Management Insights Day

Company Participants

- Antonio Huertas Mejias, Chairman & Chief Executive Officer
- Eduardo Perez de Lema, Chief Executive Officer
- Felipe Navarro Lopez de Chicheri, Capital Markets and Investor Relations Director
- Fernando Mata Verdejo, Group Chief Financial Officer & Director
- Jose Luis Jimenez Guajardo-Fajardo, Group Chief Investment Officer

Presentation

Felipe Navarro Lopez de Chicheri {BIO 3737558 <GO>}

Good morning, ladies and gentlemen. Thank you everyone for being here with us today. For those who don't know yet, my name is Felipe Navarro, I am the new Head of Capital Markets and Investor Relations among other responsibilities. It's my great pleasure to open the First Edition of the MAPFRE Management Insights Day.

We have decided to organize this event as a complement to the Investors Day we held in 2016, '17 and '19. We'll hear from members of MAPFRE's top management who will briefly go over recent business trends and priorities for this year. Antonio Huertas, our chairman and CEO will go over business lines and provide strategy update after the recent AGM. Eduardo Perez de Lema, the CEO of MAPFRE RE will discuss the reinsurance business. Jose Luis Jimenez, the Chief Investment Officer, will go over our asset management and investment strategy; Fernando Mata, our CFO and Member of the Board will discuss capital management and solvency.

There will be a short Q&A at the end of the reinsurance, investment and capital sessions. And at the end of the event there will be a longer Q&A session to cover all other topics, including solvency. You can start sending your questions as soon as the presentation begins with clicking on send your question button on your screen. Now, to get things officially started, it's my honor to give the floor to Antonio Huertas. Antonio?

Antonio Huertas Mejias {BIO 15896108 <GO>}

Thank you. Thank you, Felipe. Thanks to everyone for being here with us today. Good morning, everybody. During this presentation, I would like to go through the main highlights of 2020 and our priority for the year.

I will focus on the group results as well as our key insurance operations; Iberia, Brazil and USA. Although 2020 was affected by the headwinds from COVID and the related economic crisis, it was a total satisfactory year for MAPFRE. We made progress in the execution of our strategic plan, focusing on transformation and digitalization, while consolidating profitability trends in the insurance units. The largest impact from COVID was on the top line with premiums down 11%, mainly due to currency depreciation.

Constant change rate, they were down around 4% as a result of a competitive environment for Life Savings. COVID-related claims were manageable, offset by lower frequency, mainly in Motor. As you can see, combined ratio performance was outstanding with insurance units below 93%, helped by carrying out a strict containment plan. In addition, we also carried out an extensive balance sheet overview, strengthening our capital and financial position with the Solvency II ratio at nearly 184% at year end. And finally, following recommendations from regulators, we applied a prudent valuation of intangible assets resulting in a goodwill write-off amounting to EUR132 million. Despite the challenging circumstances, the group paid EUR0.135 per share in dividends optimizing shareholder returns.

You are aware Iberia is our largest market with a little under a third of premiums and over 50% of net profit. We continue to make considerable progress in our profitable growth strategy, outperforming the market in key known Life segments as well as Life Protection. The combined ratio finished the year at 92%, driven by lower frequency of Motor with a combined ratio of around 85%. We maintain sick controls to help mitigate the impact of COVID-related expenses, including premium refunds to claims. Excluding these extraordinary effects, the ratio was down on the year.

We are also focused on improving efficiency, and digital transactions have grown over 15%. We have also made progress in advanced analytics for claim, churn and conversion models. We continue with a multi-channel approach. Digital business grew last year with virtual premiums up 6%, and mapfre.com policies up around 10%. Regarding bancassurance, the launch of our Banco Santander operations was exercised, and therefore we also extended the agreement to Portugal this year. Even in a competitive year, we are confident about the potential of these agreements. We have also closed several distribution agreements with Amazon, Correos, Iberdrola, Renault, among others, and this will become a source of the new business.

One of our main priorities last year was our portfolio retention plan to mitigate the effects of the crisis, and consequently the cancellation rate is down 1.5 percentage point on the year. We have also been working on omnichannel cross-selling campaigns as well as value propositions for families and seniors. Our market shares have been relatively stable in the last few years with around 14% in Non-Life and a little over 11% on the total market.

You can see on the right, we have outperformed market growth in homeowners, condominiums and Life Protection, which are all certain segments. Premiums are down in Life Savings, both for MAPFRE and the market as a whole, due to the current interest rate environment. Motor premiums' under performance in the market last year, we were focused on defending our portfolio. We did this by applying discounts on a case-by-case basis on renewal, depending on the risk profile of each policy holder. In addition, we offered less comprehensive coverage for price seekers. As a result of this measures, MAPFRE's average premium fell 2% more than the market in 2020. We are continuing to focus on growing units in order to benefit for future changes in pricing trends.

On the bottom left, you can see that insured vehicles were up by 1.5% during the 2020, reaching 5.8 billion units. MAPFRE insured units grew by over 121,000 vehicles during the second half of 2020, including Santander business. Thus proving that MAPFRE brand attracts and retains policyholders effectively. Even with some Motor premium under performance, we are still the market leader by far, with a market share of 19.6%, over 5 points higher than the next largest player.

That brings me to the next slide. This strong growth trends have been accompanied by excellent technical margins. The Motor combined ratio is down significantly on the year, 4 percentage points below the rest of the market, and profitability trends have also been strong in other retail lines -- another, sorry, retail lines like homeowners and condominiums with between 1 and 2 percentage point reductions on the year, outperforming the rest of the market.

You can see in the chart at the bottom, we normally have 1 percentage point efficiency advantage compared to the rest of the market. This graph closed slightly in 2020 as a result of COVID extraordinary expenses, including premium refunds given to clients as part of our portfolio retention plan, but the ratio is still at excellent levels.

Uncertainty still remains high and both premium growth and frequency trends will depend on mobility and economic recovery. The trends in 2021 are similar to last year. Non-Life premiums growth is relevant in most lines, while the Life Savings environment remains challenging. New vehicles sales will remain at low levels due to the economic situation and the lack of government subsidies.

Our priorities for 2021 are gaining market share across key lines of business defending our portfolio and cost containment. We want to gain market share across key lines of business and we'll be introducing market pricing in all personal lines and extending these to Life Protection business this year. We expect the Non-Life combined ratio to be around 95%, with Motor between 91% and 93% for 2021. We will continue managing the low interest rate environment and have approved a new alternative investment plan to help mitigate the falling rate. Perez de Lema will go over the details in his presentation later on.

Regarding bancassurance, our first priority is to optimize the Bankia exit value while also rebuilding the business lost from this channel and finding ways to enhance our existing agreements. As for digitalization, we will be increasing the collaboration of both Verti and Savia with MAPFRE's sales network, and reaching new agreements with digital partners, while also focusing on data to generate business. We are also expanding our product offering, adopting it to our client's changing needs with a focus on electric personal mobility vehicles as well as the developing on-off Motor products. Finally, we continue with our client segmentation initiative with specific value propositions for different client groups.

Regarding Brazil, 2020 was an excellent year for our business there. Local currency growth trends were strong with premiums up in the bancassurance channel by around 15%, driven by Life Protection and agro, while performing the market.

The MAPFRE channel growth in industrial lines was solid. Motor premiums were around 28% as we continued canceling non-performing broker accounts. Underwriting margins were strong with an online combined ratio at under 88%, down by over 4 percentage points, and the Motor combined ratio was down by 7 percentage points to 100%. The Motor frequency was down due to COVID-related mobility restrictions, but there have also been underline improvements, thanks to the measures implemented over the last two years.

These improvement helped mitigate headwinds from lower financial income and currency depreciation. We continue to make progress in the execution of our strategic initiatives with several improvements in technical and operational management. We successfully implemented the group's detection tool, PLATEA, and we have continued enhancing the entire internal control system. In addition, we are optimizing and converging technological systems. Cost containment and efficiency improvements have been a top priority, helped by the implementation of intelligent automation and the growth of digital transactions.

