S1 2020 Earnings Call

Company Participants

- Fernando Mata Verdejo, Group Chief Financial Officer
- Natalia Nunez Arana, Head of Investor Relations and Capital Markets

Presentation

Natalia Nunez Arana {BIO 19480994 <GO>}

Good afternoon, everyone, and welcome to the presentation of MAPFRE's Preliminary Results for the First Half of 2020. This is Natalia Nunez, Head of Investor Relations. As in the previous quarter, this presentation includes the main figures to give you an overview of MAPFRE's performance. The MD&A and other information, including the usual spreadsheets, can be found on our website as well as the embedded value figures for 2019. As always, here we have with us our CFO, Fernando Mata, who will go through the key highlights and figures of the quarter. Before Fernando begins, I want to give you an update of MAPFRE's operations regarding the pandemic.

The current situation in MAPFRE is diverse with a new normality in Europe making it possible to return to almost full commercial activity in our main market in Spain where more than 35% of the personnel are back to this office. Strict control and prevention measures are in place due to growing concerns regarding new outbreaks. The situation in the U.S. and Latam is complicated. New cases are still on the rise in the U.S., although in Massachusetts, our main market, the situation has been improving and 28% of the workforce is now on site.

In Brazil, there is still a large impact from the crisis, although in the state of Sao Paulo where the company is headquartered, there has been a gradual improvement with now 18% of staff back at the office. In the rest of Latin America, there is some concern as the number of new cases continues to grow and the interruption of economic activity is already causing a strong negative economic impact in the region. MAPFRE will continue focused on the same priorities that we have had since the start of the crisis, guaranteeing the health and safety of all our collaborators and ensuring business continuity in order to keep on providing the highest quality service levels to our clients.

Finally, just as a reminder, at the end of the call, we will answer all questions received at the Investor Relations email address. Also, the IR team will be available afterwards to answer any pending questions you may have.

And now let me turn the call over to Fernando. Fernando, the floor is yours.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Natalia, and thank you everyone for being again here with us today. Before we go into the details, I would like to highlight that we are satisfied with this quarter's results, considering the current COVID scenario. Insurance units are performing very well with an attributable result of EUR429 million, up 13% on the year. Iberia remains the largest profit and dividend contributor with a notable quarter-by-quarter stability in non-life premium growth and also profitability.

We have seen strong improvements in Brazil, the U.S., Mexico and other important Latin American markets as well as Turkey and Italy. There has been some benefit from lower frequency as a result of COVID, but we are also seeing the fruits of strategic initiatives that have been implemented over the last years.

The largest impact from the pandemic has been on the top line due to confinement measures and lower economic activity. The crisis has affected some channels more than others, mainly dealerships and bancassurance. Currency depreciation has been a headwind as well as the negative environment for Life Savings products. Regarding the claims side, direct impacts on insurance units, mainly in the Burial and Health segments in Spain have been mitigated by lower frequency, especially in Motor across all markets.

This quarter we booked the cost of COVID-related claims at MAPFRE RE with a EUR56.9 million impact on the attributable result. Travel Assistance business was hit, but mainly in the first quarter as trends have been more positive in the second quarter. Finally, we have updated IBNR reserves to reflect changes in claims reporting patterns as a result of COVID, affecting the majority of the Non-Life business lines. The largest reserves were booked in Spain, but we have exercised prudence in all countries. This represents around 2.7 percentage points on the loss ratio for the group.

We feel quite comfortable with our current asset exposures. During this quarter, we have carried out an extensive review of equity, fixed income and real estate portfolios as well as intangibles and accounts receivable. Equity write downs were negligible and we haven't seen any signs of non-payment or delays in collections. We haven't observed any indications of goodwill impairment since results have improved in the majority of operations. The largest impact was from provisioning for undeveloped land in Spain with a net impact of around EUR20.5 million.

Regarding NatCat events, there was a smaller earthquake in Puerto Rico in Q2 and a slight increase in the cost of first quarter events in Spain, bringing the total net cost to around EUR77 million, up EUR10 million on the quarter. MAPFRE continues to boast an excellent capital position with significant flexibility to manage any potential volatility going forward.

Please turn to the next slide. Regarding the figures for the first half of the year, premiums are down around EUR1.5 billion on the year. One important driver of the fall has been currency depreciation, with a EUR580 million impact. Second, Life Savings premiums are down over EUR400 million in Iberia, EUR450 million for the total Group, due to the challenging environment for these products.

And finally as a reminder, last year there was a two-year industrial policy issued in Mexico for PEMEX for EUR445 million. Non-Life premiums are down slightly under 10%, but at constant exchange rates and excluding the PEMEX policy in Mexico, they would be down only around 1%, which is excellent considering the current market context and our focus on restructuring in several units. The net result stands at over EUR270 million with a combined ratio at 96.7% and 93.8% at the insurance units. The direct impacts from COVID claims and NatCat events have been partially offset by a strong fall in frequency, mainly in Motor across main markets.

Assets under management are down around 4% during the year and shareholders equity is down around 6% due to the downturn in financial markets and currency depreciation, but -- this is important -- with a 6% improvement since the close of March. So let's say that the second quarter has been quite positive in terms of our capital base. At the beginning of June, we reported updated figures for our capital position with the Solvency II ratio at 177% at the close of March, within our comfort range and an excellent level considering the market situation at that time. We should expect additional improvements in the second quarter.

Lastly, embedded value was up over 20% in 2019, and this improvement is explained by changes in the model for the annual renewal business in the bancassurance channel in Brazil, the fall in discount rates in major currencies, better experience and as well as a solid performance in new business, especially in Spain and also Brazil. You can consult the full disclosure of embedded value on our website.

Please turn to the next slide. On this slide, we will analyze the different components of the adjusted attributable result. There have been several large claims, events during the first half of the year. Earthquakes in Puerto Rico had a total impact of EUR16.2 million. There was another smaller earthquake during the second quarter, which explains most of the EUR7.5 million increase compared to March. The severe rain and storms in Spain had a total impact in January of EUR16 million: EUR10.2 million in the insurance unit, the remainder in the reinsurance unit.

