



Investor &  
analyst call –  
Edited  
transcript

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2020

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October 30th, 2020

**Company participants**

- Fernando Mata Verdejo, MAPFRE SA, Chief Financial Officer and Member of the Board
- Eduardo Pérez de Lema, MAPFRE RE, CEO
- Natalia Núñez Arana, MAPFRE SA, Investor Relations & Capital Markets Director

## Presentation

### **Natalia Núñez Arana**

Good morning, everyone, and welcome to MAPFRE's results presentation for the first nine months of 2020. This is Natalia Nuñez, Head of Investor Relations.

The presentation includes the main figures to give you an overview of MAPFRE's performance. The MD&A and additional information, including the usual spreadsheets, are available on our website. Also, as always, we have here with us, Fernando Mata, MAPFRE's CFO, and as in recent conferences, we also have Eduardo Pérez de Lema, CEO of MAPRE RE. They will both give you an overview and key highlights of the key figures for the quarter.

Before they start, I would like to give you a quick update on the situation regarding the pandemic. In our continuing response to the pandemic, we have maintained our focus on three main principles. First, the health of our employees and collaborators. Second, business continuity, guaranteeing the commitment to our clients and shareholders. And third, our balance sheet, focusing on solvency and capital strength. In Spain, currently around 50% of employees and all top Group executives and managers are working on the premises, and around 40% of employees in the rest of regions, ranging between 20% and 60% depending on the conditions in each country. The remaining employees are still working from home.

We have resumed some of the strategic initiatives that were postponed at the onset of the pandemic. And also, we are maintaining client service levels, in line with MAPFRE standards. As usual, at the end of the call, we will answer all questions received at the Investor Relations email address during the Q&A and before. And the IR team will be available afterwards to answer any pending questions you may have regarding this disclosure. And without further ado, Fernando, the floor is yours.

### **Fernando Mata Verdejo**

Thank you, Natalia, and good afternoon, everybody. Good morning for those in the US. And thank you again, everyone, for being here with us today.

Before we go into the details, I would like to point out that it was a good quarter, despite the current COVID and macro scenario, with a Group profit of a EUR180 million. Insurance units

are thriving in 2020 with an attributable result of EUR610 million, up over 7% on the year. Iberia continues contributing with strong growth and profitability metrics. Improvements are notable in Brazil, the US, Mexico and other important Latin American markets, as well as Turkey and Italy. The largest impact from the pandemic continues to be on the top line, due to confinement measures and economic slowdown.

Currency depreciation has been a headwind, even more so in the third quarter, as well as the negative environment for Life Savings products. On the claims side, direct COVID impact at insurance units, mainly from Burial in Spain and Life Protection in Brazil and the rest of LATAM has been mitigated by lower frequency across all markets, especially in Motor.

The cost of COVID-related claims at MAPFRE RE had a EUR57 million impact on the attributable result, unchanged in the third quarter, and the travel assistance business was hit mainly, as you remember, in the first quarter. Another important effect has been on financial income with yield compression, lower dividend income and a difficult scenario for realizing capital gains. We continuously review our asset exposure and valuation, and in Q2 we booked a provision for undeveloped land in Spain with a net impact of around EUR20.5 million. And in the third quarter we booked a writedown for software at MAPFRE USA with a net impact of EUR14.6 million, in that case related to the implementation of a new operating system.

Regarding NatCat events we had various earthquakes in Puerto Rico during the first half of the year, and an active Q3 regarding NatCat claims and other large losses. The explosion in Beirut was the most relevant. Eduardo will cover these topics later.

MAPFRE continues to boast an excellent capital position with significant flexibility, recently reaffirmed by our three main rating agencies. Please turn to the next slide.

Regarding September figures, premiums are down around EUR2 billion on the year affected by first, currency depreciation with a EUR1.1 billion impact. Second, Life Savings premiums are down EUR690 million in Iberia. And finally, as a reminder, last year there was a two-year policy issued in Mexico for PEMEX for EUR449 million.

Non-Life premiums are down 8% but at constant exchange rates and excluding the PEMEX policy, growth has proven resilient in a challenging environment, with premiums up almost 1%. The net result reached EUR450 million, down around 3%. The combined ratio improved over one point to around 95% and close to 3 percentage points to 93% at the insurance units. Assets under management are down around 3.5% and shareholders' equity is down around 5%

due to currency depreciation. But it's recovering around 7% - this is the good news - from the first quarter.

Just as a reminder, the Solvency II ratio at June stood at a 184%, within our range.

Please turn to the next slide. On this slide we will discuss the different components of the adjusted attributable result. Due to the offsetting nature of the different impacts of COVID on insurance operations, we have not considered this in the adjusted result, as the final effects should be almost neutral. Regarding large claims events during the year, earthquakes in Puerto Rico had an impact of EUR65.5 million, around EUR4 million higher than at June, due to some modest loss creep. And regarding COVID direct claims, the impact at MAPFRE RE is in line with June figures.

Last year we booked a writedown for goodwill at ASISTENCIA for EUR65.6 million and so far, with the numbers we have, there is no evidence of a need for goodwill impairment in 2020.

Regarding the reorganization of operations, last year there was a positive EUR5 million impact in the US as well as a provision at the MAPFRE ASISTENCIA for EUR11 million. This year there has been a EUR15 million net impact from a restructuring provision booked at the second quarter. Financial gains and losses are down over EUR50 million, mainly due to lower equity sales. This is a big hit. There have been no real estate transactions during the quarter, but we are active in this market again as a buyer and a seller. There have been a couple of headlines quite recently in the newspaper - one as a buyer and another as a seller. Excluding all these impacts, the adjusted net result reached EUR577 million, up EUR75 million.

Please turn to the next slide. On this slide, I would like to go through the main trends by business unit. Performance at insurance units has been noteworthy with a 7.5% increase in net result, and a combined ratio of 93%. We are reporting better performance based on technical measures implemented in previous years, mainly Brazil and USA, and improved profitability is coinciding -- very important -- is coinciding with lower frequency from the pandemic effect.

