

Q3 2020 Earnings Call

Company Participants

- Eduardo Perez de Lema Holweg, Chief Executive Officer
- Fernando Mata Verdejo, Chief Financial Officer
- Natalia Nunez Arana, Head of Investor Relations

Presentation

Natalia Nunez Arana {BIO 19480994 <GO>}

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

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

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

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

Fernando Mata Verdejo {BIO 19676348 <GO>}

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

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Before we go into the details, I would like to point out that it was a good quarter, despite the current COVID and macro scenario, with a Group profit of a EUR180 million. Insurance units are thriving in 2020 with an attributable result of EUR610 million, up over 7% on the year. Iberia continues contributing with a strong growth and profitability metrics. Improvements are notable in Brazil, the US, Mexico and other important Latin American markets, as well as Turkey and Italy. The largest impact from the pandemic continues to be on the topline due to confinement measures and economic slowdown.

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

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

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

MAPFRE continues to boast an excellent capital position with significant flexibility recently reaffirmed by our three main rating agencies. Please turn to the next slide. Regarding September figures premiums are down around EUR2 billion on the year affected by first, currency depreciation with a EUR1.1 billion impact. Second, Life Savings premiums are down EUR690 million in Iberia. And finally as a reminder, last year there was a two year policy issued in Mexico for PEMEX for EUR449 million.

Non-Life premiums are down 8% but at constant exchange rates and excluding the PEMEX policy, growth has proven resilient in a challenging environment, with premiums up almost 1%. The net result reached EUR450 million, down around 3%. The combined ratio improved over one point to around 95% and close to 3 percentage points to 93% at the insurance units. Assets under management are down around 3.5% and shareholders' equity is down around 5% due to currency depreciation but recovering around 7%, this is good news from the first quarter.

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

Please turn to the next slide. On this slide we will discuss the different components of the adjusted attributable result. Due to the offsetting nature of the different impacts of

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

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

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

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

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

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

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

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

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

Results continue to improve significantly in Italy, due to a decrease in both motor frequency and Turkey is also benefiting from underwriting discipline. Regarding reinsurance and global risk will be covered by Eduardo. But let me say that results were extremely resilient considering the quite active third quarter in terms of non-COVID related losses. In the Assistance business, the largest hit was from travel cancellation claims in the first quarter. We have been prudently reducing exposures and we have also taken further steps in our restructuring process. Finally, the line other, apart from holding expenses includes the provision for undeveloped land in Spain and the restructuring provisions booked in the second quarter.

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

Eduardo Perez de Lema Holweg {BIO 20385404 <GO>}

Thank you, Fernando. And good morning everyone. As always, it's a pleasure to have the opportunity to update you on MAPFRE's reinsurance business. As already mentioned earlier, it has been a very busy quarter for MAPFRE RE in terms of large losses, despite the fact that the results have been positive and the portfolio has proven to be resilient, closing with a combined ratio of 95.3% and overall positive result in the quarter.

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

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

Turning to the next slide, you can see that the large loss burden for MAPFRE RE, in the first nine months of the year has been very high, almost doubling the amount suffered in 2019 and already exceeding the budget for the full year. As of the end of the quarter the total claims amount reached EUR302 million compared with EUR166 million a year ago. On the natural catastrophe side we have to highlight the earthquakes in Puerto Rico, that affected mainly our Group portfolio.

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In addition, we had a large number of medium sized claims affecting mainly the US and Spain this year, being the biggest one, the - for us the Derecho affecting the US Midwest in August, which surely has had less media visibility than other events, but is a very large loss in the industry. On the manmade side, the biggest one was explosion occurred in Beirut, also in August with an impact of EUR30 million for MAPFRE RE.

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

Turning to the next slide, I wanted to take that chance to make a more qualitative comment on the reinsurance business. Of course, in a year where the performance has been below expectation, we have made a full review of our portfolio. The main conclusion of this review have been that the quality of the portfolio is very strong. We haven't identified any fundamental need to restructure the portfolio of business.

