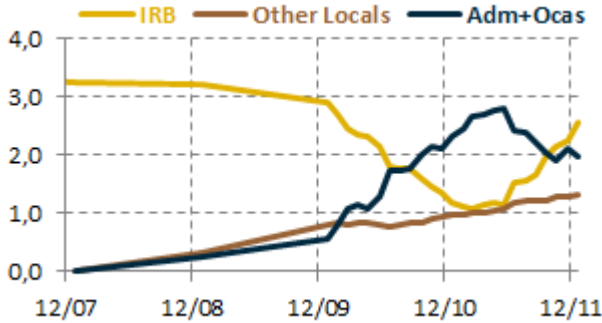
##### Market Share between Local Reinsurers (gross of comission):

	2011	2010	2009	2008	2007
IRB	66%	55%	78%	91%	100%
Other Locals	34%	45%	22%	9%	0%
Total placed in the local market	100%	100%	100%	100%	100%

Source: SUSEP, Terra Brasis Re

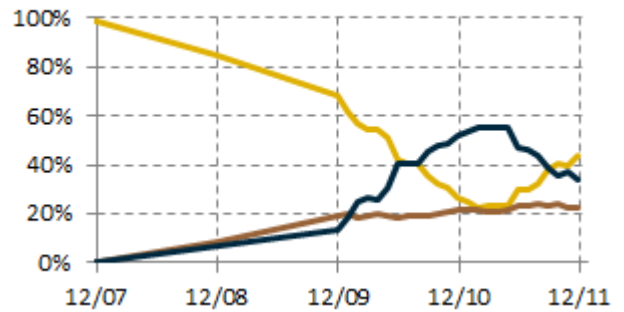
In terms of market participation, the IRB went from 26% to 43%, while other local reinsurers remained relatively stable, from 22% to 23%. Admitted and Occasional reinsurers lost 18 percentage points of participation, from 52% to 34%.

Gross Reinsurance Premium Deriving from Brazilian Cedants



Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Participation in the Gross Reinsurance Premium Generated by Brazilian Insurers

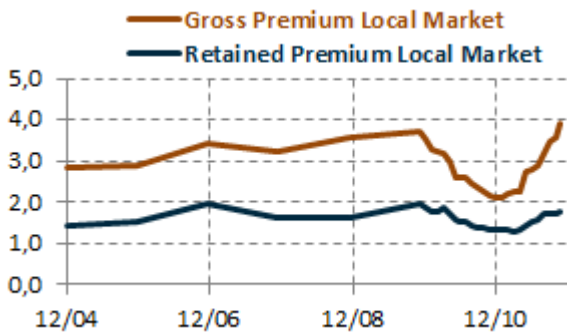


Source: SUSEP, Terra Brasis Re, 12-month rolling basis

With regard to retention, one can see that the IRB begins reducing the percentage of the retained premium after operating with high retention in recent years. In 2011, the IRB retained 47% of the gross premium, whereas in 2010, it retained 77%. Other local reinsurers retained 44% of the gross premium in 2011, slightly less than the 46% retained in 2010.

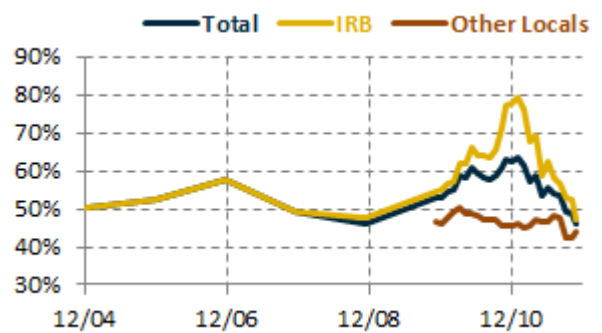
It is important to emphasize that, regardless of the opening of the market, the reinsurance premium volume directed at the local market in 2011 was greater than in 2007, the last year of the monopoly regime. It is of significance that, although 80 reinsurers (admitted or occasional) started operations in less than four years, the local reinsurance market (local reinsurers) now has the largest premium volume of its history.

Gross and Retained Reinsurance Premium in the Local Market



Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Retention in the Local Market by Type of Company



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

## Capacity of the Local Reinsurance Market

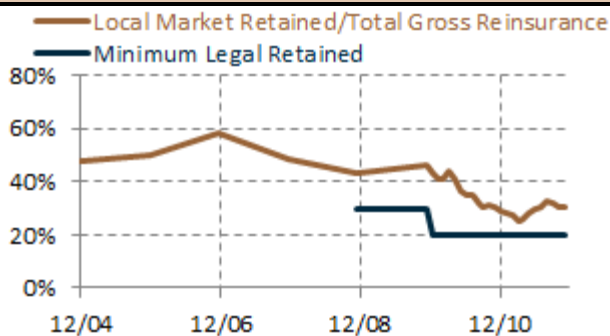
In this section we estimate the capacity of the local reinsurance market.

First, we studied the theoretical threshold of the capacity of the local market, resulting from the legislation introduced in 2007.

In a short and simplified manner, the legislation introduced in 2007 stipulated that during 2008, 60% of the reinsurance premium generated by Brazilian insurers should be offered to the local market, reducing this limit to 40% as of 2009. At the end of 2010, there was a change in the legislation, demanding that it be mandatory to place 40% of the reinsurance premium in the local market from that moment onwards.

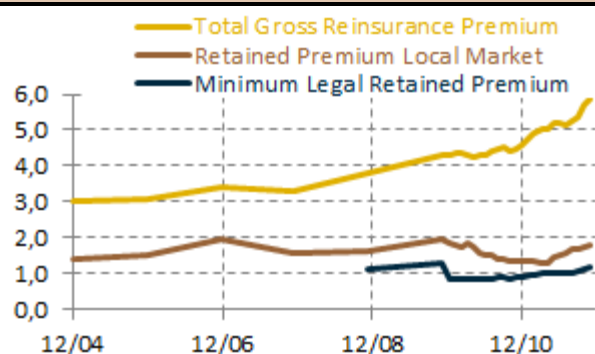
At the same time, the local reinsurers may only retrocede up to 50% of the volume of the reinsurance written premium.<sup>1</sup> Therefore, in the chart below, we estimate a minimum retention by the local market of 30% (60%-50%) for 2008 and 20% (40%-50%) from then on, as required by law. In reality, this limit is slightly less since, in the graph below, we did not consider the fact that the maximum restriction of 50% does not apply to some classes of reinsurance, such as Financial and Rural risks.

Retention of Local Market and Minimal Retention as Percentage of the Premium Ceded by Brazilian Cedants



Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Reinsurance Premium Ceded by Brazilian Cedants, Retained Premium in the Local Market, and Minimal Legal Premium (R\$ bn)



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

As may be observed in the graph above, for 2011, the local market retained R\$1.788 bn (close to 30% of the premium ceded by Brazilian cedants) while the minimum demanded by law would be R\$1.176 mn (20 %.)

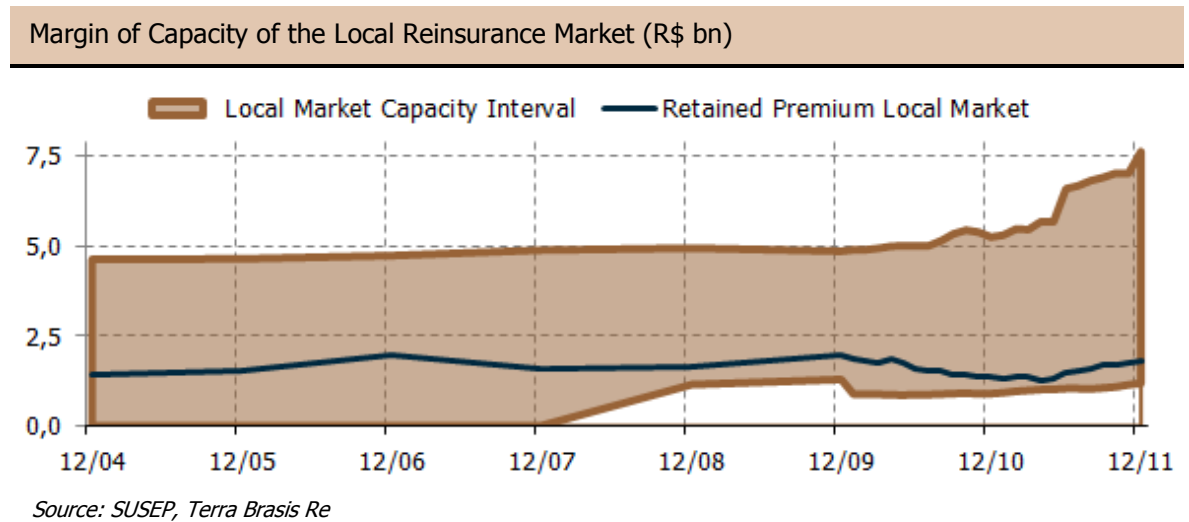
This means that, despite possible punctual difficulties, the local market continues to work with retention levels above the minimum required by law, thus demonstrating that it has enough capacity to absorb more risks than those that were forcibly required, and therefore making it clear that, at least in the short term, there will be no lack of capacity.