Regarding client orientation, we are focused on increasing the total number of clients and profitable distributors. AS you can see in the next slide, MAPFRE holds leading positions in many profitable segments in the Brazilian market. On the left you can observe we are the number one player in the agricultural segment, with 58% market share. We are also the leader in Life protection, with over 18% market share. Both segments have strong underwriting margins.

In Motor, we are now the seventh player in the market with a little under 8% of market share, down as a result of our selective underwriting approach. In this segment, as you can see on the right, margins have improved significantly over the last two years, as a result of portfolio cleaning and other initiatives and are now more in

line with the overall market.

2021 will be a transition year in Brazil as economic activity recovers and we will continue consolidating the improvements we have made in technical management. In the MAPFRE channel, our main targets are to recover our competitive leadership position, focusing on Motor, Life and SMEs. In Motor, we will adjust processes and technology, and improve our product offering. In Life we are looking to identify more strategic distribution partners while staying focused on technical excellence. We want to reinforce our presence in SMEs by expanding our offering for emerging risks.

In Brasilseg, we will continue leveraging our alliance with Banco do Brasil, providing competitive advantage and improving service quality, optimizing products that benefit the most from Banco do Brasil's distribution potential and also working to enhance the digital business.

On the technology side, we are migrating to corporate solutions and enhancing data integrity. A new corporate technological platform for Life products has been created with new product launches planned for 2021. We have also introduced a multivariate tariff and a new IT tool for vehicle repair estimates, while working on product simplification.

Regarding efficiency, smart automation and centralized service centers will contribute to cost reduction.

Let's go now with U.S., in the next slide. After several years of restructuring in the United States, we now have a very streamlined geographic presence, focusing on the profitable Northeast region, which now makes up 90% of premiums. In 2020 the attributable result in the US was up nearly 37% with over EUR110 million in the Northeast. The ROE of MAPFRE USA was 8%, excluding VERTI business, up over 1 percentage point on the year.

The combined ratio fell to around 92% in the Northeast region, in part due to lower frequency, mainly in Motor, because of COVID, but also thanks to the streamlining and profitability initiatives. Last year, we exited Arizona and the traditional business in Pennsylvania; and this year we also are going to close VERTI in this state. We also announced our intention to sell the business in Florida, which was delayed after the onset of the pandemic. Right now, we are evaluating different options for exiting this state. Also, we are still managing the run-off of the commercial lines business outside of Massachusetts which impacted our 2020 results, but this should be less of a problem going forward.

A lot of progress has been made on the technical and operational side in the US. We have centralized the contact center, we continue consolidating IT systems, we introduced a new pricing engine, Earnix [ph], and are also finding many different uses for Advanced Analytics, including agency segmentation, policy life expectancy and straight through processing models. We have also reduced our structural costs, mainly our payroll, with a 6% reduction in headcount, in order to adapt our fixed cost to the new geographic footprint. As a reminder, in 2020, we also wrote down our legacy operating platform by EUR32 million which will reduce our depreciation expenses in the future.

Regarding digital business, we focused our new business effort toward higher customer lifetime value, and digital represents now 10% of our new business in Massachusetts. In our main market, Massachusetts, MAPFRE is by far the leader in P&C personal lines. According to the latest available data in Private Passenger Motor, we had a 22% market share at the end of 2019, 8 percentage points more than the next largest player, with over 1 million insured units.

In commercial auto, our market share is over 11 -- 12 percent, sorry, and 13 percent in Homeowners. Regarding profitability, we have improved our combined ratio nearly 4 percentage points in retail Motor from 2017 to 2019, and Homeowners boasts excellent combined ratios.

This year in the US we will be focused on a return to growth and strict cost control. Positive loss ratio trends should continue. Specifically, we want to grow both new businesses as well as improve retention and, therefore, we will enhance the capabilities of our agreement with AAA motor club. We will also continue to boost the digital business, repositioning VERTI, while expanding our digital offer in Massachusetts.

Regarding efficiency and technology, we will continue moving ahead, leveraging a new Guidewire-based platform which will move our expense ratio closer to our key competitors. We will also reorganize claims handling and operations with more focus on efficiency. Finally, we are improving our use of data through new capabilities, including elasticity models, policy life expectancy models, and machine learning bodily injury claims review.

Felipe Navarro Lopez de Chicheri {BIO 3737558 <GO>}

Thank you so much for that very interesting presentation, Antonio. Now --

Antonio Huertas Mejias {BIO 15896108 <GO>}

I haven't finished yet, sorry.

Felipe Navarro Lopez de Chicheri {BIO 3737558 <GO>}

Please.

Antonio Huertas Mejias {BIO 15896108 <GO>}

As our strategic plan moves into its final year, we are happy with the progress made so far. We continue focused on transformation and restructuring and have successfully adapted our business model during this time in order to be able to leverage new opportunities. Our focus on profitable growth has led us not to renew non-performing business, and over EUR1.8 billion in premiums were cancelled from 2016-2020.

We also streamlined our geographic presence and product portfolio. In the United States, we exited five states in 2018 and left commercial lines outside of Massachusetts in 2019. Last year we exited Arizona and the traditional business in Pennsylvania, and are currently analyzing all options for Florida, as I said before. In Brazil we cancelled loss-making portfolios in Motor, mainly in the broker channel. The assistance business continues to undergo a long restructuring process, exiting 13 countries over the last five years. Going forward, our focus will be on countries where we have presence through an insurance subsidiary.

In the fourth quarter of last year we announced the planned exit of Road China and restructuring charges were fully booked in 2020. Furthermore, we are reevaluating the travel assistance business in Europe and Asia. Going forward, our focus will be on countries where we have insurance business. It is also important that we currently do not have appetite for the annuity business in LATAM, so we sold our portfolios in Peru a few years ago and the sale of run off in Chile is still underway.

Finally, we have decided that the dealership channel in VERTI Italy is non-strategic and we have reduced exposure upon renewals. In addition to that, we have also actively reduced our exposure to non-strategic assets.

We sold the nursing home business. We have reorganized our funeral services business in Spain, reducing our stake to a minority interest, and selling non-performing real estate assets worth over EUR100 million.

All these reductions and sales have freed up capital that is being invested in business development with high potential for growth and profitable returns. Last year was the first year of operation of our bancassurance agreement with Banco Santander for Non-Life products, mainly Motor and SMEs. Premiums were around EUR19 million, which was good performance considering it was the first year and it also coincided with the pandemic.

We also extended the scope of the agreement to Portugal and we are confident of the potential that our relationship with Santander has for MAPFRE's business. We have also closed and enhanced other distribution agreements focused on wealth and asset management companies, including Actinver insurance business in Mexico and increasing our stake in Abante this year in Spain. In 2020 we acquired the ARS PALIC health business which is already contributing to the LATAM North region significantly, both in terms of premiums, as well as profit.

All of these opportunities are profitable and have growth potential. In addition, we have continued investing in our alternative asset program in order to mitigate the fall in interest rates. Of the initial 1st wave with a budget of around EUR1 billion, around EUR800 million has already been committed. We have recently approved a second wave for EUR300 million, giving a total of EUR500 million remaining to be committed in 2021. This will be invested mainly in European real estate and infrastructure.

Finally, I would like to comment on the termination of our Bankia bancassurance agreement. This partnership has been extremely profitable for both entities, but it is coming to an end. We are pretty pragmatic and we see the final outcome more as an opportunity than a threat. We have found a business niche with Santander which looks very promising. MAPFRE will be on the lookout for future market opportunities and organic business development in order to increase the business growth and create more value for our shareholders.

We have clear priorities going forward. We expect moderate but profitable growth, with a clear focus on optimizing capital allocation. Capital will be focused on the core markets of Spain, Brazil, the United States and Mexico. Outside of these core markets, we expect lower future capital allocation, with a few exceptions when they involve a strategic channel or business line. We will also continue with derisking of non-strategic assets and operations.

On the product side, our major expertise is in personal lines, and we will continue focusing on this segment. We want to recover and defend our position in Motor across geographies. We also aim to develop the Health and Life Protection business in Latin America, especially in the bancassurance channel.