Iberia continues to perform well. The fall in the results is mainly due to lower realized gains in the Life business, as last year there were higher financial gains driven by asset sales from surrenders. In Non-Life, the fall in financial income was offset by an improved technical result.

And regarding premiums in Spain, we outperformed the market in most retail business lines. In Motor, premiums are down due to discounts made to policyholders at renewal in the current COVID scenario.

Regarding Iberia Life premiums, we are outperforming as well the market in Protection, which is a higher margin segment, with premiums up 2.6%, although issuance has slowed down on the quarter. Life Savings premiums are down EUR690 million due to a difficult environment for these products.

In the other regions, currency movements continued to have a strong impact both on premiums and results. In LATAM, results are up nearly EUR30 million and all three regions are reporting excellent ROEs, with LATAM North up to 17%. The combined ratio for the region is outstanding at 89%. Despite the economic situation, results have improved in Brazil and Mexico, the Dominican Republic and across Central America, especially in Panama.

Regarding the International business, results are up by around EUR30 million. There were several large impacts in North America. First the EUR14 million net realized gain from the sale of real estate in the first quarter. Second, the EUR26 million net loss as a result of the earthquakes in Puerto Rico. And third, this quarter, results were impacted by the software writedown already mentioned.

Results continue to improve significantly in Italy, due to a decrease in Motor frequency and Turkey is also benefiting from underwriting discipline. Regarding reinsurance and global risks, it will be covered by Eduardo, but let me say that results were extremely resilient considering the quite active third quarter in terms of non-COVID related losses.

In the Assistance business, the largest hit was from travel cancellation claims in the first quarter. We have been prudently reducing exposures and we have also taken further steps in our restructuring process. Finally, the line "Other", apart from holding expenses, includes the provision for undeveloped land in Spain and the restructuring provisions booked in the second quarter.

Please turn to the next slide, and I will now hand the floor over to Eduardo.

### **Eduardo Pérez de Lema**

Thank you, Fernando, and good morning, everyone. As always, it's a pleasure to have the opportunity to update you on MAPFRE's reinsurance business. As mentioned earlier, it has been a very busy quarter for MAPFRE RE in terms of large losses, despite the fact that the results have been positive and the portfolio has proven to be resilient, closing with a combined

ratio of 95.3% and overall positive result in the quarter.

As we will see on the next slide, the evaluation of COVID-related losses has remained unchanged. In the Global Risks segment the quarter has been excellent, showing the success of the turnaround project initiated two years ago now, and the very positive momentum in that business segment. Premium growth is very strong in this segment, mainly coming from significant rate increases initiated a year ago and now starting to be seen in the P&L account.

On the reinsurance portfolio, the past renewal periods of April and mid-year had been very positive for MAPFRE RE, both in terms of improvement of terms and conditions, and consolidation of our market position. In both periods, we obtained double-digit premium growth in the non-group business, taking advantage of an improved market environment, which should be seen in the P&L account also in the coming quarters.

Turning to the next slide, you can see that the large loss burden for MAPFRE RE in the first nine months of the year has been very high, almost doubling the amount suffered in 2019, and already exceeding the budget for the full year. As of the end of the quarter, the total claims amount reached EUR302 million compared with EUR166 million a year ago.

On the natural catastrophe side, we have to highlight the earthquakes in Puerto Rico, that affected mainly our Group portfolio. In addition, we had a large number of medium-sized claims affecting mainly the US and Spain this year, the biggest one being, for us, the Derecho affecting the US Midwest in August, which surely has had less media visibility than other events, but it is a very large loss in the industry. On the man-made side, the biggest one was the explosion occurred in Beirut, also in August with an impact of EUR30 million for MAPFRE RE.

Talking about COVID-related losses, the situation is unchanged compared with the second quarter. The pretax impact accounted for MAPFRE RE is EUR81 million, of which the largest amount, EUR49 million, is still IBNR. However, there is still a high degree of uncertainty, discussions going on, and some litigation. Also, the pandemic is an ongoing event and industry-wide, it won't be fully resolved for a number of quarters. But we think we are conservatively reserved.

Turning to the next slide, I wanted to take the chance to make a more qualitative comment on the reinsurance business. Of course, in a year where the performance has been below expectations, we have made a full review of our portfolio. The main conclusions of this review

have been that the quality of the portfolio is very strong. We haven't identified any fundamental need to restructure the business portfolio.

Of course, there are always individual transactions or markets that need more action, but nothing that would be outside of the normal portfolio adjustments, or would not be covered by the current global hardening trend in the market. Our portfolio of clients and market presence is very good. Our network of offices and local presence have proven their strength, especially in a time of pandemic, where traveling is effectively impossible. Our key competitive advantages remain unchanged - that is our very low expense ratio, the diversification of the portfolio, the very reduced volatility, our strong solvency, and of course being part of MAPFRE.

On the other side, we are benefiting from the momentum of the MAPFRE Global Risks business, who completed its restructuring and proved its very high value for the whole MAPFRE Group. Finally, talking about our outlook for 2021, we are already in the January renewals. Our perception is that there is a very clear consensus in the industry of the need to improve pricing and turnaround the low level of margins that we have seen recently across the industry.

In that regard, we are confident that the trend seen in recent renewal periods will continue and actually might accelerate. In this context, a strong focus will be on clarifying and potentially limiting scope of coverage, in addition to pure pricing behavior.

I will be happy to take questions later and will now give the floor back to Fernando.

### **Fernando Mata Verdejo**

As usual, magnificent explanations; thank you Eduardo. I would like to reaffirm the importance of MAPFRE RE as a strategic unit in the Group.

Moving to the next slide, shareholders' equity stood at EUR8.4 billion, down 5% during the year. The most relevant changes are first, a EUR650 million decrease from currency conversion differences during the year, EUR226 million during the quarter, mainly due to the depreciation of the Brazilian real, our second largest exposure, which is down nearly 32%. Also, the US dollar underperformed the euro in the third quarter with a 4% fall. We expect the US dollar and Brazilian real to stabilize in the near future.