<sup>1</sup> At the moment, our understanding is that even with the new Plan of Accounts this regulation was not altered and continues to demand a retention of 50% of the reinsurance premium gross of commission.



A theoretical cap for the capacity margin of the local market may also be defined by using the usual relationship between retained premium and assets, as applied in the reinsurance industry.

A first approach usually used in the reinsurance market indicates that a reinsurer's annual retained premium should not exceed two times its surplus to policyholders. As a consequence, we may roughly define the cap of the local market's margin of capacity as being twice the combined surplus of all active local reinsurers.



As we may notice, the cap of the margin of capacity is increasing, as new companies settle in Brazil and companies already there increase their capital.

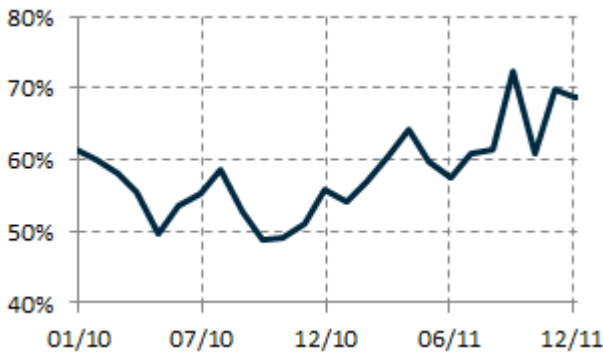
Thus, we conclude that the local reinsurance market is loosely retaining the minimum required by law and at the same time has ample expansion capacity since the cap of the margin of capacity is still far from the volume currently retained.

## Results of Local Reinsurers

For the analysis of the results of local reinsurers, it was necessary to adjust the metrics normally used to the new Plan of Accounts.

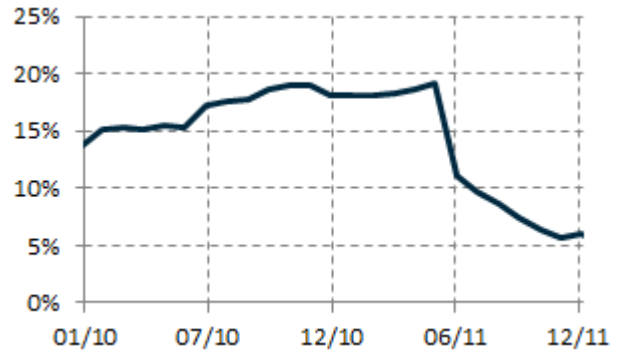
For all the previous years and until May 2011, the criteria of the old plan are used in the graphs below. For the period after May 2011, the criteria of the new plan are used.

Loss Ratio / Earned Premium



Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

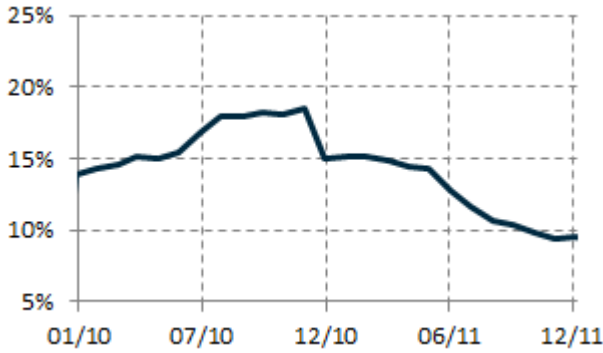
Commercial Expense / Earned Premium



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

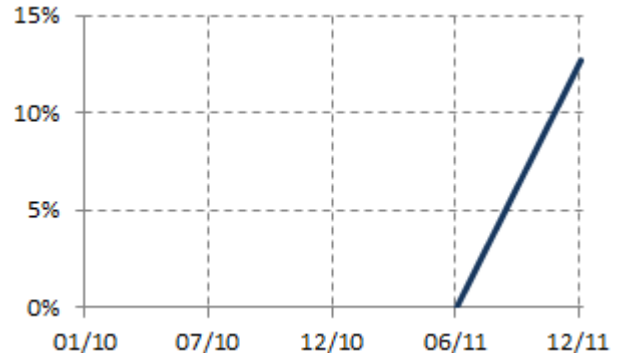
For the level of Commercial Expense, the effect of the change in the calculation methodology is clear and we may notice in the graph above a significant reduction between the value of May and June, 2011. For the Loss Ratio, the effect is also evident, reflected in the increase of number of losses.

Administrative Expense / Earned Premium



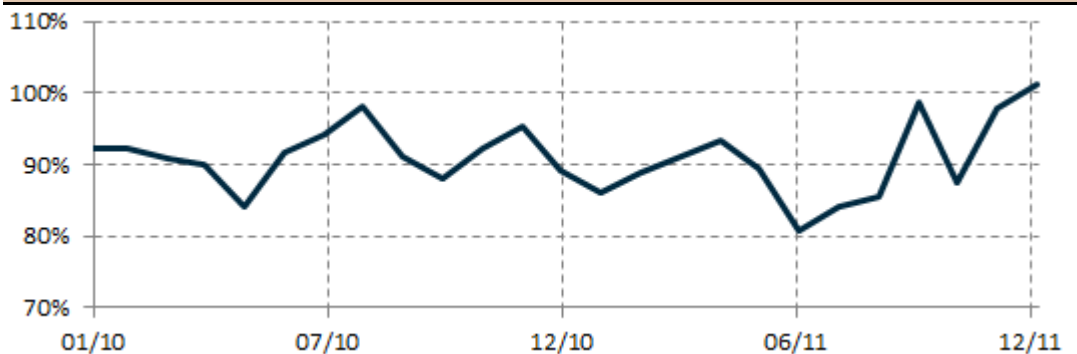
Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Results of Retrocession / Earned Premium



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Combined Ratio, with Results from Retrocession



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

In the Summary of Yearly Results below, in order to avoid the same discrepancies reflected in the graphs above in each of the companies, we used the data included in the annual publication of Financial Statements, applied the adjustments as described in Exhibit 1, and presented the years 2010 and 2011 with the same criteria as the new Plan of Accounts.

Summary of Local Reinsurers' Results as of 2010 and 2011 (R\$ mm), Market, IRB, and Other Locals

	Total Local Market		IRB		Others Locals	
	2011	2010	2011	2010	2011	2010
<b>Assets</b>	13,370	10,085	9,943	8,332	3,428	1,753
<b>Shareholders Equity</b>	3,684	2,683	2,428	2,254	1,256	429
<b>Total Gross Reserves</b>	6,875	5,795	5,415	4,942	1,460	853
Premium Gross Reserves	1,760	1,316	1,090	799	670	517
Claims Gross Reserves	5,115	4,479	4,325	4,144	790	336
	0	0				0
<b>Gross Reinsurance Premium</b>	<b>3,238</b>	<b>1,762</b>	<b>2,065</b>	<b>1,048</b>	<b>1,173</b>	<b>714</b>
<i>Reins. Prem. (net of Comission)</i>	<i>3,186</i>	<i>1,640</i>	<i>2,015</i>	<i>928</i>	<i>1,171</i>	<i>712</i>
<i>International Operations</i>	<i>50</i>	<i>119</i>	<i>50</i>	<i>119</i>	<i>0</i>	<i>0</i>
<i>Accepted Retrocession</i>	<i>2</i>	<i>3</i>	<i>0</i>	<i>0</i>	<i>2</i>	<i>3</i>
Change in Provisions	-543	443	-396	574	-147	-131
<b>Earned Premiums</b>	<b>2,695</b>	<b>2,205</b>	<b>1,668</b>	<b>1,622</b>	<b>1,027</b>	<b>584</b>
Losses Incurred	-1,851	-1,074	-1,189	-760	-663	-314
Commercial Expenses	-161	-78	-49	-17	-112	-61
Other Operational Expenses	-29	65	-17	76	-12	-11
Retrocession Result	-350	-673	-182	-558	-168	-115
Administrative Expenses	-240	-207	-171	-170	-69	-37
Tax Expenses	-78	-64	-39	-43	-39	-21
Financial Expenses	693	481	540	424	153	57
Equity Pickup	156	39	156	39	0	0
<b>Operating Result</b>	<b>834</b>	<b>693</b>	<b>717</b>	<b>611</b>	<b>117</b>	<b>82</b>
Non-recurring Gains	0	0	0	0	0	0
<b>EBT</b>	<b>834</b>	<b>693</b>	<b>717</b>	<b>611</b>	<b>117</b>	<b>82</b>
EBT / Earned Premium	31%	31%	43%	38%	11%	14%
Income Tax	-164	-142	-139	-124	-25	-18
Social Tax	-110	-90	-95	-79	-15	-11
Profit Sharing	-22	-19	-17	-16	-5	-4
<b>Net Income</b>	<b>537</b>	<b>442</b>	<b>466</b>	<b>393</b>	<b>72</b>	<b>49</b>
ROE	14.6%	16.5%	19.2%	17.4%	5.7%	11.4%
<b>Loss Ratio</b>	<b>69%</b>	<b>49%</b>	<b>71%</b>	<b>47%</b>	<b>65%</b>	<b>54%</b>
<b>Expense Ratio</b>	<b>19%</b>	<b>13%</b>	<b>17%</b>	<b>10%</b>	<b>23%</b>	<b>22%</b>
Comm. Exp/Earned Premium	6%	4%	3%	1%	11%	10%
Tax Exp / Earned Premium	3%	3%	2%	3%	4%	4%
Other Exp/Earned Premium	1%	-3%	1%	-5%	1%	2%
Adm. Exp / Earned Premium	9%	9%	10%	11%	7%	6%
<b>Combined Ratio</b>	<b>88%</b>	<b>62%</b>	<b>88%</b>	<b>56%</b>	<b>87%</b>	<b>76%</b>
Retro Res./Eartned Premium	13%	31%	11%	34%	16%	20%
<b>Combined Ratio after Retro</b>	<b>101%</b>	<b>92%</b>	<b>99%</b>	<b>91%</b>	<b>104%</b>	<b>96%</b>
(Fin. + Equity) /Earned Prem	-32%	-24%	-42%	-29%	-15%	-10%
<b>Adj. Comb. Ratio after Retro</b>	<b>69%</b>	<b>69%</b>	<b>57%</b>	<b>62%</b>	<b>89%</b>	<b>86%</b>