Regarding channels, we will continue developing our multi-channel approach. Growth in the digital channel will be mainly organic, both through the VERTI brand and mapfre.com.

To boost growth, we will continue working to develop new distribution and bancassurance agreements. In addition to that, we will leverage growth opportunities in reinsurance through MAPFRE RE. Later on, Eduardo Pérez, its CEO, will give more color about our business plan.

Now I'd like to comment briefly on what we have seen so far this year. The trends we are seeing in the first two months of 2021 are similar to the ones we had in the second half of last year. Premiums are down around 5%, around 2% of increase at constant exchange rates, with resilient performance in Non-Life and lower issuance in Life Savings. The combined ratio is well under 95%, down over 5 percentage points, with excellent levels at insurance units.

Finally, the attributable result was EUR99 million, which is an excellent result, and includes the impact of the snowstorms that took place in Spain in January. As we indicated with full year results, we expect a final net impact for this event, between EUR20 million, EUR25 million euros for the Group. So far, we are seeing a solid start to the year.

This year is the last in the current strategic plan. As a reminder, at our last AGM we didn't change our strategic commitments, even though they were formulated a year earlier. The economic and market scenario has changed dramatically during the last couple of years. Interest rates have trended lower in several markets, currencies have depreciated significantly, and the top line has been affected by lower economic activity levels. However, the pandemic has also brought lower claims frequency.

I would like to comment on the most relevant targets that we have established for 2021. We expect to finish this year with a ROE of around 8.5% and a combined ratio around 95%, in absence of large catastrophic events. In the current environment we will grow prudently with 3% of premiums growth. Total revenue should reach similar levels as last year, considering the impact of the Bankia exit. Finally, we expect to finish the year with net income above EUR700 million, excluding extraordinary items.

In conclusion, 2021 will still be a year marked by uncertainty and volatility. Prudent management of our businesses worldwide with moderate growth and a strong focus on improving technical management, will be key to our success. We will also advance with the digital and cultural transformation that is well underway, which is absolutely necessary to prepare the company for the challenges ahead.

We are pretty optimistic that we will reach the targets set for 2021, and that we can reach all of the strategic public targets as they were presented last year, with the exception of those related to revenue. We are progressing very positively in the execution of our strategic plan and will continue working hard to meet our goals.

This is now all from my side. Now I'll hand you over to Felipe, to continue with the presentation.

Felipe Navarro Lopez de Chicheri {BIO 3737558 <GO>}

Thank you very much, Antonia. Sorry for this interruption before. That was really very interesting. And now I think that things are moving to reinsurance. Eduardo, the floor is yours.

Eduardo Perez de Lema {BIO 20385404 <GO>}

Thank you very much, Felipe. Good morning to everyone. As always, it's a great pleasure having the opportunity to give you some insights on the reinsurance business in MAPFRE.

Let me please start with a quick review of the performance in 2020. In terms of premiums, the evolution has been positive given the environment last year, in terms of economic activity and also the impact of currencies in our portfolio. At constant exchange rates, the total premium volume would have grown with a very solid 11.3%. Concerning results, obviously 2020 was a very difficult year for the reinsurance and global risk industry and we were not immune to that. However we showed resilience in a particularly turbulent year. Please turn to the next slide to go into some additional details.

Premium development has been driven by excellent growth in the non-group reinsurance business and in the Global Risks business. In both segments we benefitted from positive pricing momentum, particularly on the Global Risks portfolio, which has led to a better portfolio. Of course, 2020 will be a year to remember in terms of loss activity. In our case of course, we suffered from COVID-related losses. In addition to that, the large loss activity was above budget, affected by a high frequency of medium sized losses, with a particular incidence in the portfolio emanating from MAPFRE.

This of course translated into our results. On the positive side let me highlight the very good result of MAPFRE Global Risks, especially considering a difficult first quarter due to the earthquake in Puerto Rico. Of course the result on the reinsurance business was impacted by the large loss activity mentioned earlier, but also by the reduced investment result which has declined significantly in recent years, both due to lower yields as well as realized gains. From an operational point of view, we also made good progress in fostering one of our key competitive advantage, which is our best in class expense ratio. During the year we made good progress in further optimizing and automating our processes and also improving further our risk management capabilities.

If you please turn to the next slide, we can review the impact of the large losses on our reinsurance portfolio. Of course, COVID-related impact is significantly led year to -- 2020 to be the year with the highest large loss burden in our history. We have separated these claims due to their special nature and because they shouldn't repeat themselves, given the industry-wide clarification of coverage.

Excluding COVID, loss activity has exceeded our budget, particularly affecting the business emanating from MAPFRE, and in territories where market share is very high. Here we should highlight the earthquake in Puerto Rico, the hurricanes ETA and IOTA in Central America or the storm Gloria in Spain. In addition the MAPFRE portfolio suffered above average man-made claims. On the Non-Group business we saw an increased frequency of medium- sized events, being the most significant the blast in Beirut, the Derecho storm in the US. But overall, the large loss activity in the segment can be considered in line with expectations, of course, excluding COVID.

Turning to the next slide, you can see the evolution of the losses related to COVID, as we have been reporting during the year. Of course the impact was significant, but after reviewing information, it's been below the market average. The main reason for that is that the composition of our portfolio is slightly different than many of our competitors as we are not exposed to certain lines that have been very heavily affected, for example, event cancellation.

During the fourth quarter we made a full review of the reserves and decided to take a conservative approach in reserving, in line with many of our clients. As we have been reporting, the vast majority of our exposures comes from the Property BI side. Within that, the impact comes mainly from six jurisdictions and a very few clients. As you may appreciate, we have seen an increase of claims on the Life side, in particular in Latin America. Across the portfolio, there is still significant uncertainty about the final outcome of certain cases and litigation is ongoing, both on the primary insurance level and reinsurance level. This can lead to certain variation of reserves, although we are confident with our current reserving level. We shouldn't see many changes.

Turning to the next slide, we can take a longer view on the performance of MAPFRE RE. In that regard, you can appreciate that while 2020 was a disappointing year, we maintain our long term trend of providing better results than the market in difficult years, while it's likely that in years with low large loss activity our technical performance is slightly less profitable than the market. As previously explained, this is part of our strategy and is the base of our business model.

If we look into our Non-Group Business, this drives the result of the previously highlighted policy; good average performance, with comparatively lower volatility. This is based on a very well diversified portfolio and an extremely efficient structure that allows us to operate at very low expense levels. Of course, due to the special characteristics of the portfolio, there may be circumstances where our portfolio can be affected, but overall you may expect from us below average volatility of results.

Turning to the business coming from MAPFRE, the situation is slightly different. Here, MAPFRE RE is a powerful tool to optimize the Group's retention, which allows MAPFRE to retain additional profits for the Group in most years, but also absorbing a great part of the potential volatility that could affect the insurance portfolio of MAPFRE. 2020 was an obvious example of that. Further, it can be seen that in many years the different footprint of both segments adds diversification to the portfolio. Of course, there may be years where both segments may be affected by large events, but very often the segments offset each other.

If you turn to next slide you can see that over the years, this has led MAPFRE RE to perform well in the market in terms of average combined ratio and standard deviation, situating it at the point where we have been aiming to be. Obviously there are carriers that have achieved better average combined ratios than the ones obtained by MAPFRE

RE, but subject to a much higher volatility. Please turn to next slide to review the solvency situation of MAPFRE RE.

Of course one of the key aspects for us is financial strength. In that regard, over the years MAPFRE RE has been able to finance its growth through retained earnings, at the same time as it has been paying substantial dividends to its shareholders. Furthermore, the restructuring of MAPFRE Global Risks, in addition to its operational advantages, has had a very positive impact in terms of capital optimization, allowing the increase of shareholders' funds of MAPFRE RE, the growth of the Global Risks operations and the reallocation of capital into the reinsurance business. Pending the final reviews, the expected Solvency II Ratio as of the end of 2020 is around 190%, within our optimal range.