Net unrealized gains on the available for sale portfolio have had a EUR35 million positive

impact during the year, improving - this is very important - by over EUR120 million during the third quarter, basically driven by the strong performance of Spanish and Italian sovies. The 2019 final dividend amounting to EUR262 million was paid in June. Dividend upstreaming has been stable with total inflows reaching nearly EUR303 million, with a EUR232 million from Spain, EUR37 million from the US, and EUR29 million from Brazil.

On the right side, you can see the breakdown of currency conversion differences as of September 30, and changes during the period, as well as sensitivities. On the bottom left is the detail of the net unrealized gains amounting to almost EUR1 billion, stable throughout the year, as an important part of debt securities is held in profit sharing portfolios, which mitigates market volatility. On the bottom right is the detail of the available for sale portfolio in Iberia, which represents nearly three quarters of MAPFRE's total portfolio, the available for sale portfolio.

Most unrealized gains are in immunized portfolios and gains have increased mainly in freely managed portfolios, thanks to better performance of fixed income markets.

At this point, I would like to comment on the Board's decision regarding dividends. As you know, MAPFRE aims to pay out a sustainable dividend to allow investors to participate in MAPFRE's profits, based on our 50% minimum payout approved at the AGM. Insurance regulators in Europe and other countries have given strong recommendations to implement a prudent dividend policy in 2020, based on the current COVID-19 scenario. In this context, and considering the Group's current liquidity, solvency and also financial conditions, the Board has approved the 2020 interim dividend amounting to EUR0.05 per share, EUR0.06 last year, which will be fully paid in cash on December 22.

This EUR0.01 reduction will strengthen our capital position. The total dividend paid in the 2020 calendar year will amount to EUR0.135 per share, equivalent to EUR416 million, achieving the highest dividend yield in recent years. The interim dividend will represent approximately a 3 percentage point reduction in the Solvency II ratio as of June.

Please turn to the next slide. In the chart on the left, you can see the breakdown of the capital structure that amounted to EUR12.7 billion. Our credit metrics are pretty strong with leverage around 24%, which should converge to target levels by year-end. Regarding Solvency II, the ratio improved to 184% in June, compared to 177% at the end of March, and in line with the 2019 year-end figures. We are within our range of 175% to 225%.



In the same chart, you can see the updated pro forma impacts from potential regulatory developments as of June, which are in line with previous calculations. The Board has already approved all necessary steps in order to file for regulatory authorization for the longevity internal model. We expect to receive approval to apply this to 2020 year-end calculations. This will imply, roughly talking, a 10 percentage point uplift to the Solvency II current ratio.

The second regulatory topic - the process regarding diversification benefits of the matching adjustment - will take a little bit longer. MAPFRE's current ratings are in an excellent position and have been recently reaffirmed by all three agencies.

Please turn to the next slide. This slide includes a full disclosure of the breakdown and variations of the investment portfolio and total assets under management, which are down driven by currency effects and also the fall in stocks, but with some recovery during the third quarter. Asset allocation has been stable throughout the year, with most changes driven by market movements. Spanish sovereign debt was a little under EUR18 million, and Italian debt around 3 billion, are both our largest exposures. Both sovies performed very well during the quarter, with 10-year Spanish sovies down over 20 basis points and in the case of Italy, 40 basis points. These investments are mainly allocated to immunized portfolios.

Cash is up to EUR2.7 billion, as we are maintaining high levels of liquidity at all entities to neutralize any potential future shocks.

Please turn to the next slide. On the top left are the yields and durations of our euro area actively managed fixed-income portfolios. In Non-Life, both accounting and market yields are down, with Life portfolio yields being fairly stable. We expect the downward trend to continue in the short term.

On the right side are the details of the portfolios in other main geographies. Despite some downward pressure in these markets, accounting yields in LATAM are still well above those in Europe. Regarding realized gains and losses in our actively managed portfolios in the euro area, gains reached around EUR27 million, down EUR57 million compared to the previous year.

In Iberia, as a reminder, we booked gains from surrenders and also this quarter there were some sales of equity investment that had a strong and sustainable fall in value. As we mentioned, those stocks that were close to the red line, we sold them by September 30. MAPFRE RE made it possible to mitigate these losses with some gains but at modest levels. We continue with our cautious and prudent stance regarding asset sales and we are waiting for

better market opportunities.

Please turn to the next slide for closing remarks. Despite current headwinds, I would like to say that MAPFRE is thriving, with a net result of EUR180 million in the quarter, confirming our profit generating capacity. Performance of the insurance units has been outstanding, reaching a net result of EUR610 million, up over 7%. In Iberia, growth has been resilient in several key Non-Life segments with strong underwriting results, despite a quite competitive market.

This is helping to mitigate the pressure on financial income, as well as a challenging market for Life Savings products. In LATAM, we are seeing improving results in Brazil, Mexico, Panama and Colombia, despite currency headwinds. The topline in this market has been hurt by economic slowdown. Results continue to improve in the US, Turkey and Italy, thanks to profitability initiatives, as well as lower claims frequency as a result of the pandemic and also lower activity levels.

Regarding MAPFRE RE, results have proven resilient in a challenging time for reinsurance and an active quarter for NatCat and large claims, as Eduardo already mentioned.

COVID claims should be manageable as MAPFRE RE maintains a strong financial position and prudent underwriting approach. Right now, our top priority is maintaining a defensive business profile to face this crisis, which will continue, we imagine, for some time. We continue strengthening our capabilities to prepare for any potential delays in economic recovery.

Regarding recent headlines about our bancassurance agreement with Bankia, Bankia has been our partner -- is currently our partner, we are still doing business -- for over 22 years, and business has been successful on both sides. Just for the record, it has been the longest lasting bancassurance agreement in the Spanish market. Fortunately, we are very well-protected under the terms and conditions of the bancassurance agreement - specifically the exit clauses for change of control.