Source: SUSEP, Terra Brasis Re

## Summary of Local Reinsurers' Results as of 2010 and 2011 (R\$ mm), by Company

	JM		Munich		Mapfre	
	2011	2010	2011	2010	2011	2010
Authorization Date	23 May 2008		23 May 2008		14 Nov 2008	
<b>Assets</b>	939	411	1,281	862	413	349
<b>Shareholders Equity</b>	598	104	159	152	102	90
<b>Total Gross Reserves</b>	257	210	851	572	88	65
Premium Gross Reserves	231	201	251	276	35	36
Claims Gross Reserves	26	10	600	296	52	30
	0	0	0	0	0	0
<b>Gross Reinsurance Premium</b>	<b>200</b>	<b>175</b>	<b>501</b>	<b>319</b>	<b>153</b>	<b>162</b>
<i>Reins. Prem. (net of Comission)</i>	<i>200</i>	<i>175</i>	<i>501</i>	<i>319</i>	<i>151</i>	<i>160</i>
<i>International Operations</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Accepted Retrocession</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>2</i>	<i>3</i>
Change in Provisions	-34	-46	-43	-54	8	-19
<b>Earned Premiums</b>	<b>166</b>	<b>129</b>	<b>458</b>	<b>265</b>	<b>161</b>	<b>144</b>
Losses Incurred	-21	-8	-373	-188	-123	-105
Commercial Expenses	-44	-37	-13	-5	-1	-1
Other Operational Expenses	-13	-11	0	0	1	0
Retrocession Result	-64	-50	-50	-38	-24	-23
Administrative Expenses	-12	-6	-27	-24	-6	-5
Tax Expenses	-3	-2	-19	-12	-6	-4
Financial Expenses	45	12	46	27	17	13
Equity Pickup	0	0	0	0	0	0
<b>Operating Result</b>	<b>53</b>	<b>27</b>	<b>23</b>	<b>24</b>	<b>19</b>	<b>19</b>
Non-recurring Gains	0	0	0	0	0	0
<b>EBT</b>	<b>53</b>	<b>27</b>	<b>23</b>	<b>24</b>	<b>19</b>	<b>19</b>
EBT / Earned Premium	32%	21%	5%	9%	12%	13%
Income Tax	-13	-7	-4	-5	-3	-3
Social Tax	-8	-4	-3	-3	-2	-2
Profit Sharing	-1	-1	-3	-3	0	0
<b>Net Income</b>	<b>31</b>	<b>16</b>	<b>13</b>	<b>12</b>	<b>13</b>	<b>13</b>
ROE	5.3%	15.1%	8.0%	8.1%	13.0%	14.8%
<b>Loss Ratio</b>	<b>13%</b>	<b>6%</b>	<b>81%</b>	<b>71%</b>	<b>77%</b>	<b>73%</b>
<b>Expense Ratio</b>	<b>44%</b>	<b>43%</b>	<b>13%</b>	<b>16%</b>	<b>7%</b>	<b>7%</b>
Comm. Exp/Earned Premium	27%	29%	3%	2%	1%	1%
Tax Exp / Earned Premium	2%	1%	4%	5%	4%	3%
Other Exp/Earned Premium	8%	9%	0%	0%	0%	0%
Adm. Exp / Earned Premium	7%	5%	6%	9%	3%	3%
<b>Combined Ratio</b>	<b>56%</b>	<b>50%</b>	<b>94%</b>	<b>87%</b>	<b>84%</b>	<b>80%</b>
Retro Res./Eartned Premium	39%	39%	11%	14%	15%	16%
<b>Combined Ratio after Retro</b>	<b>95%</b>	<b>89%</b>	<b>105%</b>	<b>101%</b>	<b>99%</b>	<b>96%</b>
(Fin. + Equity) /Earned Prem	-27%	-10%	-10%	-10%	-11%	-9%
<b>Adj. Comb. Ratio after Retro</b>	<b>68%</b>	<b>79%</b>	<b>95%</b>	<b>91%</b>	<b>88%</b>	<b>87%</b>

Source: SUSEP, Terra Brasis Re

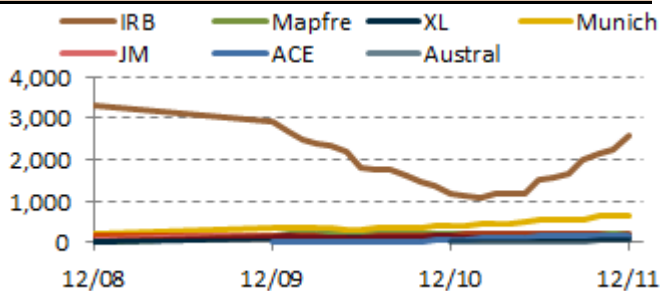
## Summary of Local Reinsurers' Results as of 2010 and 2011 (R\$ mm), by Company

	XL		ACE		Austral	Chartis
	2011	2010	2011	2010	2011	2011
Authorization Date	05 Dec 2008		25 Nov 2009		31 jan 11	06 Apr 11
<b>Assets</b>	515	312	212	131	176	94
<b>Shareholders Equity</b>	241	110	104	83	102	81
<b>Total Gross Reserves</b>	157	168	76	5	17	4
Premium Gross Reserves	65	110	26	4	13	3
Claims Gross Reserves	91	59	49	1	4	
	0	0	0	0	0	0
<b>Gross Reinsurance Premium</b>	<b>68</b>	<b>104</b>	<b>165</b>	<b>57</b>	<b>48</b>	<b>4</b>
<i>Reins. Prem. (net of Comission)</i>	<i>68</i>	<i>104</i>	<i>165</i>	<i>57</i>	<i>48</i>	<i>4</i>
<i>International Operations</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Accepted Retrocession</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Change in Provisions	15	-23	-15	-12	-38	-3
<b>Earned Premiums</b>	<b>84</b>	<b>81</b>	<b>150</b>	<b>45</b>	<b>10</b>	<b>1</b>
Losses Incurred	-68	-62	-74	-12	-9	0
Commercial Expenses	0	0	-54	-18	0	0
Other Operational Expenses	1	0	0	0	0	0
Retrocession Result	-1	-9	-19	-4	0	0
Administrative Expenses	-11	-10	-4	-1	-6	-5
Tax Expenses	-5	-4	-6	-3	-1	0
Financial Expenses	21	13	11	5	14	8
Equity Pickup	0	0	0	0	0	0
<b>Operating Result</b>	<b>21</b>	<b>9</b>	<b>3</b>	<b>12</b>	<b>7</b>	<b>3</b>
Non-recurring Gains	0	0	0	0	0	0
<b>EBT</b>	<b>21</b>	<b>9</b>	<b>3</b>	<b>12</b>	<b>7</b>	<b>3</b>
EBT / Earned Premium	25%	11%	2%	27%	70%	314%
Income Tax	-5	-2	-1	-3	-1	0
Social Tax	-3	-1	-1	-2	0	0
Profit Sharing	0	0	0	0	-1	0
<b>Net Income</b>	<b>13</b>	<b>5</b>	<b>2</b>	<b>7</b>	<b>5</b>	<b>2</b>
ROE	5.2%	4.8%	1.8%	9.0%	4.7%	2.5%
<b>Loss Ratio</b>	<b>81%</b>	<b>76%</b>	<b>49%</b>	<b>27%</b>	<b>92%</b>	<b>45%</b>
<b>Expense Ratio</b>	<b>18%</b>	<b>17%</b>	<b>43%</b>	<b>48%</b>	<b>68%</b>	<b>631%</b>
Comm. Exp/Earned Premium	0%	0%	36%	39%	4%	22%
Tax Exp / Earned Premium	6%	5%	4%	6%	10%	58%
Other Exp/Earned Premium	-1%	-1%	0%	0%	1%	0%
Adm. Exp / Earned Premium	13%	13%	3%	3%	54%	551%
<b>Combined Ratio</b>	<b>98%</b>	<b>94%</b>	<b>92%</b>	<b>75%</b>	<b>159%</b>	<b>676%</b>
Retro Res./Eartned Premium	1%	11%	13%	9%	4%	21%
<b>Combined Ratio after Retro</b>	<b>100%</b>	<b>105%</b>	<b>105%</b>	<b>84%</b>	<b>163%</b>	<b>698%</b>
(Fin. + Equity) /Earned Prem	-25%	-16%	-7%	-11%	-133%	-914%
<b>Adj. Comb. Ratio after Retro</b>	<b>75%</b>	<b>89%</b>	<b>98%</b>	<b>73%</b>	<b>30%</b>	<b>-217%</b>