Regarding COVID direct claims, there was a EUR56.9 million impact at MAPFRE RE. This estimate is based on the most recent loss communication for the cedents. I would like to highlight that we do not have exposure to Event Cancellation and our main Business Interruption exposure is in the reinsurance segment. And there is no evidence of relevant exposure in our insurance units.

Regarding expenses related to reorganization of operations, last year there was a positive EUR4.5 million impact in the U.S., while this year there has been a EUR15 million net impact from a provision for restructuring of operations. Financial gains and losses are down nearly EUR24 million compared to the previous year. The net loss in real estate reflects real estate provisions for land in Spain, which were written down by around 8% of their book value, which were partially offset by the sale of a property in Boston in the first quarter of the year.

Regarding financial investments, we prefer a cautious approach to realizing gains when the market can offer better opportunities. Excluding all these impacts, the adjusted net result reached EUR406.5 million, up EUR74 million compared to the previous year. Regarding the impact of COVID on insurance operations, we expect the final effect to be almost neutral with tailwinds from a decrease in Motor frequency that will offset direct claims from COVID in other lines, other related expenses and also the decrease in premium volume. With this in mind, we have decided not to include this effect in the adjusted result.

Please turn to the next slide. On the right, you can see the main figures by business units. Again, I would like to highlight the consolidation of the positive trends and our insurance units with an almost 13% increase in net result. Iberia continues to perform very well. The fall in the result is due mainly to lower financial gains. Higher weather-related claims and COVID-related expenses have been largely offset by lower frequency in Motor.

And regarding premiums in Spain, we outperformed the market in most business lines. In Motor, we are taking a more cautious approach given the current pricing environment, while prioritizing customer retention. Premiums are down in Life Savings, but we are outperforming the market in Life Protection, which is a higher margin segment with premiums up over 4%. The contribution of MAPFRE Vida was EUR88 million, stable -- very stable year-on-year which is an excellent result in the current context.

In other regions, it is important to highlight the strong impact the currency movements have had both on premiums and results. In Latam, results are up nearly EUR30 million, and all three regions are reporting remarkable ROEs with an outstanding 17% in Latam North. The combined ratio for the region stands at under 90%, and despite headwinds, results have improved in Brazil and Mexico, and across Central America, especially Panama. In Brazil, in local currency, we've seen strong growth in Agro insurance and resilient Life Protection premiums while again the Motor premiums continued to fall as a result of our restrictive underwriting approach. The improvement in the attributable results is due to the measures being implemented in Motor as well as lower frequency due to obviously to the pandemic.

Regarding the International business, results are up by EUR31 million year-on-year. There were two large impacts in North America: first, the EUR14 million net realized gain from the sale of real estate in the first quarter and second, the EUR26 million net loss as a result of the earthquakes in Puerto Rico. The results in the United States are also benefiting from profitability measures implemented in the last years. Results continued to improve significantly in both Turkey and Italy, thanks to a focus on underwriting discipline as well as a significant decrease in Motor frequency as a result of the crisis.

Regarding RE and Global Risks, as I mentioned on the previous slides, results were impacted by the earthquakes in Puerto Rico and Storm Gloria in Spain with a total net impact of around EUR41 million as well as around EUR57 million from COVID-related claims. There has also been an increase in attritional claims frequency.

The total impact for MAPFRE RE from COVID-related claims was EUR80.9 million before tax and minorities, of which EUR70.9 million correspond to Property claims, based on the information reported by our cedents as well as an evaluation of the exposures reported by our clients. Claims reported in Property lines are basically concentrated in a specific Business Interruption covers in Europe, mainly in Germany, France, the United Kingdom and Switzerland. In the vast majority of the Property portfolio, Business Interruption coverage is contingent on the existence of material damage, which does not exist in this case. As you remember, Eduardo Perez de Lema has stated at the first quarter presentation. Therefore, there has only been exposure in a very limited number of cases. However, there is a high degree of uncertainty surrounding the final amounts to be paid and how any legal proceedings could conclude.

In the Credit segment, although reported claims have been very, very limited, a small amount, a EUR10 million reserve was booked as an uptick in claims is expected for the coming quarters. MAPFRE RE has not had any claims related to Event Cancellation as we do not underwrite this line of business nor do we have exposure to Casualty or Workers Compensation in the U.S. And the impact in the Life business has been pretty, pretty immaterial so far.

In the Assistance business, the largest hit was from Travel Cancellation claims in the first quarter of the year. We have been prudently reducing exposure and we have also taken further steps in our restructuring process. In addition to the five operations we already decided last year to shut down, you'll remember well, we have also decided to put the UK Specialty insurance unit in runoff as well as sell the Roadside Assistance business in the U.S. No additional economic financial impacts are expected from these operations.

And finally, the line of Other , apart from holding expenses, which is the normal expense that we include in this line, we have included a provision for undeveloped land in Spain and also the restructuring provisions that we already mentioned.

Please turn to the next slide. Shareholders equity stood at EUR8.3 billion, down around 6% during the year. The most relevant changes are first a EUR424 million decrease from currency conversion differences due to the depreciation of almost all currencies, but mainly the Brazilian real, by far our second largest exposure, which is down over 26%. The Mexican and Colombian pesos and the Turkish lira are also down during the year. The U.S. dollar was slightly down on the quarter as well, and in the second quarter, there was a EUR96 million deterioration from currencies. So if you compare with the first quarter, you can conclude that the volatility seems to be more moderate in this quarter. Net unrealized gains on the available for sale portfolio have only had an EUR86 million negative impact during the year. However, they have improved by EUR440 million on the second quarter.