Please turn now the next slide to review the outcome of the most recently renewal treaties -- treaty renewals, which it will drive the outlook for the next few years. The last renewal periods have led undoubtedly to improvements across the whole portfolio. It's true that we still think that there is room and need for further improvements in terms of -- in terms and conditions in the following renewal periods, but the trend is positive and spread across the portfolio.

Just as an example, in January our CAT XL portfolio saw risk adjusted price increases of 7.8%. Other improvements have been very frequent. In addition, already since April last year, the whole industry has been working in the clarification and exclusion of pandemic-related coverage. As a consequence, the full portfolio today has a clear definition in that regard. In that environment, we have grown our non-group portfolio by roughly 8% at constant exchange rates during the different renewal periods in the last year, partially shifting our portfolio to the better priced XL business.

On the facultative portfolio, we see very positive momentum, in line with the Global Risk primary portfolio. On the other side we foresee a slowdown on the Life portfolio, mainly driven by some large solvency-related large transactions based on Savings portfolio, which are shrinking in the primary markets due to the crisis. Moving to the next slide, let me give you a quick update on our external reinsurance program.

Concerning the protections of the MAPFRE Insurance Group, the policy presented on the Investors Day in 2019 is unchanged, as well as the structure that has proven its efficiency. The main renewal date for that program is 1st of July. Given the performance and strategic nature of our reinsurance relationships, we don't foresee mayor issues on the renewal. The frequency cover on these portfolios has already been renewed as from January in order to have it aligned with the fiscal year.

In respect of the retrocession program of MAPFRE RE, it has been successfully renewed at year end. Structurally, it has remained largely unchanged, with the exception of a moderate increase of retention on our per event protection. The frequency protection remains unchanged in terms of retentions. Price adjustments have been in line with those obtained in our inwards portfolio, therefore no impacting our margin expectations.

As a summary, I would like to finish with a quick review of our outlook and priorities for 2021. First of all, MAPFRE RE should return to profitability and resume dividend payments in the absence of the high frequency of large losses that we experienced over the last few years. MAPFRE RE will continue playing a key strategic role for the Group, through the non -- both the non-group business and MAPFRE business. Finally, no relevant changes are expected in our risk profile or footprint, and reinsurance protections should remain unchanged.

Regarding our priorities for this year, the most obvious one is continuing our efforts to improve the margins of our portfolio, following a long period of softening markets, but also the continuous decline of investment income. As we mentioned during last year, we made a complete review of our portfolio in 2020 that showed that the quality of the portfolio is good, of course knowing that there are always parts of it that will require more action.

So far the last renewals have been encouraging, showing that this is a wider market issue that has to be addressed across the industry. Of course, we keep the ambition to continue growing steadily the portfolio, if we are able to obtain risk adequate margins. Further, we will continue working on keeping our cost advantage with peers, by continuing with the execution of our projects related to process optimization and automation.

I hope in the last few minutes I could give you a flavour of the situation of MAPFRE RE. We have suffered a couple of tough years, in line with the industry, but we are absolutely convinced about the quality of our portfolio and the ability of delivering sustainable results.

Thank you very much for your attention and I look forward for your questions now.

Felipe Navarro Lopez de Chicheri {BIO 3737558 <GO>}

I would like now to give the floor to Jose Luis Jimenez for discussing the group investments and asset management. Jose Luis?

Jose Luis Jimenez Guajardo-Fajardo

Thank you, Felipe. Good morning, everyone. During the coming minutes I would like to share with you an overview about the economic outlook and an update of our investment portfolio. I will conclude with a few takeaways.

As John K. Galbraith once said, there are two kinds of forecasters; those who don't know, and those who don't know they don't know. As I do not pretend to be in any of these two groups, I just want to show what's the average forecast for GDP growth according to Bloomberg. It looks like we will face a decent level of growth in most of the countries where we carry out our activities.

The expected trend in interest rates is upward as the 2 and 10 years bond yields show, according to consensus forecast as well. The improvement in terms of GDP growth is due to monetary and fiscal policies although this could bring some inflation pressures.

On this slide, we would like to share with you an update of our balance sheet and third-party assets that we manage at MAPFRE. Of EUR55.2 billion taking into account both components, EUR44.9 billion are balance sheet assets. It is worth remembering that assets related to our JV Bankia MAPFRE Vida are excluded from this picture and most of the real estate properties are denominated at net book value.

On the right hand side, you will find the breakdown of the balance sheet. Financial investments, which total EUR36.5 billion include fixed income, equity, mutual funds and derivatives, mainly swaps that are included in other investments. Regarding accounting method, the vast majority of financial investments, over 82%, is available for sale, 13% is trading portfolio and the rest is held to maturity.

In terms of asset allocation 86% is fixed income and more than 7% are stocks. We manage a very conservative and prudent portfolio with more than 87% of fixed income securities with an investment grade rating. Almost 75% is allocated to sovereign bonds of which nearly EUR13 billion in Spanish bonds and EUR2.4 billion in Italian bonds.

Our equity allocation is almost 99% invested in European and US listed companies. Real estate assets include more than EUR1 billion for own use and EUR1.3 billion for third parties. It is accounted at net book value with above EUR870 million in unrealized capital gains. Unit Linked portfolio is 50% invested in equity and 50% in fixed income, approximately. Regarding other investments. It is mainly swaps, deposits established for accepted reinsurance and investments with equity method accounting. Swaps are covering positions in cash flow matching portfolios.

As we have always indicated, MAPFRE's investment portfolio is very conservative. In the Life business, all of our monetized and conditioned portfolios have longer duration and higher yield than our liabilities. Assets and liabilities are in the same currency in all the countries where we sell Life Savings policies. Most of the business is located in Spain, followed by Malta with a profit sharing product, Colombia and Mexico.

From the EUR36.5 billion at the end of December last year, 60% is allocated to Life provisions and the rest to non-life reserves. The Non-Life portfolio has slightly more equity exposure. In the different tables we describe the type of portfolio management applied to different portfolios. We would like to highlight that these charts reflect an internal management policy more conservative and prudent than the legal and regulatory requirements.

When we refer to immunized portfolios, these are completely matched according to cash flow or duration techniques. In this case unrealized gains belong mainly to policyholders. Also, for Conditioned Actively Managed Portfolios, a big part of these unrealized capital gains are attributed to policyholders, since these portfolios are with profits kind of or seeking for a specific return to be achieved. Life portfolio in the International area is mainly allocated in Malta where with profits is the most common product in the marketplace.

All the unrealized gains of Freely Actively Managed portfolios belong to shareholders. Regarding the Non-Life portfolio, on the right hand side, most of the investments are freely actively managed. The EUR1.9 billion immunized and conditioned portfolios in Non-Life segment are related to Burial business.

Since last March we have further derisked our exposure to companies and sectors that could be more affected by COVID-19, especially on the fixed income side. It is worth remembering that we have a significant lower exposure to corporate bonds compared to our peers. Our minimum rating for this asset class is investment grade according to the Group's Investment Policy. We are over-weighted in Sovereign bonds especially in Spain and Italy. All of the assets are in the same currency as the liabilities, but just in a few countries where we deal with more FX volatility we hold bonds and bank deposits in hard currencies; for instance in Argentina, Turkey and Venezuela.

In the equity side, we are confident with our exposure in our active managed portfolios, with a strong value approach. Most of our exposure, around 99% is invested in European and US companies. We managed to end last year despite the huge market volatility, with no impairments and with capital gains in this asset class. We expect to increase this buffer for 2021. Our top 10 holdings in listed equity amount to 30% of our total equity exposure.

On the other hand, accounting yield is holding up pretty well above market yield. Fixed income portfolios are quite stable. In Non-Life, a reduction of 30 basis points per annum in the book yield would be a central scenario if we do not take any action. In Life, we are very comfortable due to the size of immunized and conditional portfolios. There is no mismatch or potential risk here. On the other hand, thanks to the excellent level of rates when these policies where sold there is a extremely low cancellation rate.

US and Brazilian fixed incomes portfolios have also performed extremely well. In US, protecting the book yield; and in Brazil, by increasing more than 40 basis points During the last six months. We are expecting a tightening interest rate cycle in Brazil this year and a more stronger real.