Source: SUSEP, Terra Brasis Re

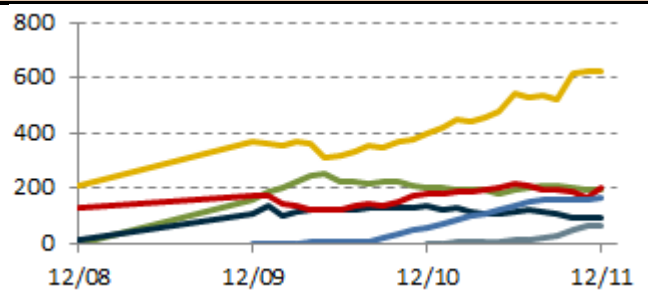
## Premiums and Reserves of Local Reinsurers

Reinsurance Premium (gross of commission)



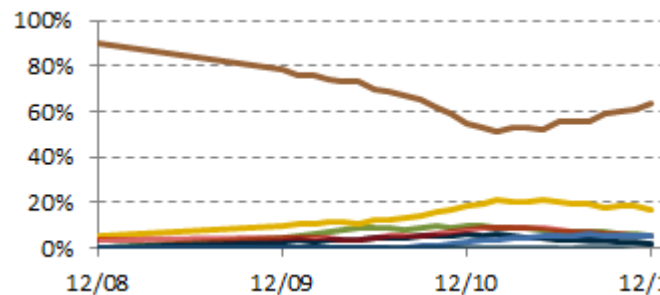
Source: SUSEP, R\$ million, 12-month rolling basis

Reinsurance Premium (Detail)



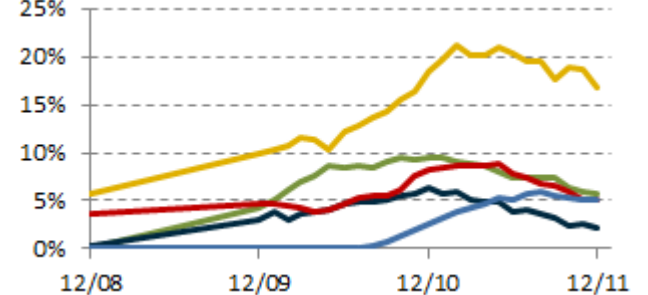
Source: SUSEP, R\$ million, 12 month rolling basis

Market Share – Reinsurance Premium



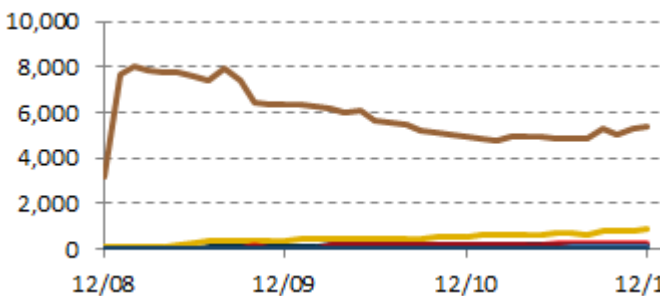
Source: SUSEP, Terra Brasis Re

Market Share – Reinsurance Premium (Detail)



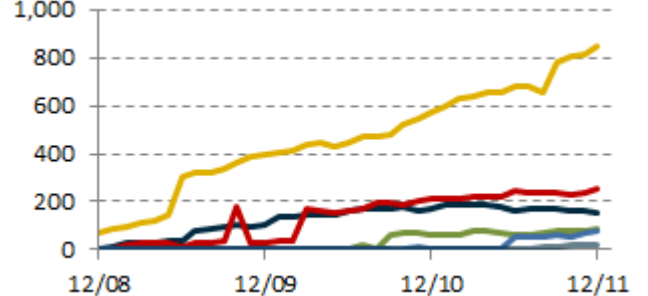
Source: SUSEP, Terra Brasis Re

Total of Gross Reserves



Source: SUSEP, Terra Brasis Re, R\$ million

Total of Gross Reserves (Detail)



Source: SUSEP, Terra Brasis Re, R\$ million

## Results of Lines of Business

For the analysis of lines of business, we utilized information originating from the table of operations of SUSEP's databank. It is important to mention that there are discrepancies between the values of the table of operations (TO) and the Summary of Yearly Results (DRE) of insurance and reinsurance companies. For instance, the table of operations shows a reinsurance premium of R\$5.599 million for 2011, while as per our calculation, the premium, gross of commission, reached R\$5.878 million. Accordingly, for 2011, the table shows a reinsurance written premium by local reinsurers at R\$3.258 million, while as per our calculation, the written premium (gross of commission) reached R\$3.887 million. For this section of the report, we decided not to make any adjustments to the data contained in the table of operations, and present the data without any attempt of adjustment to the new Plan of Accounts. Exhibit 1 covers this issue and other points as well.

### Insurance and Reinsurance Premiums for 2011 and 2010 (R\$ mm)

	Insurance Premium (GI)			Reinsurance Premium (TO)			Local Reinsurance Premium		
	2011	2010		2011	2010		2011	2010	
<b>Property</b>	9,255	7,793	19%	2,427	1,931	26%	1,196	664	80%
<b>Special Risks</b>	406	173	135%	322	147	119%	140	32	331%
<b>Liability</b>	925	750	23%	358	361	-1%	105	82	29%
<b>Hull</b>	182	572	-68%	212	383	-45%	56	115	-51%
<b>Auto</b>	21,361	20,054	7%	199	182	9%	136	188	-27%
<b>Transportation</b>	2,403	1,969	22%	417	218	91%	192	84	129%
<b>Surety</b>	1,289	898	43%	618	535	16%	494	406	22%
<b>Credit</b>	224	426	-48%	29	115	-75%	39	81	-52%
<b>Life</b>	17,091	15,716	9%	311	260	20%	271	213	27%
<b>House Financing</b>	1,396	1,105	26%	59	41	45%	44	31	43%
<b>Rural</b>	1,243	1,023	22%	454	482	-6%	359	326	10%
<b>Others</b>							107	-72	
<b>Life Individual</b>	2,017			33			5		
<b>Marine</b>	243			61			34		
<b>Aviation</b>	162			99			79		
	<b>58,196</b>	<b>50,478</b>	<b>15%</b>	<b>5,599</b>	<b>4,653</b>	<b>20%</b>	<b>3,258</b>	<b>2,148</b>	<b>52%</b>

Source: SUSEP, Terra Brasis Re, reinsurance premium obtained through the table of operations (TO)

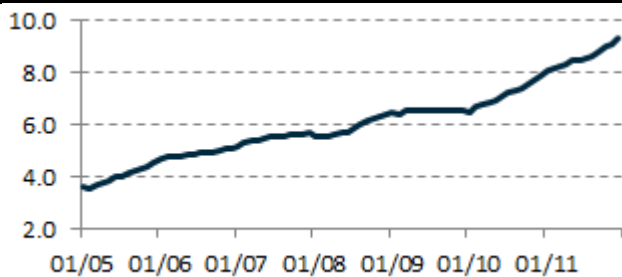
It is to be noted, that the highlighted classes of the reinsurance market (based upon premium) are not the most significant in the insurance market. As to the insurance market, classes of Auto and Personal insurance (including individuals) are the most significant, representing 37% and 29% respectively of the total gross insurance premium in 2011. However, such classes do not require significant volume of reinsurance. As to the reinsurance market, the classes of Property, Financial Risks, Rural, and Liability are the most significant with 43%, 11%, 8%, and 6%, respectively, of the total premium in 2011.

Therefore, we will detail below each of those four segments.