The 2019 final dividend amounting to EUR262 million was paid in June as you know. New information that you very often ask us, the upstream of dividends within the Group has been very, very stable during the period, total upstreaming reaching EUR280 million in this quarter with EUR208 million from Spain, EUR37 million from the U.S. and EUR29 million from Brazil.

On the right you can see the breakdown of currency conversion differences as of June 30 and changes during the period as well. As you see, the sensitivity analysis the U.S. and the Brazilian real are the most relevant currencies. On the bottom left, you can see the detail of the net unrealized gains amounting to almost EUR1 billion, similar to the beginning of the year. And on the bottom right, you can see the detail of the available for sale portfolio in Iberia, which represents three quarters of MAPFRE's total available for sale portfolio of around EUR37 billion. The majority of unrealized gains are in immunized portfolios and the gains have increased since March, thanks to the recovery in the markets.

Please turn to the next slide. Capital structure and credit metrics. On the left, you can see the breakdown of the capital structure, which amounted to EUR12.6 billion. Our credit metrics remained quite strong with leverage around 24%, which should go back down to target levels over the course of the year.

Regarding Solvency II, on the left, you can see that the ratio closed at 177% at the end of March, within our target range. Eligible funds were down by nearly EUR780 million, mainly as a result of market movements, but it was offset by a EUR180 million reduction in the capital requirement, mainly due to equity and currencies, and to a lesser extent also spread risk.

The largest move in Eligible Own Funds in March was the fall in market value of investments and currency movements and the phase out of transitional measures also takes place in the first quarter. As a reminder, the approval process for the use of our internal longevity risk model for Group Solvency calculation, which is currently used on MAPFRE Vida is under way. We hope to receive approval to apply this to 2020 year-end calculations. This will imply a 10 percentage point uplift to Solvency figures roughly.

Regarding the credit diversification benefits from the matching adjustment, this process could take a little bit longer and combined expected uplift is around 17 percentage points.

Please turn to the next slide. On the right, you can see that assets under management are down over 4%, driven by the falls in stock and debt markets as well as currency effects. Despite the fall, we have seen positive net inflows in pension funds. The breakdown of the investment portfolio is on the left. Asset allocation has been stable throughout the year and exposure to government and corporate debt remains mostly unchanged. Spanish sovereign debt for a little under EUR18 billion and Italian debt around EUR2.9 billion are our largest exposures. These investments are mainly held in immunized portfolios. Realized gains in the euro area reached around EUR29 million, down by EUR21 million. We continue with our cautious stance regarding asset sales and wait for better opportunities in the market.

Please turn to the next slide. On the top half of the slide, you can see the yields and duration of our euro area actively managed fixed income portfolios. Non-Life, both accounting and market yields are down while Life portfolios have been fairly stable. Nevertheless, I mean the trend is not positive; those portfolio yields should continue downward. On the bottom, you can see the portfolios in other main geographies. Here accounting are still well above those in Europe and have been quite resilient in Latam

North and North America. However, we are still seeing some downward pressure, particularly in Brazil and Latam South.

Please turn to the next slide for closing remarks. First of all, performance of the insurance unit has been outstanding, reaching a net result of nearly EUR429 million, up nearly 13%. Regarding MAPFRE RE, it is a challenging time for reinsurance. COVID claims should be manageable and MAPFRE RE maintains a strong financial position and prudent underwriting approach. Right now, our top priority is preparing our business defensivley to face this crisis, which will continue for some time. We are implementing portfolio retention plans across the Group and we are also focused on cost contention and continuous streamlining of our business units. In any case, business transformation is key and we are maintaining our initiatives in order to have more efficient and digitalized operations.

MAPFRE has a privileged financial position with a solid capital base, financial flexibility and high level of liquidity, underpinned by strong cash generation and dividend upstream from subsidiaries. We continue to demonstrate our commitment to shareholders. The final dividend against 2019 results was paid in June. The Board of Directors will assess future dividends during the fourth quarter of the year, but current metrics do not point to any potential restriction for dividend payment. Again, the main driver of dividends will be net income with a minimum payout target of 50% as we announced at the AGM.

Regarding other targets announced at the AGM, there is still a lot of uncertainty surrounding the spread of the pandemic and also the related economic crisis. Most markets have also been hit by lower activity and lower interest rates. In this context, it is impossible for us to give guidance right now, but our strategy is in place, our priorities haven't changed and we expect to follow the same trend, I mean focus in giving protection to employees and other clients and other stakeholders.

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

Questions And Answers

A - Natalia Nunez Arana {BIO 19480994 <GO>}

(Question And Answer)

Thank you very much, Fernando. We can now start with a Q&A question. The first one is coming from Paco Riquel at Alantra Equities and he has the following question: Can you please explain the increase in IBNR reserves equivalent to 2.7 percentage points in terms of combined ratio? In what regions and products have you booked these provisions? I ask because the combined ratio in some business lines looks too low, close to 70% in Motor in Spain during Q2. Paz Ojeda from Banco Sabadell would also like some details -- like to know some details regarding the breakdown of the IBNR updating.

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Paco and Paz, quite interesting questions. Very simply, since the end of April -- of March, sorry -- as we realized it was a delay in the way that the claims were reported by our policyholders. We set different instructions from our actuarial department in order to assess a proper IBNR reserves, and to catch up this delay in the way that claims were reported.

This IBNR has been updated on a monthly basis. The peak was at the end of May. There were some releases in April, particularly in Iberia, because the peak of the pandemia was over, particularly at the end of the March, and it was a pretty stable catch-up of claims reported. In general, let's say, that this IBNR update is affecting all the units and all line of business. It includes both COVID-related affected lines of business and also other such as Motor, in which the IBNR new estimate tries to somehow limit the increase of losses in the future.