MAPFRE became a signatory of the Principles of Responsible Investments of the United Nations in 2017 and since the following year we have started to measure the quality of our portfolio as an asset owner. We achieved an A rating since the beginning and we have a significant -- we have significantly improved in terms of ESG quality.

In 2020, more than 85% of the portfolio has scored high and very high, only 0.7% low and 1.22% medium. We are following integration of ESG as part of our investment process and we aim to cooperate with those companies showing lower ratings. Among the securities with no rating, these are mainly mutual funds which are pending of Sustainable Finance Disclosure Regulation, which has been launched last week.

On this slide, we would like to share our contribution to the SDG in the different asset classes of our portfolio as well as how we have done last year compared to 2019, the first year we made this information public. The colored SDGs refer to those MAPFRE has selected as priorities for us. The index ranges from 0 to 100. 0 indicates that the company's activity contributes nothing to the SDG, that none of the company's material sustainability parameters contribute to that Social Development Goal. Therefore its activity is unrelated to it. And 100%, that all of the company's activity is contributing to the Social Development Goal. For example, all of that company's material parameters contribute positively to the SDG.

Regarding the investment strategy, we will keep our book yield as high as possible without increasing the risk profile of the portfolio. We could even decrease our corporate credit exposure if spreads widen. In our equity allocation we favour a long term approach. We do not expect capital gains unless our Investment Committee agrees on switching sector or companies depending on the market circumstances.

It is important to note we still have a lot of leeway in terms of portfolio diversification. According to the chart on the right hand side, we hold less than a third of our peers in alternative. For this reason, we are setting up alternative funds in real estate, in private equity, in private debt and renewable energy, with world-class partners and with a co-investment philosophy. And last but not least, we will continue working with an integrated approach to ESG factors in our investment process.

In conclusion, looking forward we expect some tailwinds coming from the macro picture; GDP growth, interest rates and FX. But as the old saying makes clear; We hope for the best but we plan for the worst. Our investment portfolio is very conservative. Since last March, we have further derisked corporate credit. On the Life business, the focus is in developing innovative unit linked solutions and mutual funds. Protecting the book yield, the accumulation of capital gains in equities and increasing balance sheet diversification in the alternative space are our main lines of action.

The ESG quality of our investment portfolio has increased significantly since 2018, more than 86% of the assets with ratings have scored High or very high. For a second year in a row we are measuring our SDG impact which is running in the right direction with an improvement in 49% of the goals compared to the previous year.

Thank you very much.

Felipe Navarro Lopez de Chicheri {BIO 3737558 <GO>}

Now we'll go for the final presentation, that will be from Fernando Mata. He will go over the capital markets and solvency. Fernando?

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you Felipe and good morning everyone. My presentation will cover the main topics regarding capital and solvency.

On the left you can see the breakdown of our capital structure, which amounted to almost EUR13 billion at the close of 2020, 67% of which corresponds to equity. Slight drop from 2019 figures mainly corresponds to currency movements, compensated by higher net unrealized gains of the available-for-sale portfolio, which was referred to by Jose Luis during the previous presentation. These gains recovered after the fall in markets during the first quarter.

Non-controlling interests have remained fairly stable, with a small net increase due to bancassurance agreements. The increase in debt from 2018 is due to bank debt, which was used to finance bancassurance agreements in Spain, Bankia network expansion and new agreements with Santander. And also the acquisition of a health subsidiary in the Dominican Republic. Regarding the already mentioned Bankia bancassurance termination, I would like to say that non-controlling interests includes EUR237 million, equivalent to Bankia's shareholding in our subsidiary. In addition, debt included 161 million euros in loans, financing recent Bankia-related acquisitions.

On the right side you can see the breakdown of the different components of shareholders' equity. In 2020, shareholders equity fell by under 4% to around EUR8.5 billion, because of currency conversion differences, where emerging market currencies were affected by the coronavirus crisis. Despite this complicated scenario and the volatility throughout the year, we have managed to maintain an adequate equity base, and a solid foundation of our rating and solvency levels.

At the bottom right you see how unrealized gains and losses fluctuate from year to year, reflecting swings in markets. In the long run, we can see that both effects have tended to compensate each other over time. In order to keep our capital base stable, retained earnings are needed to offset net variations in the equity position and also to finance growth. 2021 should be a year of accumulation in unrealized gains in equities to protect our capital base in a scenario of rising interest rates.

This slide provides information regarding the main currencies that affect our equity base. Historically, the US dollar has played an important role as a natural hedge on our balance sheet, evidencing the benefits of our diversification policy. However, last year it depreciated against the euro, 8.2%. 2020 was also impacted by the significant depreciation of the Brazilian real, the Turkish lira and the Mexican peso. You also have on this slide the equity sensitivity analysis, with the US dollar again being the most relevant.

However, year to date, the US dollar is performing well, with an appreciation of 2.2%, offsetting the impact of the Brazilian real, down 4.5%. The Turkish lira is also on the right path, appreciating 0.4% against the euro in these first months of the year. I can conclude that movements so far this year could have had fairly neutral impact given sensitivities.

The far right column shows MAPFRE Economics estimates for these currencies for 2021. The outlook seems more stable than in 2020, an extraordinary year in every sense, so the potential impact of currencies to our equity base should be manageable. Regarding hedging policies, as a general rule, MAPFRE does not hedge for investments in emerging countries on our balance sheet, due to the intrinsic cost, however hedging instruments are commonly used for inflows for dividends from Brazil and USA.

On the left, you can see the breakdown of our outstanding debt instruments. Our credit metrics remain quite strong, with leverage around 23%, and pretty stable through the cycle. Total financial debt stood at under EUR3 billion at December 2020, in line with the previous year. The current average cost of the holding company debt, on the right, is around 2.5%. You also have the breakdown of our financial expenses below.

We also have significant debt capacity in both Tier 1 and Tier 2, considering Solvency II limits. We would like to highlight again that we would only add on new debt for acquisition purposes, if needed, and so far we are not planning any new issuance.

As we mentioned, bank debt includes EUR110 million and EUR51 million in bank loans maturing in 2026 and 2024, respectively, used to finance acquisitions from Bankia, Caja Granada and CajaMurcia, which merged with Bankia MAPFRE Vida in 2020. We are analyzing the possibility of cancelling these loans in 2021, in the current MAPFRE-Bankia framework.

Now let's move to Solvency II. First of all, I would like to remind you that the current framework approved by the Board since the inception of Solvency II, remains unchanged at 200%, plus or minus 25%. The figures confirm MAPFRE's strong capital position and low volatility. 2020 year-end figures are provisional because we have reported them to the Spanish Supervisor only for European Financial Stability purposes.

The Solvency ratio stands at 184%, 170% fully loaded. Final figures will be reported to the Supervisor in May, and an update of 2020 Solvency II figures and the related sensitivity analysis will be, as usual, presented in the 1st quarter 2021, that we will present next month.

Solvency II ratio fluctuates in the 180%-190% range. In the first quarter of 2020, and due to the COVID-19 crisis, the insurance industry had its most severe stress test since Solvency II implementation. As a result, due to a prudent approach in underwriting and asset risks, MAPFRE only reported a 10 percentage point drop in the Solvency II ratio. On the right, there is a full disclosure of the different components of basic SCR, which has been quite stable. Finally, bear in mind that the phase out of transitionals is lowering the ratio by around 1.4 percentage points per year.

On this slide, we disclose the Solvency II ratio from the most relevant units. MAPFRE VIDA is outstanding at 483%, the highest Solvency II ratio in Spain among the largest entities. This figure corresponds to individual basis calculations, and the increase starting in 2019 is due to the implementation of the internal model for longevity.

MAPFRE policy regarding capital buffers is quite defensive, allocating cushions to operating units in strong currencies, particularly units in Spain, MAPFRE RE and USA, which generally have ratios above 200%. Brazil and Mexico also have strong local solvency equivalent ratios, of 174% and 150%, respectively. Regarding fluctuations in 2020, the increase in Brazil is due to lower risk exposure while maintaining equity levels, and the drop in MAPFRE RE in 2020 is due to lower earnings generation.