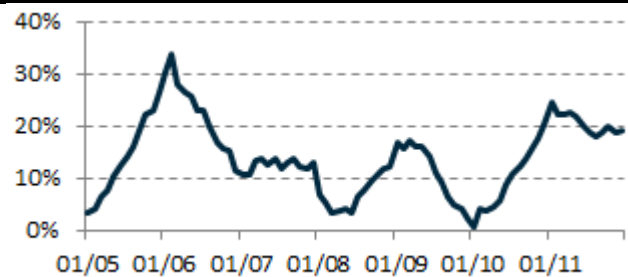
## Segment: Property

Insurance Premium



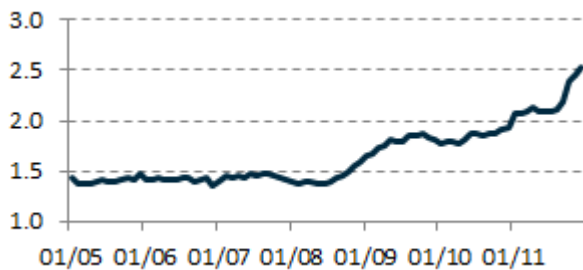
Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Growth in Insurance Premium



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Reinsurance Premium



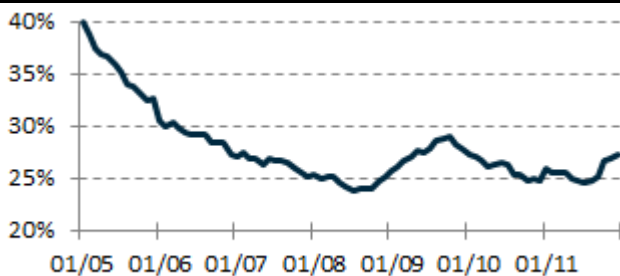
Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Growth in Reinsurance Premium



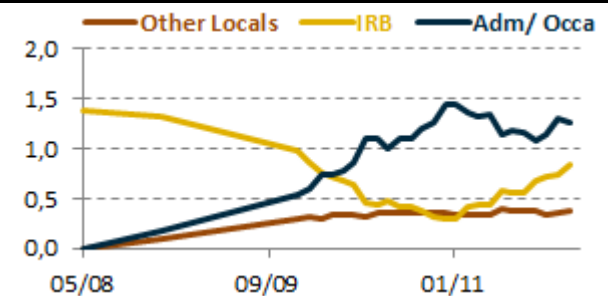
Source: Terra Brasis Re, SUSEP, 12-month rolling basis

Reinsurance Premium / Insurance Premium



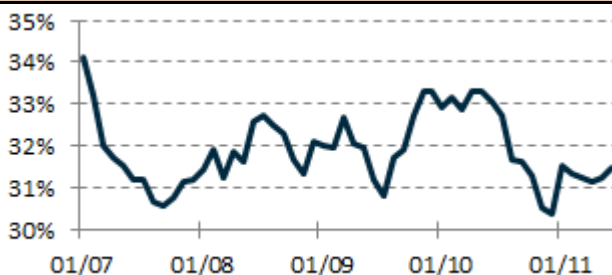
Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Split of Reinsurance Premium by Type of Company



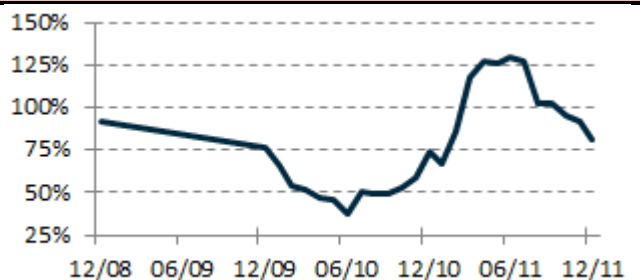
Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Loss Ratio Insurers



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Loss Ratio Local Reinsurers

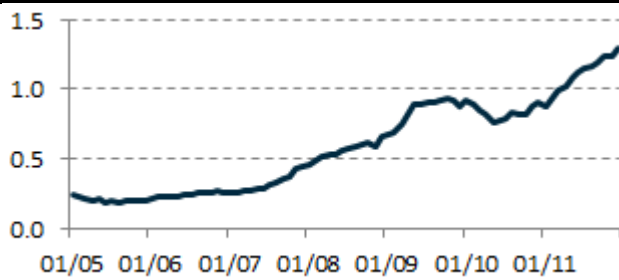


Source: SUSEP, Terra Brasis Re, 12-month rolling basis



## Segment: Financial Risks

Insurance Premium



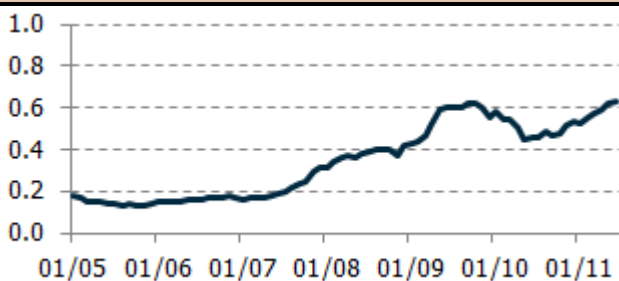
Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Growth in Insurance Premium



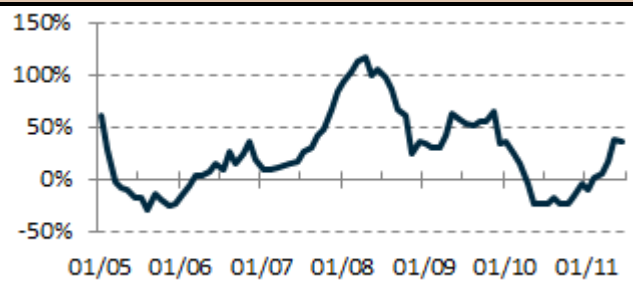
Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Reinsurance Premium



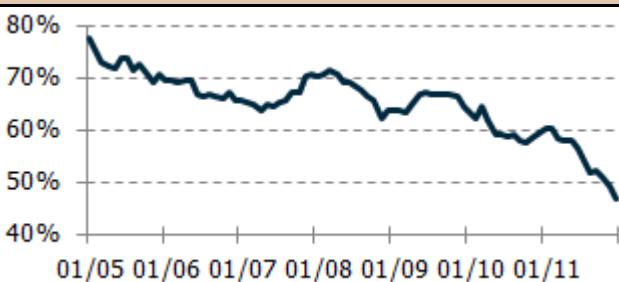
Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Growth in Reinsurance Premium



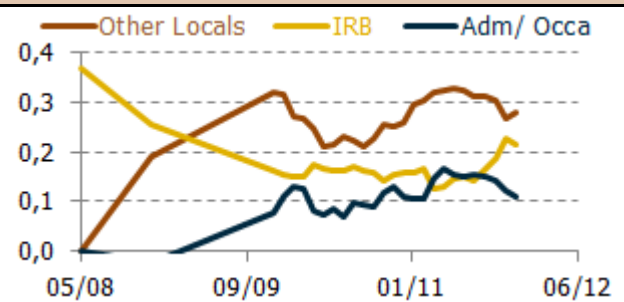
Source: Terra Brasis Re, SUSEP, 12-month rolling basis

Reinsurance Premium / Insurance Premium



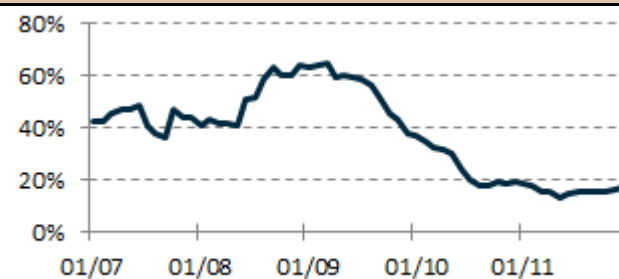
Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Split of Reinsurance Premium by Type of Company



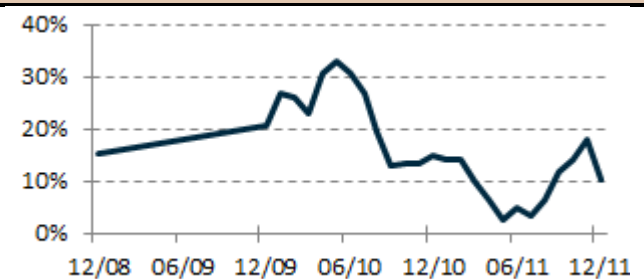
Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Loss Ratio Insurers



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

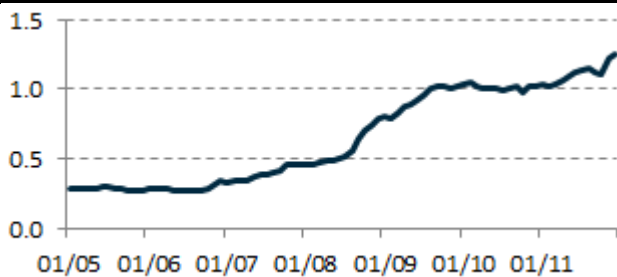
Loss Ratio Local Reinsurers



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

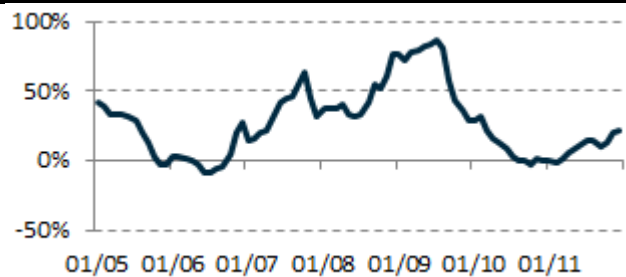
## Segment: Rural

Insurance Premium



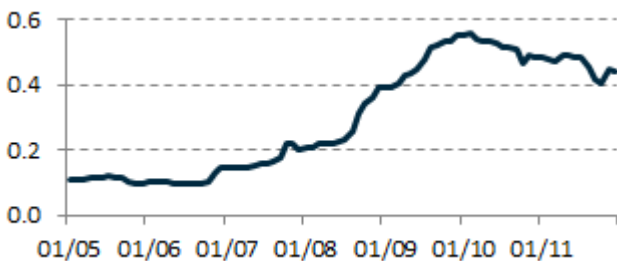
Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Growth in Insurance Premium