More or less half of this IBNR was booked in Iberia, as I told you, I mean, there are some releases in June. The lines of business mainly affected were Health and Motor segments, but there are new estimates from practically all lines of business.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Thank you very much. Jonathan Denham at Morgan Stanley and Andrew Sinclair at Bank of America have the following question regarding claims frequency: Your Auto combined ratio improved by almost 10 percentage points versus first half of 2019. How do you expect claims frequency to develop going forward? Farquhar Murray from Autonomous and Michele Ballatore at KBW and Alex Evans from Credit Suisse had similar questions, with a special focus on the Brazilian Motor and U.S. markets. Specifically, how much of the improvement in combined ratio is due to underlying improvements, and how much is due to lower frequency?

Farquhar also would like to know, in Motor, please could you just quantify the number of car claims over the second quarter of 2020 as compared to historic average and how has that developed so far in the third quarter of 2020? In Homeowners, did you see any material differences in frequency or severity, particularly from households being able to spot developing claims earlier than might be normally the case? It's a long question, but we have--

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

More than a question, I mean, this is almost a summary of the Q&A session.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

But we have to raise--

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

I'll try to cover them all.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Yes.

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yes, thank you. I mean, thank you for your question. I understand, I mean, this is the key question. But unfortunately, I'm not able, I mean, to predict what is going to happen. What I can tell you is what we've seen, just in the short run. Particularly, our experience in Iberia and Italy when we started the pandemia and also how is this pandemia developing, particularly in emerging countries in LATAM.

And first of all, I mean, it's absolutely impossible. We can't differentiate the reduction in the loss ratio in automobile separating those derived from the lack of frequency due to the lockdown measures, and those that are derived from strategic measures implemented in order to improve our combined ratio, particularly in Spain, U.S. or Brazil. What happened? I mean, during -- practically, the second quarter, March, April and June, there were no reported claims, particularly in Automobile. So we started this just to catch up and just to set a better estimate for IBNR.

Suddenly, once the lockdown measures were lifted, what we realized it was really a big tsunami of reported claims affecting both lines, Motor and also Homeowners. I'll give you just a number. In June, it was a 50% increase for Homeowners and Condominiums increase in the numbers of claims reported in that period.

Regarding outlook for Automobile; what we saw as well in Spain, and we should expect the same from U.S. and emerging countries, when the lockdown measures are lifted is a dramatic increase in mileage, particularly on the weekends. And while working days mileage is still pretty reduced, it's due to the number of employees that are working from home.

Regarding frequency and also severity in Spain, and it was published by the Spanish traffic agency. We saw in just one fortnight, the last week of June and first week of July, an increase in number of deaths in traffic car crashes, increasing 22%. I mean, it was a dramatic increase. We didn't have this hit in our experience, but the increase in number of deaths in Spain was as well a two digit percentage.

Regarding Homeowners, again, I mean during the lockdown and the confinement, practically, there were some claims, partially declared, but it was practically impossible with information to assess a proper loss estimation. So once the lockdown measures were lifted and we started catching up, I mean it was a big backlog of claims. And this -- the one I mentioned was the 50% increase during June. We should expect a similar trend in the U.S., where there is some delay in the pandemia tsunami, let's say that, and the same as well in Latin America. This is mainly the reason for the new estimate for IBNR in order to try to cover the delay in the way the policyholders are reporting claims.

I think I covered most of the questions. So, please move to next, Natalia.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Thank you very much. Now Jonathan Denham at Morgan Stanley has the following question. COVID cases unfortunately seem to be increasing in Spain again. What actions have you taken to be better prepared to tackle a second wave in Europe, if there is one?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Well, this is not still clear. There're some clusters in Spain and also in Europe, but, let's say, the consensus is that the second wave if, in the end, there is any, I mean, it won't produce the same intensity in terms of personal damage and casualties, particularly in Spain.

Our national health service is better prepared. I mean, there is plans, a contingency plan ready. And currently, probably, you've seen in the papers and there are like over 200 clusters across Spain, but there is a capacity in the majority of the hospitals. I mean, the intensive care units, they're not collapsed. I mean, there are beds for everyone and let's say that the National Health Service and also MAPFRE, they're better prepared just to face a second wave of this pandemia.

In terms of operations, as I mentioned, I mean that we have a team of 40% of our employees working at the premises, which is good, and the remaining 60%, they're working from home. So, let's say that practically 100% of the employees are fully working. In terms of technology, I mean, we set a new contingency plan as well. Everybody is well prepared and also the operating entities and they are fully working with the same quality level and attending all the claims, I mean, filed by policyholders. So, let's say that this back to normality. In terms of logistics and operation is fully implemented and the conclusion is, we're better prepared and ready in any case, I mean for a second wave of the pandemia.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Okay. Thank you very much, Fernando. Now we have questions regarding MAPFRE Reinsurance, and hold on one second. Yes, here they are. First one is this one, most of our analysts would like to have more details of the impact of COVID claims at MAPFRE RE. Alex Evans at Credit Suisse, Paco Riquel at Alantra, Jonathan Denham at Morgan Stanley, Sofia Barallat at CaixaBank, Paz Ojeda at Sabadell have asked regarding this topic. So, I think it's important for all of us. They would like to know more details about the losses booked for Business Interruption at MAPFRE RE in first half. If we should expect further losses in second half or in 2021, if the amount provisioned covers all potential risks arising from this cover or only the claims occurred in the quarter. And if we have considered the possibility of an increase due to litigation of denied claims and future claims.

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Natalia. Unfortunately, we don't have Eduardo Perez de Lema at the meeting and we will bring him, we will invite him for the third quarter results presentation. Yes, I want to make it pretty, pretty clear, we booked everything we know, and also what we know today and when we closed our accounts any subsequent events regarding provision it was booked. And following the traditional basis for prudence MAPFRE applies in the -- for provisions.

And when I mentioned, we booked everything we know, that is everything was reported by our ceding entities. In addition, some IBNR regarding exposure at clients that haven't reported claims yet. So, let's say that they're both, I mean, individual reporting claims for ceding entities, and also some booked for IBNR. That's basically for Business Interruption, but we also booked, practically, I mean the EUR10 million before taxes and minority effect on Credit line. Practically the whole amount was referred to IBNR.