Regarding the timeline, we expect the transaction to close by mid-2021. Moving forward, we continue to focus on our multi-channel and profitable growth strategies. And the proceeds will be invested to underpin the strategy, depending on the market opportunities available at that time. MAPFRE has a solid capital base, flexibility and a high level of liquidity, supported by strong cash generation, which has allowed us to pay our 2020 interim dividend. The final dividend to be approved next year at the AGM will be based on the same criteria, which are: first, the target payout ratio; second, stable solvency levels and liquidity positions; and third,

we have to take into account the recommendations from the supervisors.

Thank you for your attention, and now I will hand the floor over to Natalia to begin the Q&A.

## Q&A

### **Natalia Núñez Arana**

Thank you very much, Fernando. We are going to start now with some questions regarding MAPFRE RE. Sofia Barallat at CAIXABANK would like to have more details of the one-off losses and events affecting MAPFRE RE this quarter. “Could you clarify if you have booked more losses related to COVID-19 and the Puerto Rico earthquake this quarter?” Similarly, Paz Ojeda at Sabadell says that in spite of the impact of third quarter catastrophes, MAPFRE RE combined ratio of 95% has been very positive. “Could you confirm if there has been a positive run-off in the quarter? Could you detail the cost of third quarter catastrophes in the quarter?”

### **Eduardo Pérez de Lema**

Well, thank you for the questions. On the one-offs for the quarter, I would say the one-off was the frequency of large loss events that we suffered during this period, none of them being extremely big, but in fact a significant amount of medium sized losses. Overall, the burden for large losses in the quarter was EUR105 million, EUR104.9 million, with the biggest ones, as mentioned, being the explosion in Beirut and the Derecho storm. But we had other hurricanes affect the US during the quarter. So, none of them very big, but the aggregated figure, EUR105 million.

Talking about Puerto Rico, there was deterioration during the quarter that was not big. It was, before tax, in the region of EUR10 million. The main reason for that is that due to COVID, there is a delay in claims reporting and claims adjustment in Puerto Rico, and everywhere else, and it proved to be a bit more than initially expected. And that's the reason for that negative run off in that part.

Concerning COVID on the reinsurance and the global risk portfolio as mentioned, it has been stable. There is a EUR1 million increase, that's coming from one specific claim, coming in the global risk portfolio. On the reinsurance portfolio, it's unchanged. And we haven't seen, during

the quarter, any reason to change that.

Concerning run-off, I think there was no positive extraordinary during the quarter. We didn't have any -- or we had a small reduction on the IBNR for Cat events in the last year, that was in the region of EUR10 million, EUR10 million to EUR15 million, but nothing really significant and worth mentioning. I would say the good evolution of the underlying result was something that we had already advised, that we had a special first quarter where we were very conservative on the reserving side, and we had some one-off frequency elements. And then the second quarter, we had the COVID impact.

Now we are starting to move to more normal levels of profitability for MAPFRE RE.

#### **Natalia Núñez Arana**

Thank you Eduardo, and also continuing with this question, Paz Ojeda asks about this COVID impact on MAPFRE RE, "Since the reserves have not been increased in the third quarter, bearing in mind covers such as event cancellation or business interruption, do you expect larger provisioning in the fourth quarter of 2020 or in the first quarter of 2021?"

#### **Eduardo Pérez de Lema**

Well on the evolution of COVID, as I mentioned before, it's still uncertain and it will be uncertain for some time, and that's sure. In the case of MAPFRE, across the Group, the event cancellation issue is non-existent for us because we don't write that business. So on that side there is no risk.

On the business interruption side of things, I would say probably the amount of losses -- of new losses -- will go down, because since the beginning of the pandemic we have been active in those places where there was coverage to limit or exclude it. But the pandemic is ongoing. The big uncertainty will come from claims that had already occurred during the last few months, to what extent they will be paid by insurance companies in the markets where they have been providing coverage, and there is still uncertainty on the degree of reinsurance coverage included in the treaties. There is some possibility of litigation, or there is certainty that there will be litigation, because there are claims that we are receiving that we don't agree to.

Having said that, that uncertainty is there, but as you have seen there is also a high degree of IBNR on our reserves. So we think we are conservatively reserved for the level of claims that we expect to receive. Of course, if we have very bad luck with the litigation, there could be a deterioration. We wouldn't consider it to be very big, and we think that we shouldn't have big surprises, but there is a certain risk there, of course.

### **Natalia Núñez Arana**

Okay, thank you very much, Eduardo. Now we are going to Iberia. Paz Ojeda at Sabadell asks about the impact on operations and results of the cyberattack suffered last summer.

### **Fernando Mata Verdejo**

Thank you, Paz. First of all, I would like to highlight the way MAPFRE handled this particular event. We were pretty transparent, and this is obviously the way that MAPFRE had to react in a situation like this, particularly when Spain and also the insurance business have been the target of those cyber terrorists, particularly this summer. There is a full disclosure of the cyberattack in the financial report.

But let me just comment a little bit longer about this. We announced in August that we suffered a ransomware cyberattack on our Spanish operations. As a result, MAPFRE activated our internal protocols to increase IT security protection, which required it to turn off some online and customer service for a few days. We became aware of the cyberattack in just half an hour, and our security system sounded the alarm that the attack was underway.

Due to the decrease in the quality of service in those days, MAPFRE is compensating all the affected clients, and there is, again, a strong commitment from our side to our policyholders. The impact of the attack was concentrated in Spain, and in other countries the only effect was that resulting from the disconnection, the measures taken to protect the other group subsidiaries, which caused some delays in local processes that connect with the Spanish system.

We disclosed in the financial report - this is very important - that MAPFRE Group has an insurance policy that covers damage and business interruption for this kind of event, and there is a limit to the damage, according to the policy conditions. As of September 2020, MAPFRE is

in the stage of assessing damage costs and, where relevant, loss of profits for business interruption.