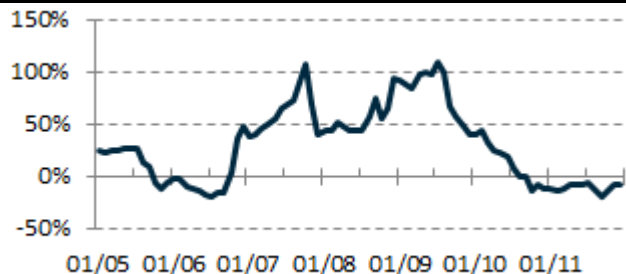
Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Reinsurance Premium



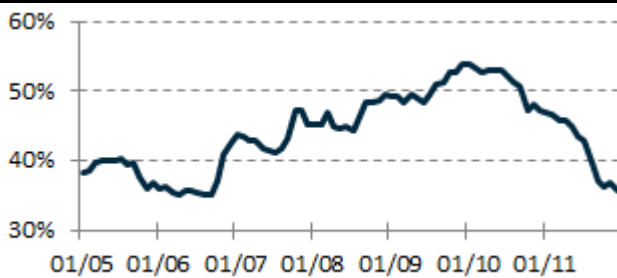
Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Growth in Reinsurance Premium



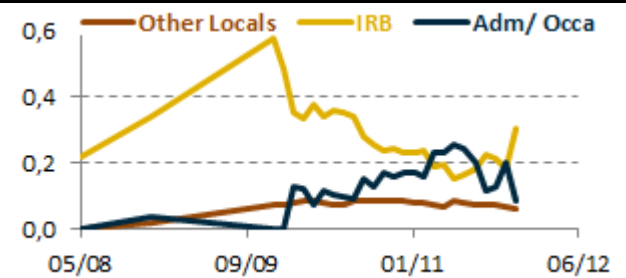
Source: Terra Brasis Re, SUSEP, 12-month rolling basis

Reinsurance Premium / Insurance Premium



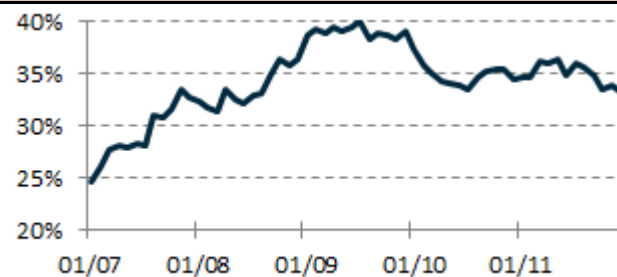
Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Split of Reinsurance Premium by Type of Company



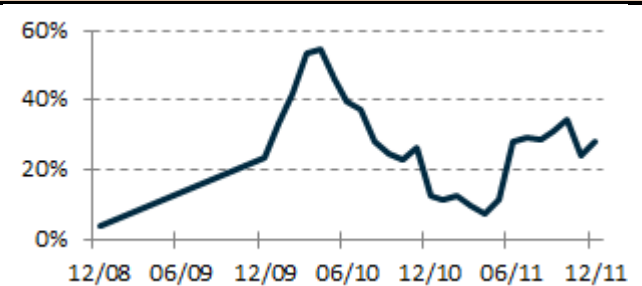
Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Loss Ratio Insurers



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

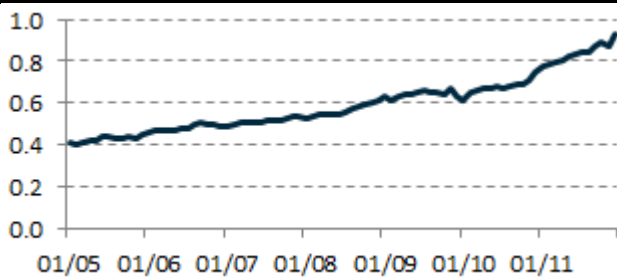
Loss Ratio Local Reinsurers



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

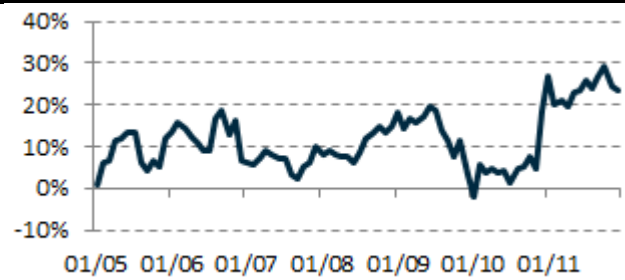
## Segment: Liability

Insurance Premium



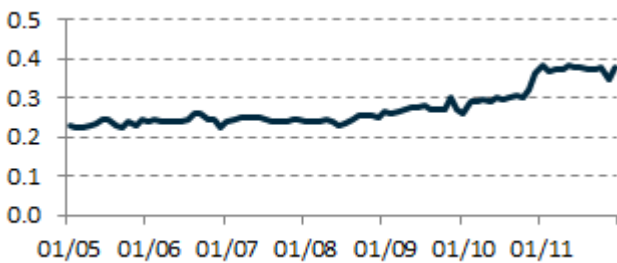
Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Growth in Insurance Premium



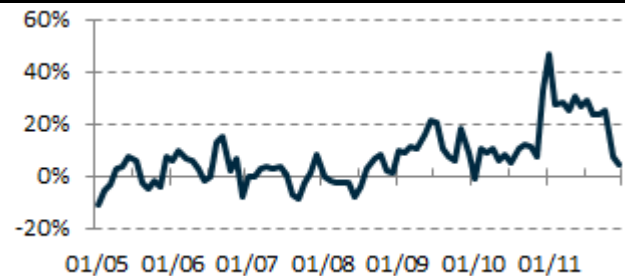
Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Reinsurance Premium



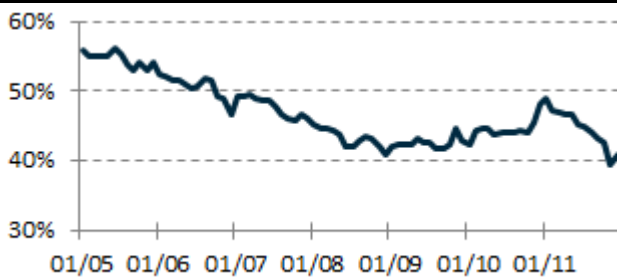
Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Growth in Reinsurance Premium



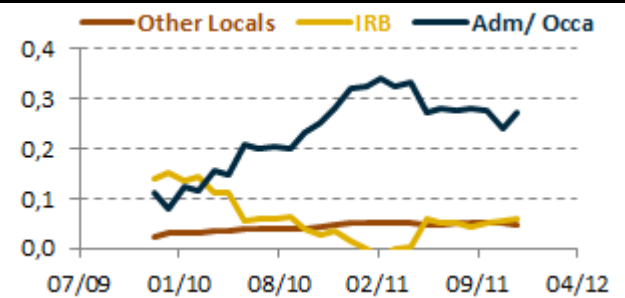
Source: Terra Brasis Re, SUSEP, 12-month rolling basis

Reinsurance Premium / Insurance Premium



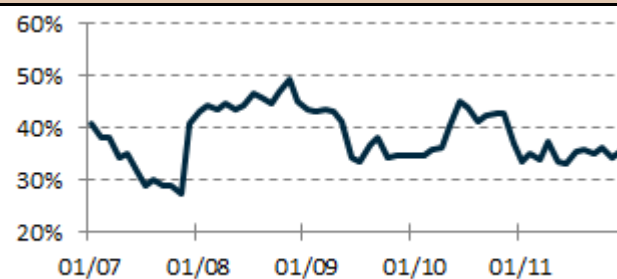
Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Split of Reinsurance Premium by Type of Company



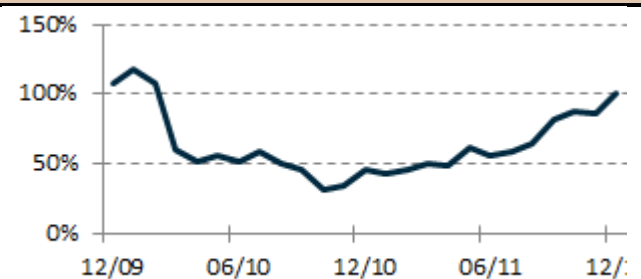
Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Loss Ratio Insurers



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Loss Ratio Local Reinsurers



Source: SUSEP, Terra Brasis Re, 12-month rolling basis

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## **Exhibit 1: Methodology of Adjustment to the New Plan of Accounts**

We continue our efforts to adapt our databank to the changes resulting from SUSEP's new Plan of Accounts. Conceptually, and with regard to the Summary of Yearly Results, the major differences we found were:

- 1- Reinsurance commission received by cedants can no longer be deducted from the Commercial Expense and must be deducted from the ceded reinsurance premium;
- 2- Retained premium concept has been eliminated. Earned premium, losses, and Commercial Expenses are now demonstrated on a gross basis, without discounting the portion ceded through reinsurance or retrocession;
- 3- As to reinsurers, besides the above mentioned points, the commission paid to cedants comes out of the Commercial Expense and is subtracted from the written premium.