Now let's talk about the outlook for solvency. On the left you can see the provisional Solvency II figures for 2020 year end at 133 -- 183.5%. We expect approval of the longevity internal model in time to apply it to this calculation. Considering this, as well as further fine-tuning of the provisional figure, we expect the final ratio to be above 190%. The process for diversification benefits of the matching adjustment, which we have mentioned in the past, will take longer and the impact will be reduced as a result of the Bankia exit.

Concerning the Bankia exit, it would entail a 5 percentage point additional uplift, assuming no change in eligible own funds. All in all, we would be around our comfort range middle-point. On the right, you can see the International Capital Standard or ICS disclosure. This is the first time we are providing this information. Bear in mind that both data, the ICS and the Solvency II ratio, are 2019 figures for comparability purposes. Both models

use the same standard formula structure, though they apply different capital charges and credit for diversification. ICS represents a better picture of MAPFRE's solvency position, with a ratio well above our midpoint of 200%

Now, let's talk about cash flow upstreaming in MAPFRE Group. Our policy governing dividends is based on; first, dividends from Operating Units should be sufficient to cover MAPFRE SA's dividends to shareholders, holding expenses and other payments, interest expenses basically cancellation of inter-company balances from previous transactions and reorganizations. Second, operating units should finance their organic growth with earnings retention.

Cash inflow upstreamed from subsidiaries in 2020 was around EUR540 million. As you can see, there is a proper diversification of dividend contribution from different regions and units, with Spain being the most important. I would also like to point out the important contribution of dividends from the US and Brazil, as well as the rest of LATAM, even in a complex context with so much currency volatility. Going forward, our intention is that the group lowers its dependence on upstreaming from Spanish entities, as other units such as Brazil and LATAM gain importance on the total share.

Also, MAPFRE RE has not paid any dividend due to a complicated year in 2020. Going forward, we expect this unit to recover its sustainable dividend payment record. I would also like to comment on the high US average payout figure, which amounts to 133%. In 2018, we decided to upstream excess cash. The normalized payout ratio for the entity should be in the range of 50% to 70%. Regarding outflow, EUR416 million were used to pay 2020 calendar year dividends, and around EUR120 million, EUR130 million on average are allocated to cover overhead payments and interest expense.

This slide shows our dividend history over the last 10 years, both dividends paid against results and during the calendar year, as well as the trend in the price to book value and payout ratios. The Board decided to lower the 2020 dividend in order to find a balance between our commitment with shareholders, the current COVID and regulatory context, and our capital and solvency position. This is not the first time we had to lower our distribution of dividends after applying our prudent approach. We did it in 2012 in the context of the financial crisis.

However, what is relevant here was our commitment to recover the sustainable dividend path. We did it in the past, as you can see in this slide, and we are committed to do it again. As we have mentioned before, Bankia proceeds will help us achieve it. Remember the dividend policy in the long-run is 45% to 65% payout. Short-run guidance was set at the AGM at a minimum of 50%, and has been at these levels since 2012. As we have always emphasized, the main driver for the dividend is net income.

I would like to leave you with a few key takeaways. We expect shareholders' equity to move in a range of EUR8 billion to EUR 9 billion, closing at similar figures as in 2020. We expect no relevant changes in the unrealized gains on the available-for-sale portfolio, as higher gains from equities should offset reductions in fixed income gains caused by any potential increase in yields. Currency conversion differences are expected to be less of a drag than in previous years, based on a slight appreciation of the US dollar and minor depreciation from emerging markets currencies.

Furthermore, the goodwill and other intangibles clean-up we have carried out over the last years removed uncertainty from our balance sheet. Regarding the Solvency II ratio, we expect the longevity risk internal model to be fully implemented. Regarding leverage, our financial needs are fully covered. All in all, I want to reaffirm our stable dividend policy based on net income and a 50% minimum payout, which remains unchanged.

Thanks. That's all from me. Thank you, Felipe. And I think we can take a couple of questions.

Felipe Navarro Lopez de Chicheri {BIO 3737558 <GO>}

Now, I will hand the floor to Antonio, who is going to give closing remarks. Thank you, Antonio.

Antonio Huertas Mejias {BIO 15896108 <GO>}

Thank you, Felipe. Again, thank you all. In summary, I would like to point out that 2020 was marked by the development of the pandemic, with lockdowns and restrictions to mobility throughout the world, which conditioned revenues from the reduction of economic activity and lower interest rates. The extraordinary cost reduction effort implemented throughout the year to reduce the impact of business decline was highly noteworthy. All of this led us to present excellent results in practically all countries, highlighting once again Spain for its important contribution to the profits of the Group as a whole, besides Brazil and the United States, and superb results throughout Latin America and Europe.

In addition, we have been able to comply very satisfactorily with the objective of paying a magnificent dividend to shareholders, despite the market and supervisory circumstances, while maintaining a high level of solvency with adequate control of liquidity in all of our operations. I believe that we have a healthier balance sheet, an excellent solvency position, better performing technical foundations and operational transformation underway, all of which should enable us to grow steadily and profitably in the coming years.

In addition, the initiatives in our Strategic Plan, defined for the triennium 2019 2021, have progressed well. We consider that with the 2021 objectives we have just presented we can reach all of our public ambitions, with the exception of that related to revenues. And we have already started to draw up a new strategic approach for upcoming years which will be released at the next AGM in 2022.

Thank you for being been here with us. Good morning. Thank you for your time today, and take care. Thank you very much.

Questions And Answers

A - Felipe Navarro Lopez de Chicheri {BIO 3737558 <GO>}

(Question And Answer)

I would like now to give the floor to Jose Jimenez for discussing the group investments and asset management. Jose Luis?

A - Jose Luis Jimenez Guajardo-Fajardo

Thank you, Felipe. Good morning, everyone. During the coming minutes I would like to share with you an overview about economic outlook and an update of our investment portfolio, I will conclude with a few takeaways.

As John K. Galbraith once said, there are two kind of forecasters; those who don't know and those who don't know they don't know. As I do not pretend to be in any of these two groups, I just want to show what the average forecast for GDP growth according to Bloomberg. But it looks like is that we will face a definite level of growth in most of the countries where we carry out our activities.

The expected trend in interest rates is upwards to I think both in the 2 and 10 years bond yields, according to consensus forecast as well. The improvement in terms of GDP growth is due to monetary and fiscal policies, although these could bring some inflation pressures.

On this slide, we would like to share with you an update of our balance sheet and third-party assets that we manage at MAPFRE. Of EUR55.2 billion taking into account both components, EUR44.9 billion are balance sheet assets. It is worth remembering that assets related to our JV Bankia MAPFRE Vida are excluded from this picture and most of the real estate properties are denominated at net book value. On the right hand side, you will find the breakdown of the balance sheet. Financial investments, which total EUR36.5 billion include fixed income, equity, mutual funds and derivatives, mainly swaps that are included in other investment.

Regarding accounting method, the vast majority of financial investment over 82% is available for sale, 13% is trading portfolio and the rest is held to maturity. In terms of asset allocation 86% is fixed income and more than 7% are stocks. We manage a very conservative and prudent portfolio with more than 87% of fixed income securities with an investment grade rating. Almost 75% is allocated to sovereign bonds of which nearly EUR13 billion in Spanish bonds and EUR2.4 billion in Italian bonds.

Our equity allocation is almost 99% invested in European and U.S. listed companies. Real estate assets include more than EUR1 billion for own use and EUR1.3 billion for third parties. It is accounted at net book value with above EUR870 million in unrealized capital gains. Unit linked portfolio is 50% invested in equity and 50% in fixed income, approximately.

Regarding other investment it is mainly swaps, deposits established for accepted reinsurance and investments with equity method accounting. Swaps are covering positions in cash flow matching portfolios.