The number of claims is pretty, pretty small and we booked this IBNR because of the currency deterioration of the economic scenario. Let's say that at MAPFRE RE, our exposure in Credit line is quite reduced. And as we mentioned at the first quarter presentation is just barely 3% of the total MAPFRE RE exposure.

Regarding the Property line, as I just said, we have evaluated claims based on the information reported by our cedents as well as on the evaluation of the current exposures that were reported by our clients. Claims have been rejected, obviously, in case of a non-existence of this coverage in the original policy of the ceding entities or the reinsurance policy. In these cases, these could be legal proceedings in the following quarters, and the only thing we booked is a small reserve for legal expenses.

Also many clients are still evaluating the -- any potential direct impacts that they could suffer, and also the possibility of recovering this with the reinsurance coverage. Any of these potential future, I mean, third quarter claims that have not been incurred and not include in this valuation, means that losses coming in the third quarter will be booked during the third quarter. As we said during the presentation, claims, as we said, yes, claims reported, I was looking at the papers, claims reported in Property lines were concentrated exclusively in a specific BI, Business Interruption covers in business in which they're linked to material damage. And geographically talking, they are mainly in Europe, affecting Germany, France, United Kingdom and Switzerland. Those are the main countries.

Once again, please take into account that the -- and I repeat it, the Business Interruption coverage is only triggered in the event of material damage, which is not the case. But we're booking the report that our ceding entities are reporting. The claims occurred and reported to-date have already been reserved, thus correctly reflecting our current costs and exposures. What we've done, we're taking measures in order to reduce future exposure in the event of new outbreaks.

In general, I would like to say that the quality of our policy wordings have improved, adding more clarity to wordings, and in most of the cases including specific exclusions to limit coverage. But anyway, and this is something that we have to state - there is still a high level of uncertainty, which may lead to changes in valuation, mainly as a result of different variables, such as, first, the possibility of court rulings that could force to pay not coverage claims, which is in my view or MAPFRE's view is not probable. Also, the possibility of losing arbitration processes with some clients. The possibility that the economic crisis generates larger losses than they initially considered in the credit segment. So far, I mean, the number of clients are very small and very reduced. And also the possibility that potential new outbreaks lead to new claims, perhaps, which is not very likely, thanks to the compensation agreement signed in previous outbreaks, and also the progressive introduction of exclusions.

Overall, I mean, all in all, in a nut shell, I mean, it's difficult. We booked what we know, and there is a lot of uncertainties regarding the proper development and evolution of these claims. I mean, it's a quite complex CAT event, it will last as long as the COVID lasts also. And let's say that -- I have to say that the COVID is still out there. So let's say that the event, the claim will evolve as long as the COVID is affecting the population.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Yes. Thank you very much, Fernando. I think it's very comprehensive answer too. Andrew Sinclair at Bank of America would like to know how much losses was passed from geographic business units to MAPFRE RE via internal reinsurance. Did any of these relate to COVID?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Practically, none, Andrew. The COVID impacts of the insurance units is largely retained by the insurance units. And perhaps for some proportional treaties but quite reduced. And the impacts at MAPFRE RE are largely from external clients. So let's say that only in those cases that there are proportional treaties, quota share is being passed to MAPFRE RE, but it is negligible.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Okay, thank you very much. Now the next set of questions are regarding dividend and strategy. Alessia Magni at Barclays has questions regarding dividend and targets. Are you still comfortable with your 2021 targets? Regarding dividends, consensus has recently reviewed downwards its dividend forecast for 2020 and beyond. Is your dividend policy unchanged or are you considering a review?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yes. Let's say that we are pretty comfortable with the results we're publishing today. And also with the solid and quite strong balance sheet MAPFRE is presenting as well. I mean, it's extremely difficult to just to see or just to forecast, which is going to be. I mean the final impact of COVID in the second part of the year is absolutely impossible, it wouldn't be prudent just to give any guidance.

When updated 2021 targets were announced at the AGM this year, we were only just seeing the first impact of the COVID crisis and did not contemplate the current situation. But I remember what our Chairman said, at that point, we were living the first steps of this virus, of this pandemia, and he said that any potential effect will affect obviously our targets and will be updated when we know the -- quite actual impact on our accounts. So, let's say that those targets published at that date already contemplated any potential change derived from the pandemic.

It could be one of the largest insurance events in history, both, I mean due to the virus itself and also the collateral effects on the economic crisis. The duration nobody knows, extremely difficult to predict. What we're seeing is that the consensus is that the significant falls in GDP are expected in 2020 and depending on the pattern of the shape of the recovery, a partial recovery, V recovery, a double V recovery, L recovery whatever, you got all the different options, and there is still high level of uncertainty.

This economic outlook will clearly have an impact on insurance and reinsurance market and falls in premiums. I said, the most affected will be top-line, and also our expected impacts on lines such as Health and Automobiles. It will depend on how long lockdowns and confinement measures will last, particularly in the emerging countries, and also the measures regarding social distancing that are affecting as well our standard of living.

We expect low growth in most countries, which will also depend on currency evolution. And we will maintain our prudent strategy and very strict on technical control. I mean, our underwriting policies are practically same and even stricter. Auto insurance premiums should suffer a significant reduction in new business we've seen in Spain due to lower car sales, I mentioned as well at the first of the quarter. And in some countries we have seen zero new business in some months.

On the other hand, Health insurance could benefit from higher premium volume as in crisis situation, people try to find additional medical coverage. We expect as well a change in covers particularly in Automobile. In general, drivers, policyholders, they move from full covers to, let's say, comprehensive products, just limiting probably to third-party liability.

Life Protection insurance going forward will depend on how consumption, investment and lending, particularly financial lending evolve in the different markets where we operate. Regarding guidance, we do not usually provide any annual guidance, but even if we did, in the current situation it would not be prudent due to the high level of uncertainty that we are facing. We're working with different scenarios. Today, we presented to the board the ORSA, the Own Risk and Solvency Assessment with different scenarios. We'll file with the Spanish Regulatory Body. And we've been very prudent because the lack of, let's say, actual information in order to have a really accurate figures is extremely difficult.