For an analysis, such changes resulted in:

- 1- Difficulty of evolutionary analysis of the market, since the data, as per the new Plan of Accounts, has different criteria;
- 2- The indexes normally used to measure the market's performance had to be changed, causing difficulties in a realistic analysis of the conditions of the market.

As to the adjustment of SUSEP's databank, we had two major challenges. The first was the sudden change of the Plan of Accounts, where from June 2011 the metrics that had been informed changed. The fact that we did not have any month with information either from the old plan or the new plan has created difficulties in our work. Besides, the information available from June 2011 was not sufficient to reconstruct the old metrics, nor had the old definition been sufficient for the construction of new metrics. Therefore, we had to establish premises in order to enable the construction of historical trends.

The second challenge refers to the inconsistencies within SUSEP's databank, which had been aggravated since the change of the Plan of Accounts, possibly by errors in filling out data from users not fully acquainted with the new plan. Such inconsistencies are particularly important, since there are two ways of consulting data from SUSEP's databank. We may consult data referring to the Summary of Yearly Results (DRE), as well as from the Table of Operations (TO), where we find data split by lines of business.

With the publication of 2011 balance sheets from insurance and reinsurance companies, we had a new tool, since the balance sheets present the numbers referring to 2010, not only under the old plan of accounts, but also under the new plan of accounts. Nevertheless, even with such new tool, it still seems to us that we are missing information to allow for a correct translation of the old plan of accounts to the new one.

Initially, we reviewed the Summary of Yearly Results (DRE) of the local reinsurers. As to the year 2010, we compared the values referring to reinsurance premiums as published in the Balance Sheets under the new Plan of Accounts with the values inserted in SUSEP's databank, and thus under the old plan.

## Reinsurance Premium Gross and Net of Commission from 2010

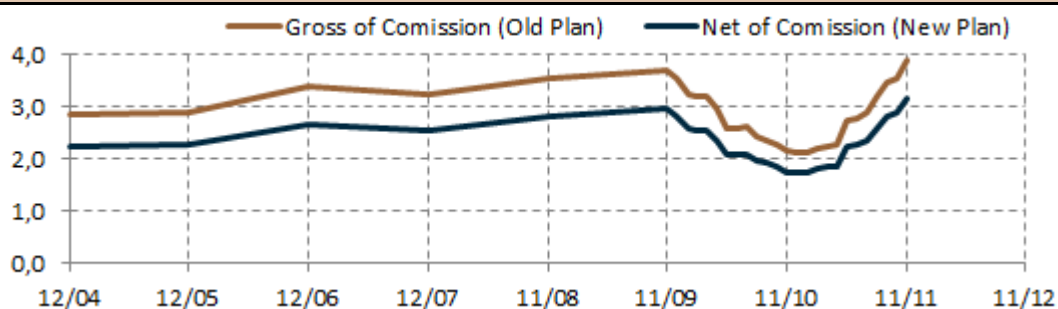
Reinsurance Premium 2010:	Total	IRB	Munich	Mapfre	XL	JM	ACE
New Plan (Published Balance Sheets)	1,743,658,641	928,320,000	319,309,000	159,913,983	103,531,000	175,486,466	57,098,192
Old Plan (SUSEP database)	2,147,532,209	1,180,571,424	395,189,882	202,972,609	136,213,636	175,486,466	57,098,192
Comission	18.8%	21.4%	19.2%	21.2%	24.0%	0.0%	0.0%

Source: SUSEP; 2011 Balance Sheets of the IRB, Munich Re, Mapfre Re, XI Re, J.Malucelli Re e ACE Re; Terra Brasis Re.

As it may be noted in the above table, for four out of six reinsurance companies that operated in the year 2010, there is a difference of 19% in the reinsurance premiums recorded under the old plan and the new one. We understand that such difference refers to the reinsurance commission. As to the two companies in which premiums are identical under both plans, it is possible that (i) the data of the financials had not been adjusted to the new plan, or (ii) they may operate without reinsurance commission.

We projected the commission value obtained in 2010 to obtain historical trends for written reinsurance premiums gross and net of commissions, by local reinsurers. In other words, to calculate the premium gross of commission we maintained constant such value of commission for periods after May, 2011, and to calculate the premium net of commission, we maintained constant such commission value for periods prior to May 2011. Both complete trends follow below.

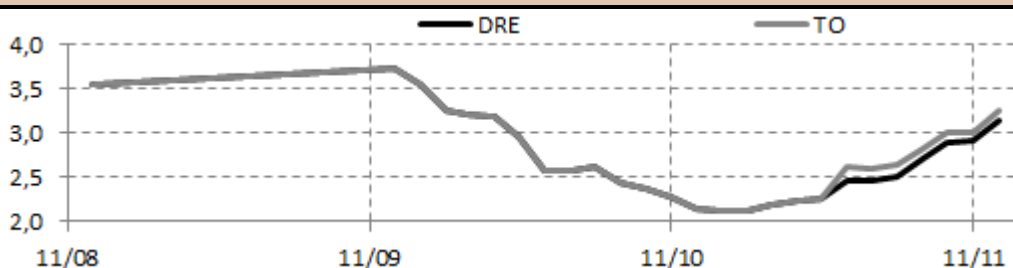
## Reinsurance Written Premium, Gross and Net of Commission, by Local Reinsurers



Source: SUSEP, Terra Brasis Re, R\$ billions, 12-month rolling basis

To the local reinsurers, the inconsistencies between the data coming from the DRE and TO are small. For periods prior to June, 2011, we have already corrected any differences between the data, since it was possible to deduct the cause. For instance, it was relatively common that some companies informed data of losses with a negative sign in the TO and positive sign in DRE. For periods after June 2011, there are inconsistencies between the two sources, of which cause we could not identify. However, the differences are minimal. The graph below illustrates the issue.

## Written Reinsurance Premium by Local Reinsurers, TO and DRE (R\$ bn)

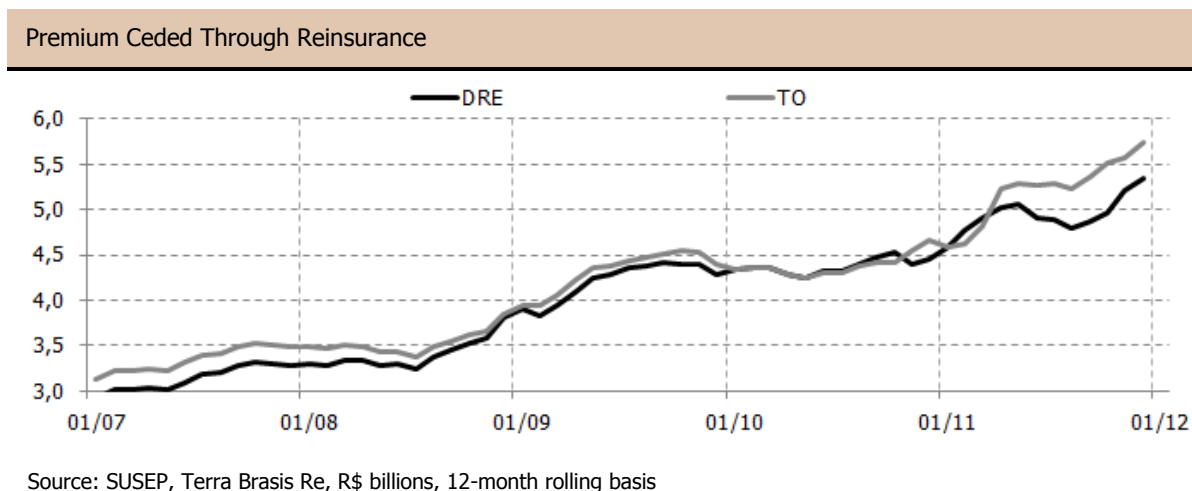


Source: SUSEP, Terra Brasis Re, 12-month rolling basis

Unfortunately, the balance sheets published by the Brazilian insurers do not contain enough details to enable us to perform the same exercise in reference to ceded premiums by Brazilian insurers. However, different consultation of the SES databank is of great value.

As mentioned above, according to SUSEP's databank it is possible to calculate the volume of reinsurance premiums ceded by Brazilian cedants in two ways. Through a consultation of the Summary of Yearly Results (DRE) we may isolate the item "Reinsurance Premiums – Cession." We may also consult the Table of Operations (TO) and deduct the volume of ceded reinsurance premium by subtracting the value of "Insurance Premiums" from the value of "Retained Premiums."

The two trends are normally very close to one another, as shown in the graph below. However, in certain periods, including the present, the trends diverge.