As we have always indicated, MAPFRE's investment portfolio is very conservative. In the Life business all our immunized and conditioned portfolios have longer duration and higher yield than our liabilities. Assets and liabilities are in the same currency in all the countries where we sell life saving policies. Most of the business is located in Spain, followed by Malta with a profit sharing product, Colombia and Mexico.

From the EUR36.5 billion at the end of December last year, 60% is allocated to life provisions and the rest to non-life reserves. The non-life portfolio has slightly more equity exposure. In the different tables we describe the type of portfolio management applied to different portfolios. We would like to highlight that these charts reflect an internal management policy more conservative and prudent than the legal and regulatory requirements.

When we refer to immunized portfolios, these are completely matched according to cash flow or duration techniques. In this case, unrealized gains belong mainly to policyholders. Also for conditioned actively managed portfolios, a big part of these unrealized capital gains are attributed to policyholders, since these portfolios are with profit kind of or seeking for a specific return to be achieved.

Life portfolio in the international area is mainly allocated in Malta where with profits for those is the most common product in the marketplace. All the unrealized gains of freely actively managed portfolios belong to shareholders. Regarding non-life portfolio, on the right hand side, most of the investments are freely actively managed. The EUR1.9 billion immunized and conditioned portfolios in non-life segment are related to Burial business.

Since last March we have further derisked our exposure to companies and sectors that could be more affected by COVID-19, especially in the fixed income side. It is worth remembering that we have a significant lower exposure to corporate bonds compared to our peers. Our minimum rating for this asset class is investment grade according to group investment policy. We are over-weighted in Sovereign bonds especially in Spain and Italy.

All assets are in the same currency as the liabilities, but just in a few countries where we deal with more FX volatility we hold bonds and bank deposits in hard currency for instance in Argentina, in Turkey and Venezuela.

In the equity side, we are confident with our exposure in our active managed portfolios, with a strong value approach. Most of our exposure around 99% is invested in European and U.S. companies. We managed to end last year, despite the huge market volatility with no impairments and with capital gains in this asset class. We expect to increase this buffer for 2021. Our top 10 holdings in listed equity amount to 30% of our total equity exposure.

On the other hand, accounting yield is holding up pretty well above market yield. Fixed income portfolios are quite stable. In non-life, a reduction of 30 basis points per annum in the book yield will be a central scenario if we do not take any action. In life, we are very comfortable due to the size of immunized and conditional portfolios. There is no mismatch or potential risk here. On the other hand, thanks to the excellent level of rates when these policies where sold there is a extremely low cancellation rate. U.S. and Brazilian fixed incomes portfolios has also performed extremely well. In U.S. protecting the book yield and in Brazil by increasing more than 30 basis points during the last six months. We are expecting a tightening interest rate cycle in Brazil this year and a more stronger real.

MAPFRE became a signatory of the Principles of Responsible Investments of the United Nations in 2017 and since the following year, we have started to measure the quality of our portfolio as an asset owner. We achieved an A rating since the beginning and we have significantly improved in terms of ESG quality. In 2020, more than 85% of the portfolio has scored high or very high. Only 0.7% low and 1.22% medium.

We are following integration of ESG as part of our investment process and we aim to cooperate with those companies showing lower ratings. Among the securities with no rating these are mainly mutual funds which are pending of Sustainable Finance Disclosure Regulation, which has been launched last week.

On this slide, we would like to share our contribution to the SDG in the different asset classes of our portfolio as well as how we have done last year compared to 2019, the first year we made this information public. The colored SDG refers to those MAPFRE has selected as priorities for us. The index range from 0 to 100, zero indicates that the company activity contributes nothing to the SDG that none of the company's material sustainability parameters contribute to that social development goal, therefore its activity is unrelated to it and 100% that's all of the company activity is contributing to the social development goal, for example, that all of that company material parameters contribute positively to the SDG.

Regarding investment strategy, we will keep our book yield as high as possible without increasing the risk profile of the portfolio. We could even decrease our corporate credit exposure if spreads widen. In our equity allocation we favor a long-term approach. We do not expect capital gains unless our investment committee agrees on switching sector or companies depending on the market circumstances.

It is important to note that we still have a lot of leeway in terms of portfolio diversification. According to the chart on the right hand side, we hold less than 1/3 of our peers in alternative. For this reason we are setting up alternative funds in real estate, in private equity, in private debt and renewable energy with world-class partners and with a co-investment philosophy. And last but not least, we will continue working with an integrated approach to ESG factors in our investment process.

In conclusion, looking forward, we expect some tailwinds coming from the macro picture, GDP growth, interest rates and FX. But as the old saying makes clear, we hope for the best, but we plan for the worst. Our investment portfolio is very conservative. Since last March, we have further de-risked corporate credit. On the life business, the focus is in developing innovative unit linked solutions and mutual funds. Protecting the book yield, the accumulation of capital gains in equities and increasing balance sheet diversification in alternative space are our main lines of action.

The ESG quality of our investment portfolio has increased significantly since 2018, more than 86% of our assets with ratings have scored high or very high. For a second year in a row, we are measuring our SDG impact which is running in the right direction with an improvement in 49% of the goals compared to the previous year. Thank you very much.

A - Felipe Navarro Lopez de Chicheri {BIO 3737558 <GO>}

Now we go for the final presentation, that will be from Fernando Mata, that will go over the capital markets and solvency. Fernando?

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

Thank you, Felipe, and good morning, everyone. My presentation will cover the main topics regarding capital and solvency. On the left you can see the breakdown of our capital structure, which amounted to almost EUR13 billion at the close of 2020, 67% of which corresponds to equity. The slight drop from 2019 figures mainly corresponds to currency movements, compensated by higher net unrealized gains of the available for sale portfolio, which was referred to by Jose Luis during the previous presentation.

These gains recovered after the fall in markets during the first quarter. Noncontrolling interests have remained fairly stable, with a small net increase due to bancassurance agreements. The increase in debt from 2018 is due to bank debt, which was used to finance bancassurance agreements in Spain, Bankia network expansion and new agreements with Santander and also the acquisition of a health subsidiary in the Dominican Republic.

Regarding the already mentioned Bankia bancassurance termination, I would like to say that noncontrolling interests includes EUR237 million, equivalent to Bankia's shareholding in our subsidiary. In addition, debt included EUR161 million in loans, financing recent Bankia -related acquisitions.

On the right side you can see the breakdown of the different components of shareholders' equity. In 2020, shareholders equity fell by under 4% due to around EUR8.5

billion, because of currency conversion differences, where emerging market currencies were affected by the coronavirus crisis. Despite this complicated scenario and the volatility throughout the year, we have managed to maintain an adequate equity base and a solid foundation of our rating and solvency levels.

At the bottom right, you see how unrealized gains and losses fluctuate from year-to-year, reflecting swings in markets. In the long run, we can see that both effects have tended to compensate each other over time. In order to keep our capital base stable, retained earnings are needed to offset net variations in the equity position and also to finance growth.

2021 should be a year of accumulation in unrealized gains in equities to protect our capital base in a scenario of rising interest rates.

This slide provides information regarding the main currencies that affect our equity base. Historically, the U.S. dollar has played an important role as a natural hedge on our balance sheet, evidencing the benefits of our diversification policy. However, last year it depreciated against the euro 8.2%. 2020 was also impacted by the significant depreciation of the Brazilian real, the Turkish lira and the Mexican peso.

You also have on this slide the equity sensitivity analysis, with the U.S. dollar again being the most relevant. However, year-to-date, the U.S. dollar is performing well with an appreciation of 2.2%, offsetting the impact of the Brazilian real, down 4.5%. The Turkish lira is also on the right path, appreciating 0.4% against the euro in these first months of the year.

I can conclude that movement so far this year could have had fairly neutral impact given sensitivities. The far right column shows MAPFRE economics estimates for these currencies for 2021. The outlook seems more stable than in 2020, an extraordinary year in every sense, so the potential impact of currencies to our equity base should be manageable.

Regarding hedging policies, as a general rule, MAPFRE does not hedge for investments in emerging countries on our balance sheet, due to the intrinsic cost, however hedging instruments are commonly used for inflows for dividends from Brazil and USA.