However, and there is always a however, the strength of MAPFRE's balance sheet is high level of capital and solvency, and its liquidity position, the availability of additional financing make it possible to conclude that these impacts in any case will be limited. As I mentioned, our priorities haven't changed. The transformation of our business model continues to be a top priority for the executive group and we are focused on profitable growth. We'll be prudent, monitor the situation and when we review the targets we will make them public as soon as possible. And that's it, basically.

Regarding dividends, dividend policy has not changed. Let me make it clear, the dividend has not been cut or canceled. We have only delayed the dividend decision. The Board will monitor the situation carefully and we'll reassess the situation in the fourth quarter of the year when we have the financial reports for the third quarter, and also in line with the supervisor's recommendation, let's say, a strong recommendation and also taking into account other circumstances.

In any case, we maintain a strong commitment to shareholders. And as I mentioned, current metrics do not point to any potential restrictions for dividend payment. We're maintaining regular conversations with the Spanish Supervisory Body and their focus on maintaining solvency levels and liquidity. We should expect the Solvency II ratio as of June, I mean, just to improve. MAPFRE is in excellent position, in this sense. MAPFRE VIDA is now the most solvent company in the Spanish market. And there are very, very good news regarding our capital base. So all in all, in a nutshell, the dividend will depend on three factors. And there is nothing new. First, net income, which is still uncertain. I mean, we're quite satisfied with the net income for the first half of the year and the minimum payout target of 50% that was announced at the AGM is still valid.

Second, solvency and capital strength, we are comfortable. And third, liquidity and dividend up-streaming subsidiaries, which is also comfortable. As I mentioned, our subsidiaries generate sufficient cash to finance their operations and as well upstream the dividends, I mean to the holding. Only external factors could limit this upstreaming, but they're quite, quite extreme, quite radical. What we've done, and this is the information we mentioned in the U.S., Spain and Brazil, we're already cashing EUR280 million in dividends during this the first half of the year. So, there is no cash restriction at all.

In some countries, we will limit dividends to strengthen capital liquidity. Particularly, we want to strengthen our capital base in Mexico and also in Colombia and in Peru, but those are not the most significant dividend contributors, and there is no restriction for the dividend of the Group. Some pressure, as you know, from the Mexican supervisor, but we are quite comfortable. And I mean we're happy. We're reinforcing our capital in Mexico. So probably there is no -- there won't be any upstream of dividends from this country.

In terms of the only contribution we missing is from MAPFRE RE. It's been a challenging year for MAPFRE RE, and probably I mean we suspend any dividend payment, if any, I mean from this subsidiary. I think we covered a lot.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Yes, a lot. Yes, you deserve a break. Thank you. Thank you very much. Now we can start with Iberia, is the next set of questions is regarding the Motor business in this region. Jonathan Denham at Morgan Stanley has a following question regarding the Motor business.   Can you please give us an update about the pricing environment and underlying claims inflation, ex-COVID frequency in the Spanish Auto market?

Sofia Barallat at CaixaBank, BPI would like to know,   Other competitors in Spain have started launching more aggressive commercial campaigns in Motor insurance. Have you taken any actions on this front? And could you update us on the evolution of the combined ratio in Motor insurance in Iberia since the confinement measures have been lifted?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yes. I mean, as I mentioned, it's extremely difficult to differentiate in terms of combined ratio or loss ratio, I mean the decrease and differentiate by confinement effect or lack of frequency because of the reduced mileage that other, let's say, strategic initiatives that we put in force in order to improve combined ratio, particularly in Spain, but also in the

U.S. and Brazil. It is absolutely impossible. Probably with the year-end figures, we can give you a clearer picture.

Before the COVID crisis, what we saw is some pressure on tariffs, particularly in Spain, but also we saw as well certain improvement as well, particularly in some segments of Automobile in terms of combined ratio. But, let's say, that it was the general trend, pressure on tariffs. And it was practically around 2% -- 1.5%, between a 1.5%, 2% decrease in average premium more or less. I don't remember but more or less in this range.

What we saw is after the COVID crisis, no new business. I mean, what we're doing is just trying to protect our portfolio with rebates, discounts in order to keep our portfolio quite stable. We continue with a very, very prudent approach. Fortunately, the churn ratio in Auto is quite stable. We haven't seen any significant change and we also put our portfolio retention plan in place in Spain. One of the most important ones is the special renewal for Motor policyholders with an average discount of around more or less 4 percentage points. As I mentioned at the press presentation, I didn't say in this, but our fleet is quite stable. The number of insured vehicles hasn't changed. And so there is a decrease in premiums, approximately 5%. So let's say that the average premium reduction is 5% as well, and is based on the discounts that we are offering our policyholders and our retention measures.

So we're happy. Let's say that and answer as well your question, what the competence is doing. I don't know what they're doing. What we know is what MAPFRE is doing, which is practically every day we're offering, I mean the best price according to the risk profile of each driver, the best price to our policyholders in order to maintain in our portfolio.

We are quite confident that we are able to maintain our portfolio without doing any radical measures. And I mean underwriting policy is still in place, and we are very prudent. So the policies that are getting discounts is because the risk profile allowed this discount, it's quite simple. I don't see, I mean, what the other competitor is doing. We believe that MAPFRE is doing the right approach in this crisis. I mean, discounts are made on daily basis at renewals, and based on the whole experience of our policyholders, not just if they declare or they reported a claim during the last two months or due to any other external factors.

Regarding frequency, in the medium and longer term, we should see some normalization from current levels, which are very much affected by lockdown and social distancing measures. As I mentioned, the Spanish traffic management authority, 22% increase in deaths, just in two weeks. We have to wait just to see the whole July month figures, but we're seeing is more mileage at weekends and more accident on our highways.