SES/SUSEP's website contains the following explanatory text:

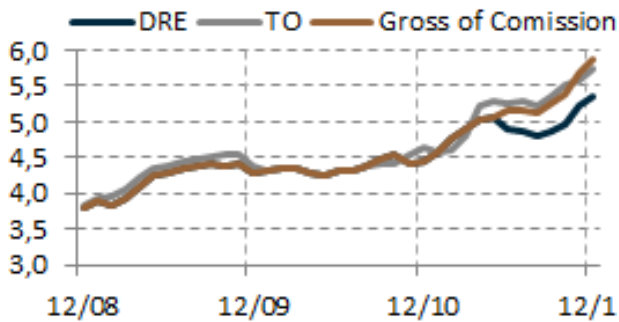
*"In 2011, the Plan of Accounts for the supervised companies of the market suffered changes which impacted the concepts and definitions of some information from Balance Sheets (assets, liabilities, and DRE).*

*Such changes were contemplated in the charts referring to balance sheets information under the FIP system, responsible for the receipt of market data.*

*On the other hand, such conceptual changes were not contemplated in other FIP charts, which continued to be informed in accordance with prior definitions and concepts. Therefore, it is necessary to pay attention to the discontinuity of some concepts and the misalignment of information among the system's different reports.*

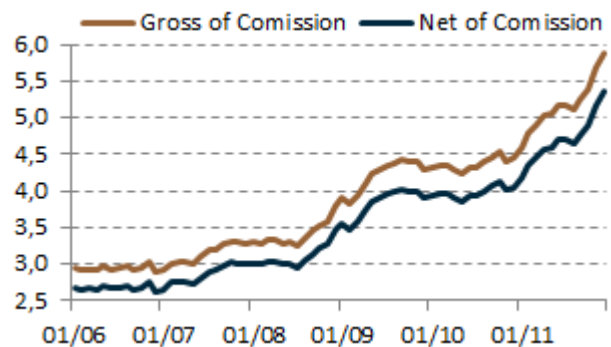
Based upon such comment, we assumed that from June 2011, the numbers contained in the DRE are informed net of reinsurance commission, while the numbers from the Table of Operations continue to be gross of commission. Nevertheless, we reviewed such trends individually for the 70 largest Brazilian insurance companies and noted that 7 among the 70 had a premium, according to the TO, that was inferior to the premium contained in the DRE. Therefore, even if our assumption is correct, it is probable that significant errors of filling in information still persist. Without additional information we had to assume that the difference between reinsurance premium, net and gross of ceding commission is 9%. The next graph illustrates this.

Premium Ceded Through Reinsurance According to DRE, TO, and Calculated as Gross of Commission



Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

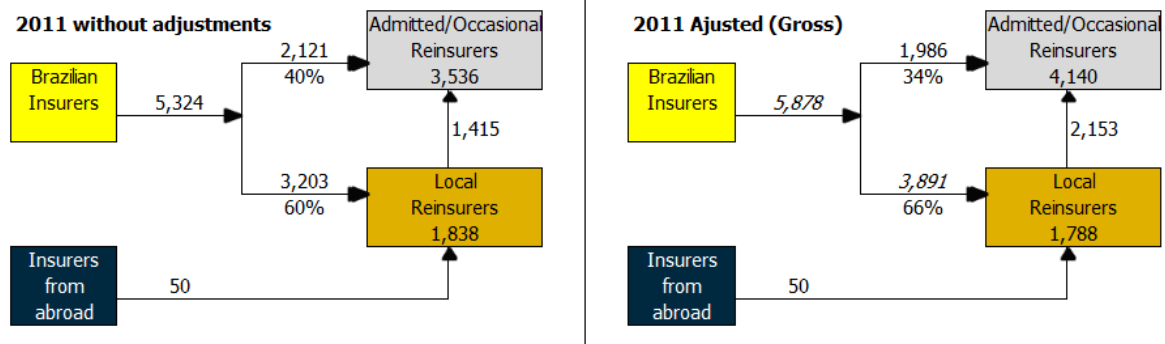
Premium Ceded Through Reinsurance, Gross, and Net of Commission



Source: SUSEP, Terra Brasis Re, R\$ billion, 12-month rolling basis

Having calculated the reinsurance ceded premium per Brazilian insurers and the premium written by local reinsurers, we may adjust the reinsurance premium flowchart, taking into consideration SUSEP's new Plan of Accounts. The flowcharts below illustrate the data without any adjustment and with necessary adjustments to represent premiums gross of commission and brokerage (previous plan): Please, note that the adjustment is of 10.41%. It is not clear how this value was reached.

Reinsurance Premium Ceded



Source: SUSEP, Terra Brasis Re, R\$ billions, 12-month rolling basis

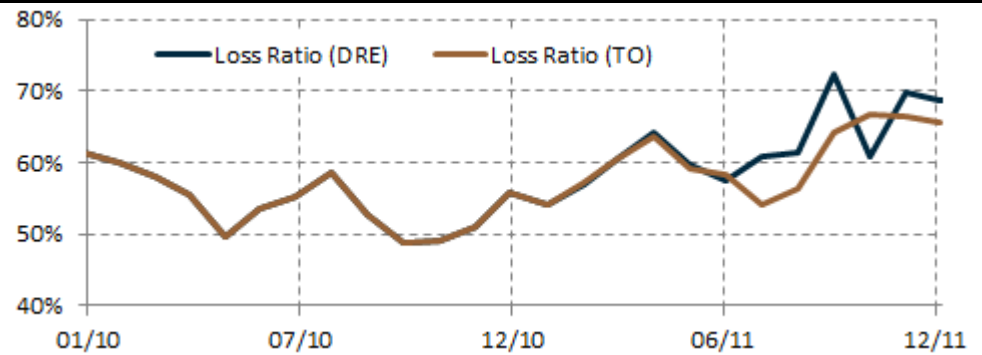
The numbers on the left flowchart above are those we can observe in recent publications and seem to contain no adjustments to the changes contained in SUSEP's Plan of Accounts. We understand the need of the adjustments above to enable a correct understanding of year 2011 and comparison with previous years.

The sections "Premiums and Reserves of Local Reinsurers" and "Results by Lines of Business" in this report were made directly from the data of the TO, with no adjustments. Our rationale for this was that the inaccuracy of the adjustments would be larger than any benefit they could bring.

We are aware that the discrepancies between TO and DRE are significant. However, we have not found a satisfactory method of adjustments. For illustration purposes, please see below the difference between loss ratio calculated by Summary of Results (DRE) and by Table of Operations (TO).



## Reinsurance Written Premium by Local Reinsurers, TO and DRE



Source: SUSEP, Terra Brasis Re, R\$ billions, 12-month rolling basis

As we already mentioned, given the magnitude of the changes, it is possible that errors for filling in the data by insurers may have occurred and may remain. Therefore, a certain level of skepticism with regard to the numbers should be maintained.

We made a huge effort to adjust the data in light of the challenges we encountered. Nevertheless, given the magnitude of the change, errors in our premises are possible and we shall continue in this effort. We reinforce herein that any comment, criticism, or suggestion for this work shall be most welcome and extremely valuable.

Near the conclusion of this issue of Terra Report, we found out that the new change in SUSEP's Plan of Accounts occurred, adding information to it as of January 2012. Therefore, we hope that for the following issues, we will already have the data and tools for a better analysis of the market under the new altered Plan of Accounts.



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## Exhibit 2: List of Technical Terms

In this issue we began creating a dictionary with the definitions that we used in this report for certain reinsurance terms. We intend to add to the list as the work progresses and believe that this would be worthwhile since several reinsurance terms have been used with different meanings.

**Brazilian General Insurance Market:** It is the market comprising insurance operations in accordance with official regulation by SUSEP, except those classified in the DPVAT and VGBL modality.

**Brazilian Reinsurance Market:** It is formed by operations comprising cessions of reinsurance ceded by Brazilian insurers and assumed by reinsurers that are authorized to operate in Brazil and classified as local, admitted, or occasional.

**Local Reinsurance Market:** It is formed by operations comprising reinsurance business assumed by local reinsurers.

**Written Premium or Gross Written Premium:** It is the value of the premium written by Insurers or Reinsurers, before reinsurance or retrocession deductions. In the case of Reinsurers, as of May 2011, the Commissions paid to Cedants are deducted from this value.

**Net Written Premium:** It is the premium written less the premium for reinsurance or retrocession.

**Reinsurance Premium or Gross Reinsurance Premium:** The same as Written Premium or Gross Written Premium by the reinsurers. Although commissions, by definition, are deducted by this value, temporarily in this Terra Report we indicate whether the reinsurance premium is net or gross of commission.

**Net Reinsurance Premium:** It is the premium written by the reinsurer less the ceded retrocession premium. As per the above item, temporarily in this Terra Report we indicate whether the reinsurance premium is net or gross of commission.

**Commission:** It is the value that the reinsurer or retrocessionaire pays to the cedant, with the objective of covering part of the expenses incurred in the administration and production of the business.

**Brokerage:** It is the value paid to the broker ("broker"), in compensation for the intermediation of the insurance, reinsurance, or retrocession.

**Overriding:** It is the part of the commission paid to cedants in addition to their incurred commercial expenses.

## **Acknowledgements**

It is with enthusiasm that we continue to publish our market report, Terra Report, which is a follow-up of the Brazilian Reinsurance Market, which we share with our clients, partners, and colleagues.

We are immensely grateful to SUSEP for making its databank available to the public. We also thank ANS and CNSeg for information used herein. The report also contains analyses and adjustments made internally by Terra Brasis and in this way, we apologize in advance for possible inaccuracies contained in this publication.

We hope our readers appreciate this work as much as we appreciate developing it. Without a doubt, it is extremely gratifying to be involved in the Brazilian reinsurance market at such an important moment of its development. Any criticism, comment, or suggestion for this work is very welcome.

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**Terra Resources** 

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