On the left, you can see the breakdown of our outstanding debt instruments. Our credit metrics remain quite strong with leverage around 23% and pretty stable through the cycle. Total financial debt stood at under EUR3 billion at December 2020, in line with the previous year. The current average cost of the holding company debt, on the right, is around 2.5%. You also have the breakdown of our financial expenses below.

We also have significant debt capacity in both Tier 1 and Tier 2, considering Solvency II limits. We would like to highlight again that we would only add on new debt for acquisition purposes if needed, and so far we are not planning any new issuance.

As we mentioned, bank debt includes EUR110 million and EUR51 million in bank loans maturing in 2026 and 2024, respectively, used to finance acquisitions from Bankia, Caja Granada and Cajamurcia, which merged with Bankia MAPFRE Vida in 2020. We are analyzing the possibility of cancelling these loans in 2021, in the current MAPFRE-Bankia framework.

Now let's move to Solvency II. First of all, I would like to remind you that the current framework approved by the Board since the inception of Solvency II, remains unchanged at 200%, plus or minus 25%. The figures confirm MAPFRE's strong capital position and low volatility. 2020 year-end figures are provisional because we have reported them to the Spanish Supervisor only for European financial stability purposes. The Solvency ratio stands at 184%, 170% fully loaded.

Final figures will be reported to the Supervisor in May, and an update of 2020 Solvency II figures and the related sensitivity analysis will be, as usual, presented in the first quarter 2021, that we will present next month. Solvency II ratio fluctuates in the 180%, 190% range. And in the first quarter of 2020, due to the COVID-19 crisis, the insurance industry had its most severe stress test since Solvency II implementation. As a result, due to a prudent approach in underwriting and asset risks, MAPFRE only reported a 10 percentage point drop in the Solvency II ratio.

On the right, there is a full disclosure of the different components of basic SCR, which has been quite stable. Finally, bear in mind that the phase out of our transitionals is lowering the ratio by around 1.4 percentage points per year.

On this slide, we disclose the Solvency II ratio from most relevant units. MAPFRE VIDA is outstanding at 483%, the highest Solvency ratio in Spain among the largest entities. This figure corresponds to individual basis calculations and the increase starting in 2019 is due to the implementation of the internal model for longevity.

MAPFRE policy regarding capital buffers is quite defensive, allocating cushions to operating units in strong currencies, particularly units in Spain, MAPFRE RE and USA, which generally have ratios above 200%. Brazil and Mexico also have strong local Solvency equivalent ratios of 174% and 150%, respectively.

Regarding fluctuations in 2020, the increase in Brazil is due to lower risk exposure while maintaining equity levels and the drop in MAPFRE RE in 2020 is due to lower earnings generation.

Now let's talk about the outlook for the solvency. On the left you can see the provisional Solvency II figures for 2020 year-end, at 183.5%. We expect approval of the longevity internal model in time to apply it to this calculation and considering this, as well as further fine-tuning of the provisional figure, we expect the final ratio to be above 190%. The process for diversification benefits of the matching adjustment, which we have mentioned in the past will take longer and the impact will be reduced as well as a result of the Bankia exit.

Concerning this Bankia exit, it would entail a 5 percentage point additional uplift, assuming no change in eligible own funds. All in all, we will be around our comfort range middle-point.

On the right, you can see the International Capital Standard or ICS disclosure. This is the first time we are providing this information. Bear in mind that both data, the ICS and the Solvency II ratio, are 2019 figures for comparability purposes. Both models use the same standard formula structure, though they apply different capital charges and credit for diversification. ICS represents a better picture of MAPFRE's solvency position with a ratio well above our midpoint of 200%.

Now let's talk about cash flow upstreaming in MAPFRE Group. Our policy governing dividends is based on first, dividends from operating units should be sufficient to cover, MAPFRE SA dividends to shareholders, holding expenses and other payments, interest expenses basically and cancellation of intercompany balances from previous transactions and reorganizations

Second, operating unit should finance their organic growth with earnings retentions. Cash inflow upstream from subsidiaries in 2020 was around EUR540 million. And as you can see, there is a proper diversification of dividend contribution from different regions and units, with Spain being the most important.

I would also like to point out the important contribution of dividends from the U.S. and Brazil, as well as the rest of LATAM, even in a complex context with so much currency volatility.

Going forward, our intention is that the group lowers its dependence on upstreaming from Spanish entities, as other units such as Brazil and LATAM gain importance on the total share. Also MAPFRE RE has not paid any dividend due to a complicated year in 2020, and going forward, we expect this unit to recover its sustainable dividend payment record.

I would also like to comment on the high U.S. average payout figure, which amounts to 133%. In 2018, we decided to upstream excess cash. The normalized payout ratio for the entity should be in the range of 50% to 70%. Regarding outflow, EUR416 million were used to pay 2020 calendar year dividends and around EUR120 million, EUR130 million on average are allocated to cover overhead payments and interest expense.

This slide shows our dividend history over the last 10 years, both dividends paid against results and during the calendar year, as well as the trend in the price to book value and payout ratios. The Board decided to lower the 2020 dividend in order to find a balance between our commitment with shareholders, the current COVID and regulatory context and our capital and solvency position. This is not the first time we had to lower our distribution of dividends after applying our prudent approach. We did it in 2012 in the context of the financial crisis.

However, what is relevant here was our commitment to recover the sustainable dividend path. We did it in the past, as you can see in this slide, and we are committed to do it again. As we have mentioned before, Bankia proceeds will help us achieve it. Remember the dividend policy in the long-run is 45% to 65% payout. Short-run guidance was set at the AGM at a minimum of 50%, and has been at these levels since 2012. As we have always emphasized, the main driver for the dividend is net income.

I would like to leave you with a few key takeaways. We expect shareholders' equity to move in a range of EUR8 billion to EUR9 billion, closing at similar figures as in 2020. We expect no relevant changes in the unrealized gains on the available for sale portfolio, as higher gains from equities should offset reductions in fixed income gains caused by any potential increase in yields.

Currency conversion differences are expected to be less of a drag than in previous years, based on a slight appreciation of the U.S. dollar and minor depreciation from emerging markets currencies. Furthermore, the goodwill and other intangibles clean-up we have carried out over the last years removed uncertainty from our balance sheet.

And regarding Solvency II ratio, we expect the longevity risk internal model to be fully implemented. And regarding leverage, our financial needs are fully covered. All in all, I want to reaffirm our stable dividend policy based on net income and a 50% minimum payout, which remains unchanged. Thanks. That's all from me. Thank you, and Felipe, and I think we can take a couple of questions.

A - Felipe Navarro Lopez de Chicheri {BIO 3737558 <GO>}

Now I will hand the floor to Antonio, who is going to give his closing remarks. Thank you, Antonio.

A - Antonio Huertas Mejias {BIO 15896108 <GO>}

Thank you, Felipe, again, thank you all. In summary, I would like to point out that 2020 was marked by the development of the pandemic, with lockdowns and restrictions to mobility throughout the world, which conditioned revenues from the reduction of economic activity and lower interest rates. The extraordinary cost reduction effort implemented throughout the year to reduce the impact of business decline was highly noteworthy. All of this led us to present excellent results in practically all countries, highlighting once again Spain for its important contribution to the profits of the group as a whole, besides Brazil and the United States, and superb results throughout Latin America and Europe.

In addition, we have been able to comply very satisfactorily with the objective of paying a magnificent dividend already to shareholders, despite the market and supervisory circumstances, while maintaining a high level of solvency with adequate control of liquidity in all of our operations. I believe that we have a healthier balance sheet, an excellent solvency position, better performing technical foundations and operational transformation underway, all of which should enable us to grow steadily and profitably in the coming years.

In addition, the initiatives in our strategic plan defined for the triennium 2019 to 2021, have progressed well. We consider that with the 2021 objectives, we can just present it, we can reach all of our public ambitions with the exception of that related to revenues. And we have already started to draw up a new strategic approach for upcoming years which will be released at the next AGM in 2022.

Thank you for being been here with us. Good morning. Thank you for your time today, and take care. Thank you very much.