But so far, the only net effect that is included in our accounts is a EUR2 million loss, which is equivalent to the deductible amount for the damage coverage. That's all. You've got plenty of information in the financial report.

### **Natalia Núñez Arana**

Thank you very much, Fernando. Now the following set of questions is regarding recent headlines about our bancassurance agreement with Bankia. Alessia Magni at Barclays and Alex Evans at Credit Suisse would like to know what impacts on revenues and net income you expect from the breakup with Bankia bancassurance agreement. “How much do you expect to be compensated for, and how do you expect to use this capital?” Also, Sofia Barallat at Caixabank has asked for more color on the investment of the proceeds from the end of the bancassurance agreement with Bankia.

### **Fernando Mata Verdejo**

First of all, as I mentioned at the press presentation, and also this analyst results presentation, the Bankia agreement is still operating, with certain normality. BANKIA MAPFRE VIDA is still a MAPFRE subsidiary, and we are working together with Bankia in order to optimize results during the fourth quarter.

I would like also to highlight that this agreement has been extremely fruitful for both entities for over 20 years. Unfortunately, it's coming to an end, due to an external factor, in this case a change in Bankia capital structure - it's a change of control. And it is a moment when the relationship between MAPFRE and Bankia is pretty satisfactory for both sides.

From the point of view of business volumes, there is a full disclosure of the numbers from BANKIA MAPFRE VIDA in the financial report. And as our Chairman mentioned in a couple of meetings, the termination of the agreement is not relevant for MAPFRE as a whole, it is around 2%, like a 1.9% as of September. For last year, it was around 2% of the total premiums.

Let me say that the shareholder agreement protects MAPFRE and the value of our investment. And also, the contract contemplates in a very detailed way the procedure to follow in a

situation like this. I'm not in a position to reveal the specific details of these conditions; they're confidential information. But we can say that the clauses protect both sides and they're binding for both sides, in the case of the termination of the agreement by either partner.

You asked for any evaluation of proceeds. I'm not in a position right now to unveil an evaluation of current business with Bankia, or embedded value of Bankia. And in any case, the value of the assessment will be communicated to the market when the information is available.

Let me say that - this is very important – at the merger presentation to investors made by Bankia and Caixabank, a number was published, EURO.5 billion, as a reduction in the future capital position, and it was due to the cost of future restructuring of the JV and other concepts. Let me say that this assessment was made by Bankia without any prior indication, confirmation or agreement from MAPFRE. So this value is just a one-sided assessment.

Unfortunately, this is not the first agreement that we have had to cancel. We've got a very good track record with previous bancassurance agreement cancellations, which occurred as a result of the bank restructuring in Spain. Currently we have three - with Bankia, Bankinter and also with CCM, which is a part of the business of Liberbank. You already know from the press that there is a conversation between Unicaja and Liberbank and probably we will have to face another bancassurance cancellation next year.

But in the past we did it very well. When we sign a bancassurance agreement, it's not for the near future, it's not a short-term investment. We look at quite good relationships for both sides. The thing is, when there is a situation like this, a change of control, we try to optimize the exit value.

The sales of the subsidiaries, because there are three subsidiaries - Bankia MAPFRE and also the two recent acquisitions, from Caja Granada and Caja Murcia. This is a merger currently underway, it will probably finish by year-end. And the sales of these subsidiaries, probably the next one, next year CCM, they will not negatively impact MAPFRE's volume as a whole. And I expect that in terms of valuation, we will receive quite fair compensation.

With the process, MAPFRE will be in a position to initiate projects or alliances that will continue to support the group growth and profitable growth strategy in the future. We are based on a multi-channel approach, and the different options to expand our business, and we will deploy the proceeds from this transaction in business development.

Frankly, you shouldn't think of any potential cash back. And that's all from me regarding Bankia. Pretty long, but I think it was necessary just to clarify MAPFRE's current position in this respect.

### **Natalia Núñez Arana**

Thank you very much Fernando. Now we have another question for Eduardo in MAPFRE RE. Jonathan Denham at Morgan Stanley asks, "You have highlighted stable valuation of business interruption losses. What is the risk that business interruption losses increase in the future?"

I guess you have already answered that, but there is another question. "Why has the court judgment in the UK not had an impact on your reinsurance business this quarter?"

### **Eduardo Pérez de Lema**

Well, thank you Natalia. As you say on the BI losses, it was already answered. We think we are well reserved, and of course there is uncertainty, but hopefully, the uncertainty will be within what we have already in our books.

And talking about the UK judgment, I would say it's not a UK judgment, there are a number of judgments or number of outcomes. The ruling is about different policies of different insurance companies. And some of those rulings have been positive for the insurance companies and some of them have been negative for them.

Those that have been positive haven't been appealed, which is good, because that gives certainty at least on those wordings. And those that have been negative mostly have been appealed by the ceding companies, or at least by some. So there the case is definitely not over yet. But it has to be said that, specifically on our portfolio, we have been lucky because those that have been in favor of insurance companies are on those where we have our biggest exposures.

So that releases part of our exposure, or all of our exposure, with those clients. And some of those that have been most negative are with companies in which we are not involved, and don't have exposure. So in that regard, we have been lucky or did something right on the underwriting or whatever it is. So overall for us, it didn't change our view of the outcome of COVID. Of course, we have been looking at it in detail, but so far, the news is not negative I



would say.

### **Natalia Núñez Arana**

Okay, thank you very much, Eduardo. There are a couple of questions also regarding the use of the potential proceeds coming from Bankia. Jonathan Denham at Morgan Stanley has asked, “Given the current share price, why do you believe reinvesting the Bankia proceeds for profitable growth will be better for shareholders than buying back stock?” And also Farquhar Murray at Autonomous would like to know, “Are there transactions in the pipeline as you see it currently? What will happen if there are no immediate acquisition opportunities?”