We've seen also an increase in declared claims and reported claims with an uptick in severe accidents, probably due to higher speed as well. People, I mean drivers are speeding up. It is, I wouldn't say normal, but is -- we should understand it's a personal reaction, a human being reaction after three months of confinement.

Regarding claim cost, it will depend on the evolution of the Spanish inflation, but we could see some pressure from monetary easing. Nevertheless, claims cost inflation is generally updated in pricing and is being considered as well at renewals. I mean, the current 90% combined ratio for MAPFRE Group and also 80% combined ratio for the Spanish business is not sustainable. I mean, a majority of the reduction is due to the confinement measures, and we should expect the combined ratio to come back to expected figures in a range between 92% and 94%. That's basically -- hopefully I covered the most of the question.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Thank you, Fernando. The next one is regarding solvency. Paz Ojeda at Sabadell has the following questions. Equity has increased EUR500 million from Q1. What should make Solvency II figures to go up? Could you give us some light on Q2 Solvency II figures? Sofia Barallat at Caixa, BPI would also like to have an update on the Solvency II ratio as of June 2020.

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yes, thank you Sofia and Paz. I mean, we're working the numbers and there is still a lot of work to do. I don't have the crystal ball. But what we're seeing is a better trend, obviously and the financial markets are in a better shape. And we changed our portfolio as well, trying to have lower exposure particularly in equities. I mean, it was very good news. I mean just a small amount that we impaired in equities, means our portfolio, our equity portfolios is in a Safe Harbor. And bearing in mind that the largest move in Eligible Own Funds in March was the fall in market value of investments and currency movements and also the transitional measures - the phase out is being booked at the 1st of January every year we should expect for Q2 - I will be extremely prudent - a better, higher Solvency II ratio versus previous quarter.

But let me tell you as well, in order to have a better, clearer figure, we should expect the end of the year when we have the net effect of the decrease in premiums and also the decrease of own provisions for the full year that it will affect a decrease in our ICR. As of June, we're not going to see such a reduction in SCR since the whole effect of reduction in premiums has not been booked yet.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Okay, thank you very much. Now, Andrew Sinclair of Bank of America and Jonathan Denham of Morgan Stanley have the following question regarding equity impairments. How much of Q2's lower investment income was due to one-off impairments?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yes. Regarding equity, it was practically negligible. I mean, it was just EUR1 million, and we have been very, very prudent and it was practically negligible. And the bulk of the impairment booked in this quarter was for a provision on land in Spain. And as I mentioned, it amounted to, out of the EUR29 million, like EUR2 million before minorities and taxes. EUR2 million refers to equity and the remaining EUR27 [sic 24] million to real estate, new valuations.

And regarding Non-Life financial income, the fall is due to lower realized gains, lower ordinary recurring income and our fixed income portfolio as well. And dividends, which the net effect will be at the fourth quarter, which is usually the calendar for the dividends from our equity portfolio. But nobody knows who is going to pay dividends at the end of the quarter. We expect lower from the financial institution because of the restrictions made or recommended. I don't know what to say, I'm looking at Jose Luis from the European Bank. But the reality is that we should expect perhaps a 30% reduction on the dividend flow.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Okay, thank you. Now, another question, what is the magnitude of expected future equity impairments if the market stays flat? This is impairing stocks with unrealized losses which have a market value below book value for longer than 18 months.

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yes, if the market remains flat, I mean, the impairment will be zero. I mean, none. As I mentioned, we book everything we know today. And there is only, I'll give you more details, there is only one name with valuation above 40%. But I have to clarify as well, I have to add, that there are some big names in the range between 30% and 40% decrease in value. So it will depend on how the equity market will evolve during the third quarter. So far and according to yesterday's valuation, there is not any evidence of new impairments, nor in equity or real estate. So let's say that we have a very prudent real estate and equity portfolio.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Okay. Thank you very much. And now we have a question regarding outlook. This is it. Okay. Alessia Magni at Barclays would like to know what trends are we seeing in 3Q 2020 so far in terms of Motor premiums and claims in the different regions?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Alessia, thank you for your question, but extremely difficult. What we are seeing is extreme variation in loss ratio and combined ratio and premium growth across the regions. And as I mentioned, for instance, there is a significant increase in Global Risk because of the hardening of market, which is very good, 40% increase. But on the other hand, there is a 50% decrease in Motor in Brazil, quite extreme. Burial expenses, for instance, in Spain we have a combined ratio well above 130 % during the first half of the year. Obviously, during the second part of the year it will decrease, assuming there is no new clusters or let's say deaths from the virus in Spain.

Same is happening with profits, some small entities, they're reporting extremely good results. If you see the VERTI numbers or other small entities I mean, results are outstanding. They're not sustainable in the future. But other negative results that we've seen such as MAPFRE RE or GLOBAL or even Assistance, they are not sustainable in the future. So what we should expect is both negative and positive to converge into standard metrics, the metrics that we expected, the metrics that we had before this crisis. So far, I mean, the range of variation is extremely wide. I mean, and this is because of the effects of the pandemic at the second quarter. But it is extremely difficult to predict what is going to happen, particularly in LATAM or in the U.S. during the third quarter of this year. Sorry about that, but I'm in a prudent mood just to give you any guidance.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Okay, thank you very much. Also, Alex Evans at Credit Suisse asks, Have you seen a better trend in premium growth since the end of Q2, as economies have begun to open up more? Or should we expect more of a longer-term impact?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Well, what we are seeing is a nice rebound, particularly in Spain in June. And what we should expect is a flight-to-quality trend, particularly for new business in insurance shoppers. I mean, the name of MAPFRE, I mean, weighs a lot, a lot, particularly in Spain, where people are shopping for insurance. And so let's say that we are happy, I mean, with our churn ratio and also with the new business, and it's back to normality, particularly in Spain. But that is just only three weeks, and we should expect longer in order to see a longer period of time in order to materialize this conclusion.