### **Fernando Mata Verdejo**

Thank you, both Jonathan and Farquhar. From your view, and also the investor view, I very well understand your statement and also your question. At the current share price probably it will be good, just to pay an extraordinary dividend. But we’re not looking at the short run, frankly. Our main responsibility is to prepare MAPFRE for the future, and also to reinforce our commitment in the future years with our shareholders.

What we're going to do is what we did in the past. We’re planting seeds for the future, for next generations, and for a better future for MAPFRE. And the idea is just to reinvest the proceeds in business development. We're looking at the long run, obviously, and we understand it will be a lot of money, but it will be a lot of money as well to invest in any potential market opportunities.

Regarding transactions in the pipeline, despite the current noise in the market, let me say that, frankly, we're fully focused on just the current scenario, COVID-19, and also to prepare the fourth quarter, just to get the best results for this current year.

The next step will be just to agree on the Bankia exit value and once the inflow is done, we will focus on the outflow of money. And particularly, as far as I know, there is not any transaction in the pipeline. We're pretty focused on the fourth quarter, and also next year’s budget.

What will happen if there are no immediate acquisition opportunities? Let’s wait. We are at an early stage and there is no discussion with Caixa; we are just waiting for the current legal process, which is underway, and once the merger is finished, we will continue with the very

well-established procedure written in our bancassurance agreement. That's all I can say at the moment.

**Natalia Núñez Arana**

Okay, thank you very much, Fernando. Now we have some questions regarding COVID impact. Jonathan Denham at Morgan Stanley and Alex Evans of Credit Suisse had the following question. “Your Life Protection COVID claims increased a lot in the third quarter. What was the cause of this? Should some of the losses have been booked in earlier quarters? How do you expect these claims to develop going forward?”

**Fernando Mata Verdejo**

Yeah. Thank you, Jonathan. We've seen a lot of moving parts in this situation. First of all, the pandemic is moving westbound, and so the most significant impact was in Europe in the second quarter and during the third quarter it was in LATAM. Perhaps, you read numbers for claims. Those are reported claims. And we disclosed the net cost of COVID in both reported claims, case by case, and also IBNR reserves. As of June, it was around like 2.5 p.p., the effect on combined ratio of the IBNR booked. It has been reduced practically one-third during the third quarter, as the losses were declared in the different geographies.

Particularly the increase in Life was due to the increase of reported claims in Brazil. But most of the costs were already booked, because of the IBNR. I mentioned Non-Life, but I meant both Non-Life and also Life Protection business.

So in a nutshell, the cost of COVID that we knew at the second quarter was booked in the case by case provisions and also as IBNR reserves. Net effect, probably we'll see some increase in the case by case cost of COVID, but there will be a further reduction in IBNR reserves, which by the way is based on actuarial fundamentals. And we will see perhaps some releases during the fourth quarter.

**Natalia Núñez Arana**

Okay, thank you. And also regarding COVID, Alex Evans at Credit Suisse would like to know if it

is possible to give any detail on the frequency benefit you saw in the quarter, or compare this to what you saw from either the first or second quarter?

**Fernando Mata Verdejo**

It's extremely difficult to differentiate the net effects in frequency, particularly in Automobile because -- as I mentioned -- the pandemic is moving westbound, with different effects in different regions. What we're experiencing is like three completely different - from a pandemic view - quarters. The first two months they were quite quiet and we were practically meeting the budget. Then, end of March, April and May, practically there was no frequency in Auto. We achieved like a 90%, 95% reduction in mobility in some large cities, like in Madrid. Then what happened was a catch-up of some claims during the second quarter, at the end of the second quarter. The third quarter was quite stable, since the economic activity was back, fortunately. And but we're still seeing reductions in the actual loss ratio in Auto in the third quarter compared to previous years. It is very difficult to differentiate, as I mentioned, what credit should be given to MAPFRE -- if this improvement is due to the technical improvements made particularly in Spain, three, four years ago, and also in Brazil and the US last year. Because both effects -- the effects of the lack of mobility and also the underwriting measures implemented in those countries -- are coinciding in the loss ratio.

The current combined ratio is not sustainable. In Spain it's 84%. We're looking at a higher combined ratio in the near future, but it will depend on the confinement measures. Looking at the current situation in Europe and Spain, there are lockdowns, confinement measures approved by different governments, curfews, so on. And so there are a lot of uncertainties regarding car mobility across Europe and particularly in Spain.

It's difficult to give you a more accurate guidance. MAPFRE is flexible and what we've done so far is just to adapt our strategy to the current situation. And it was quite fruitful. And it's part of the benefit that we reporting during the third quarter.

**Natalia Núñez Arana**

Okay. Thank you very much, Fernando. Next one, also regarding COVID, Alex Evans at Credit Suisse would like to know if pricing rebates will continue in markets where driving activity is

still lower.

### **Fernando Mata Verdejo**

As I mentioned, our main strategy is to protect our portfolio. And what we're doing so far – what we've done and are doing so far -- is just to apply discounts, particularly in Automobile in Spain, according to the risk profile of each policyholder. Obviously due to the confinement, there is a reduction in the loss ratio for most of the retail business. But it could be that there is an increase in rates as well, because for some - perhaps groups, or commercial business, there could be an increase in the loss ratio.

In general, we are protecting our portfolio across the regions and we are doing discounts for those risks where the loss ratio is pretty low, and we can transfer part of this reduction in loss ratio to rates.

### **Natalia Núñez Arana**

Okay. Thank you very much. Now, Alex Evans at Credit Suisse has sent us the following question. “Your accepted reinsurance slightly increases in the quarter. Is this a function of credit insurance business or business interruption, and should we expect this to develop further as situations have worsened in fourth quarter so far?”

### **Eduardo Pérez de Lema**

I understand this is again COVID-related claims. I would say the increase on the business interruption side, as mentioned, was one individual claim in the MAPFRE Global Risks portfolio that is that EUR1 million that has increased. On the credit side, the answer is fully reserved IBNR. We had foreseen that the economic situation would lead to increased claims ratio on the credit side. The reality is that it didn't materialize at least until the end of the third quarter. So nothing really happened on that side in terms of frequency or at least at significant frequency. We are keeping the same reserve for the future because there might be an increase in insolvencies in the future. But so far, it hasn't materialized.

On the business interruption side, as mentioned, there could be some evolution. Maybe to

mention that the claims that we paid already -- to a big extent or to a large extent, at least in the reinsurance portfolio -- the claims that we paid on the business interruption side were already paid, and the limits were already reached, and the policies that had to be updated after the claim would have a pandemic exclusion in most of the cases. So even in a second wave as we are experiencing, the impact will be significantly different to what it was in the first wave on the business interruption side.

#### **Natalia Núñez Arana**

Thank you Eduardo. Now we have questions from Sofia Barallat at CaixaBank regarding the biometric tables. How does the DGSFP's EUR1.7 billion net amount impact from the update of biometric tables compare with your estimates on this matter? What is the provision built for this purpose? Can the pending impact, if any, be deferred/phased?

#### **Fernando Mata Verdejo**

Thank you, Sofia. We discussed this topic last year, a couple of times. But you're right, for the last two, three quarters we've been quite quiet, because there was no news. But as we're approaching to year-end, this is a new discussion in Spain. As you know, and in order to anticipate and mitigate the impact of adapting these new longevity tables, we booked provisions in 2018 and 2019.

We did the same as we did with the new Baremo regulations, 5 years ago. In order to flatten the effect, we booked some additions in our provisions, year-by-year. In 2019, if I remember well, the outstanding provision was negligible, quite small, but based on the draft figures at that point, and also excluding prudence margins.

I know that the regulatory process is underway, and should be finalized by year-end. And depending on the final outcome, perhaps MAPFRE has to add some small amount to our current provisions in order to adjust our book value to the future longevity tables.

In any case, it will be a small amount, practically negligible. Meanwhile, we're waiting to see the final regulation, to determine, if any, the direct impact in MAPFRE's accounts. But so far, it's not an issue. We're worried about the COVID 19 crisis, really, rather than the longevity tables.

**Natalia Núñez Arana**

Okay, thank you very much. Paz Ojeda at Sabadell has the following question. “According to slide 12 of the presentation, Brazil's accounting yield rose 60 basis points standalone from 3.18 at June to 3.82 at September, despite interest rate having gone down. Could you comment on this?”

**Fernando Mata Verdejo**

We increased duration a little bit and probably you see in the information, the modified duration has gone up a little bit. But what is clear is that there is a yield compression period in Brazil, and in the short run we're going to see drops as well in our financial income, particularly in our Non-Life business in Brazil. In any case, the good news is that the current inflation rate is pretty low as well. And both metrics, they usually go in parallel – and increase in rates, increase in inflation; a drop in yields is a drop in inflation as well. And they will affect our operating costs and also some claims cost as well.

**Natalia Núñez Arana**

Okay, thank you very much. Now there is a question coming from Alex Evans at Credit Suisse, concerning the US Presidential elections. You reported a sizable tax benefit from Trump's tax change in the US in 2017 result. Any thoughts on what Biden's proposals would mean for MAPFRE? I think it is an increase in the corporate tax rate to 28% from 21%.

**Fernando Mata Verdejo**

Thank you for your question, but very little to comment on this. And we are pretty focused on the COVID-19 crisis and the reorganization of our business in the US, and also to give the maximum protection to our employees and policyholders. So meanwhile -- we'll see the final outcome of the elections in the US. But let me say that we are pretty focused on our current operating business. And there is nothing that we can do regarding the US elections, nothing

but to accept the final result, that's all.

### **Natalia Núñez Arana**

Thank you, Fernando. Now we have a question regarding solvency. Alex Evans at Credit Suisse has the following question. “The Solvency II movement in the quarter was a bit weaker than I would have expected given your Solvency II sensitivities. Please, could you give some details on the moving parts here this quarter?”

### **Fernando Mata Verdejo**

Unfortunately, we don't know exactly how you are applying our sensitivities to make your estimates. It happened as well during the first quarter, that the sensitivity analysis we published for the first quarter then had a small difference with the actual numbers for the second quarter. But when applying the sensitivities, the impact on Life portfolio with profit sharing could be material, and also distort results.

If you want to look into this in more detail, Natalia and also our CRO, Ramon Carrasco, will be more than happy to give you more detail in a phone call.

### **Natalia Núñez Arana**

Thank you very much. Now we have a set of questions regarding dividend and strategy. And Jonathan Denham at Morgan Stanley and Farquhar Murray at Autonomous have the following question regarding dividend. “What is the rationale for the dividend cut? The absolute amount of the cut is small. Is it therefore fair to assume that the cut was driven by concerns about your earnings trajectory, instead of driven by regulatory, solvency or cash concern? How do you intend to approach the final year dividend decision? Could you give a sense of the current regulatory dialogue on dividends, and how this compares between the Spanish regulators and others?”

Additionally, Paz Ojeda at Sabadell asks, “Which are the most important criteria to establish the final dividend for 2020 – payout, solvency, liquidity?”

**Fernando Mata Verdejo**

Thank you. A lot of questions. I'll try to clarify your concerns. First of all, there is not only one single reason behind this EURO.01 reduction in the dividend payment. When we proposed the final decision to the Board, we considered a lot of reasons, particularly the current strong recommendations in most of the countries from regulators - it's not just EIOPA or the Spanish regulator, it's across all regions.

We're keeping a quite fluent dialogue with different regulators, particularly with the Dirección General de Seguros in Spain, and also we called them just before presenting the proposal to the Board. They know that the final proposal was EURO.05 per share. So, the reasons behind this interim dividend of EURO.05 is first, the regulatory environment - this strong recommendation at the beginning of the crisis, that they converted into mild recommendations, but there are still recommendations to be prudent.