In LATAM, still there are a lot of uncertainties, and I'm not in a mood, I mean, to give you any guidance. So let's say that again, I mean, the MAPFRE name and our name recognition is very important in order to see an improvement in premium growth, particularly in Spain and also Massachusetts.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Thank you very much. And now continue with the outlook questions. We have one from Andrew Sinclair and Alex Evans that is on COVID impacts. You said that COVID impact on business units ex-MAPFRE RE was neutral. Was this for first half or expectation for the full year? Do you expect it to be neutral for the full year?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Again, very difficult. What we saw during this half of the year is that the decrease in frequency, particularly in Auto, which is a positive thing, and it's offsetting, I mean, increases in other lines of business, and also the premium decrease and also other expenses that we disclosed, amounting to EUR27 million. And you can put as well in the same bucket, to a certain extent, the decrease also in financial income.

In the future, we should expect a neutral effect as well, but it's difficult, I mean, it's difficult to predict. We could have as well is quite a strange situation in which there is new outbreaks with no fatalities, but confinement measures. In that case, I mean it will be a decrease in frequency, but as we've done, we are trying to transfer this increase in profitability to lower prices to our policyholders. I mean, we are extremely committed, I mean, to protect our portfolio. And we'll do it again.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Okay, thank you, Fernando. We have here a follow up question that is coming from Jonathan Denham. I thought you had two potential triggers for equity impairments. The decline in market value is above 40% of book value or the market value is below book value for over 18 months. You have some stocks 30% or 40% down, don't they get impaired, if they stayed at that level after 18 months? It's regarding the answer you have already given just before.

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yes, I mean, in the financial report, in the MD&A, there is a full disclosure of the way we impair equities and there is a full disclosure. It's EUR0.9 million for a decrease in value, and EUR0.7 million, even I can't disclose, there is only one name, it was in Spain and there is no additional exposure. And regarding those that they've got a period of 18 or longer period of 18 months, it was a small portfolio allocated in Malta, if I remember well, and there is no additional exposure or additional risk for portfolios longer than 18 years. Or - months, sorry, yes months. Thank you. I mean, we are focused on this special range of 30% and 40%. Let's say that the -- I mean it is easy to guess the names that are included in this range. They are Spanish financial institutions and also oil companies, and we are pretty sure that they're quite reliable. And there is a temporary decrease in the value of these stocks. And in the future, there will be a bounce I'm sure for those equities.

If not, I mean, we'll get rid of this. I mean, as we've done with other stocks. Once they're close to the red line, we go to the market and we will sell them and that's basically -- and when I said that -- in July and also during the second quarter, I mean, we tried to have a -- I will say more prudent equity portfolio, is because those that were above the red line, we got rid of them. And we will do the same if there is any. So far, we are comfortable. They are still in our portfolio. They are quite reliable financial institutions. So there is no reason to get rid of them. But if there is an additional risk, we will do it.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Okay, thank you very much. There are a couple of questions, but more or less they are follow-up questions. I think they have already been answered during the call. One of these is Alessia Magni at Barclays has the following question: In the second quarter 2020 combined ratio, improved 2.9 percentage points year-on-year. Can you please give us the main drivers of these improvements in second quarter? In second quarter also how much was the benefit combined ratio from Motor lower frequency and the negative impact from other lines such as Burial?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Well, we don't need, we disclosed the decrease or let's say the change in different combined ratios for the different line of business. I mean is included on page, correct me if I am wrong, on page six of the financial report. I mean, the majority of the decrease in loss ratio is due to the confinement measures, the lockdown measures, and the main increase in Burial expenses is due to the number of deaths and that is everything that we can say so far.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Okay, thank you very much, Fernando. One more follow-up question and this is the last one for today. It's been a tough session and a long session with a lot of interest from the analysts and investors. Can you -- this one is coming from Andrew Sinclair, can you please ask -- okay, the following question on dividend. How committed are you to keeping the dividend at least flat year-on-year and avoiding a year-on-year dividend cut? They want more clarity.

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Andrew a very interesting question. I mean, the last one, I'm sure. But, the only thing I can do is just to repeat what I said. Fully committed with shareholders and investors. Main driver for dividend payment is net income and also the payout. We are fully committed. We believe that the dividend is a normal flow for investors and also for public companies. And as I said, there is no -- the current metrics do not point to any potential restriction. Final decision will be made at the end of the -- once we get the financial information for the third quarter. But that's all I can say at this point. Sorry about that. But fully committed with shareholders, no restriction so far in our financial statements and the decision will be made once we have the financial statement as of the third quarter.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Thank you very much Fernando, and before you have some words of wrap up, I would like to apologize for the delay we had today in publishing the documents on our website. We had some technical issues, but all the documents are now available on mapfre.com. And we hope this issue doesn't occur again. Sorry about that. And from my side, I wish you a very nice summer and summer break for all of you.

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yes. Thank you, Natalia. Yes. A few final remarks that by the way, I mean, we changed yesterday and because of, let's say that in general, I mean, the outlook for Europe is much better. There's still a lot of uncertainty with regards to duration and the severity of the pandemic and also the related economic crisis. Nevertheless, today, let's say that today, we are optimistic about the financial measures being taken by governments and central banks worldwide, especially the European recovery plan. Most of all, I mean, we are confident about MAPFRE's capacity to weather this crisis. Our businesses are very well positioned, thanks to high levels of diversification, multi-channel approach, with a loyal agent base, particularly in Spain, healthy balance sheet and a strong liquidity position.

Furthermore, MAPFRE has been committed to helping our collaborators and society as a whole, and this is strengthening our brand, especially in our main markets. Right now, we're seeing a flight-to-quality trend in insurance shoppers, particularly in Iberia and LATAM, where MAPFRE has a great name recognition. Thank you for your time today. Have a nice summer and above all, stay safe. Thank you and bye bye.

A - Natalia Nunez Arana {BIO 19480994 <GO>}

Bye.