Second, the Board wanting to be prudent. There are a lot of uncertainties ahead, and if you look at Europe, as I mentioned, with confinements across Europe, with curfews, and without knowing which is going to be the outcome of the second wave, it would be perhaps extremely bold to move to a higher dividend. There are a lot of uncertainties and also what we are sure is that this COVID-19 crisis will not be finished in months; it will be probably in years. So we have to be pretty prudent.

Regarding regulators across regions, we've got a lot of pressure, particularly from Mexico, where there was a strong recommendation from the Commissioner. And so at that point we decided to stop the dividend upstream from Mexico. Then there was some relaxation in Mexico and in the end we proposed - probably we'll resume the upstream of dividends from Mexico in the fourth quarter.

But in general, most of the regulators, they recommended to be prudent, regarding the dividend policy. The dividend is what it is; it's EURO.05 and there were different factors. And the Board considered all the situation regarding this dividend payment, and in the end we agreed to pay this EURO.05 per share. And there is no subliminal message regarding the final dividend to be paid next year, and at the end, when we have the full year accounts, we will again analyze the liquidity situation, Solvency II ratio and also our financial position, in order to assess the dividend for the full year.



Regarding dividends, our policy has been to maintain sustainable dividends. If you see our track record, we're quite stable, and we'll try to keep this dividend policy in the future as well. We have a strong commitment with investors and you see the general context, particularly in Spain with financial institutions and also in Europe, there are cuts, reductions, from most of the insurance and reinsurance carriers. We're close to the dividend paid last year and I think it is a very good mid-point, considering both things - our commitment to shareholders and also recommendations from regulators, and - which is the most important - the current uncertainties regarding economic recovery and also potential effect from the second wave of COVID-19.

#### **Natalia Núñez Arana**

Thank you very much. Fernando. Also regarding dividends, Alex Evans at Credit Suisse has the following question. "Iberia increased its remittance to the Group in the quarter by about EUR20 million. How much is usually remitted for this time of year? Where can farther remittances come from, and how much surplus cash do you have available?" Also, regarding dividend upstreaming, Paz Ojeda at Sabadell would like to know if we are expecting more remittances in the fourth quarter and from which countries.

#### **Fernando Mata Verdejo**

Thank you. The upstreaming of dividends from the first three quarters was based on the holding payments, and also based on the dividend decision that was postponed to the third quarter. So in this scenario, we didn't cash in a lot of money from subsidiaries. Instead, we left the money in the operating entities in order to reinforce their cash positions.

Once the interim dividend has been approved, we rebudget the cash remittance from subsidiaries in order to have a full match of dividends paid by MAPFRE SA, overheads at the holdings, and the dividend upstream from subsidiaries. So if I'm not wrong, the total amount for the outflow will be approximately EUR540 million, and remittances from subsidiaries will be equal to this amount.

To match this future cash flow, MAPFRE ESPAÑA and MAPFRE VIDA will be the subsidiaries paying most of the fourth quarter cash flow. But also, we already collected in October, the final dividend from Brazil. And also the US will contribute as well with another dividend in the

fourth quarter. In general, the smallest subsidiaries will contribute as well with dividends. If I'm not wrong, EUR14 million will come from Central America, a small amount from Mexico as I mentioned, like EUR7 million. Peru, will be in two digits as well. And the only entities not paying dividends are those from Eurasia, due to the small amount of profit, and particularly MAPFRE RE. We still don't know which will be the final result for the fourth quarter. It doesn't look that bad. But in any case, if there is small profit we have decided to retain it in order to protect the final equity of MAPFRE RE.

So MAPFRE ASISTENCIA which was running losses, Eurasia, Italy, Germany, and Turkey, and also MAPFRE RE - they won't pay dividends during the fourth quarter. But we are quite comfortable with these outflows from the subsidiaries. They're keeping quiet strong financial positions. There're very good at keeping cash balances as well. We don't have any evidence of any cash restriction in any country. So everything is, in a quite difficult scenario, quite normal, and the flow of dividends is pretty stable. And in terms of dividend flow, this is a normal year. I think I covered most of the question.

One last thing, the payout ratio for Iberia is close to 90%. But let me say that most of the Solvency II surplus is being kept in MAPFRE RE, MAPFRE ESPAÑA and MAPFRE VIDA. So in any case, the Solvency II ratio won't be affected by this outflow of dividends.

### **Natalia Núñez Arana**

Okay, thank you. Just the last question comes from Alex Evans at Credit Suisse. He would like you to provide an outlook for premiums, given continued disruption in some distribution channels.

### **Fernando Mata Verdejo**

Thank you. Alex. It's difficult to give you some guidance. Due to the small size, we haven't commented, but the digital business is performing quite well. VERTI results are outstanding, growing almost 7%, EUR6 million profit. Other dotcom operations across MAPFRE units are performing pretty well as well.

So far the bancassurance channel is the one which is suffering the most from the current crisis. Our own network in Spain is working very well. There is practical no change in the churn ratio.

There is a lack of new business, but it is quite defensive. And there is a lot of variation that is difficult to explain. We're quite happy with performance in global risks, quite happy as well with Germany, with a 4% increase in premiums, and particularly if we remove those extraordinary effects in Spain, growth in Condominiums in both the channels is like 8% this year. In Homeowners, it's around 3%, and other lines of business in Non-Life regarding SMEs, are working very well.

So there's a lot of up and downs regarding different regions and also different lines of business. They only line which is going to be hit for sure is Life Savings, but I don't see any change in the current trend. So we will still have to struggle in order to keep these Life premiums within the MAPFRE perimeter.

**Natalia Núñez Arana**

Okay, then that's it for today. There are no more questions. Thank you very much, Fernando and Eduardo.

**Fernando Mata Verdejo**

Thank you, for your presence. I know it is a difficult time, but above all please stay safe. Thank you again. Bye-bye.

**Eduardo Pérez de Lema**

Thank you.

**Natalia Núñez Arana**

Thank you.

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