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

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

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

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

Fernando Mata Verdejo {BIO 19676348 <GO>}

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

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

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Net unrealized gains on the available for sale portfolio have had a EUR35 million positive impact during the year, improving, this is very important by over a EUR120 million during the third quarter, basically driven by the strong performance of Spanish and Italian sovies [ph]. The 2019 final dividend amounting to EUR262 million was paid in June. Dividend upstreaming has been stable with total inflows reaching nearly EUR303 million with a EUR232 million from Spain, EUR37 million from the US, and EUR29 million from Brazil.

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

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

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

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

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

In the same chart are the updated pro forma impacts from potential regulatory developments as of June, which are in line with previous calculations. The Board is - has

already approved all necessary steps in order to file for regulatory authorization for the longevity internal model. We expect to receive approval to apply this to 2020 yearend calculations. This will imply roughly talking, a 10 percentage point uplift to the Solvency II current ratio.

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

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

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

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

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

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

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

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

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

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

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

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

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

Questions And Answers

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

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

A - Eduardo Perez de Lema Holweg {BIO 20385404 <GO>}

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

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

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

Concerning run-off I think there was nothing extraordinary positive during the quarter. We didn't have any -- or we had a small reduction on the IBNR for cat events in the last year, that was in the region of EUR10 million, EUR10 million to EUR15 million, but nothing really significant and worth mentioning. I would say the good evolution of the underlying result was something that we had already advised, that we had a special first quarter where we were very conservative on the reserving side and we had some one-off frequency elements. And then the second quarter, we had the COVID impact.

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

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

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

A - Eduardo Perez de Lema Holweg {BIO 20385404 <GO>}

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

On the business interruption side of things, I would say probably the amount of losses -- of new losses will go down because since the beginning of the pandemic we have been active in those places where there was coverage to limit or exclude that. But the pandemic is ongoing. The big uncertainty will come on claims already occurred during the

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last few months, to what extent they will be paid by insurance companies in the markets where they have been providing coverage, and there is still uncertainty on the degree of reinsurance coverage that is there in the treaties. And there is some possibility of litigation or there is certainty that there will be litigation because there are claims that we are receiving that we don't agree to.

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

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

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

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

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

But let me just comment a little bit longer about this. We admitted in August that we suffered a ransomware cyberattack on our Spanish operations. As a result MAPFRE activated our internal protocols to increase IT security protection, by which had to turn off some online and customer service over a few days. Let's say that we realize that we had a cyberattack just in half an hour. And because there are security system, they gave us the alarm that the attack was undergoing.

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

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

But let me say that so far the only net effect that is included in our accounts is a EUR2 million loss, which is equivalent to the deductible amount for the damage coverage, that's

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all. You've got plenty of information in the financial report.

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

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

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

Yeah. First of all, let's say as I mentioned at the press presentation, and also this analyst results presentation, that Bankia is still operating, I mean with some normality, it is still a MAPFRE subsidiary and we are working together with Bankia in order to optimize, I mean results during the fourth quarter.

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

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

Let me say that the shareholder agreement protects MAPFRE and the value of our investment. And also the contract contemplates in a very detailed way the procedure to follow in a situation like this. I'm not in a position to reveal the specific details of these conditions, they're confidential information, but we can say that -- is that the clauses protect both sides and they're binding for both sides, in the case of the termination of the agreement by either partners.

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

Let me say that this is very important that the merger presentation to investors made by Bankia and CAIXABANK was published a number, it was EURO.5 billion as a reduction in the future capital position, and it was due to the cost of the future restructuring of the JV and other concept. Let me say that this assessment was made by Bankia without any prior

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indication from MAPFRE confirmation or agreement. So let's say this value is just a one side assessment.

More things, this is not the first agreement that unfortunately we had to cancel.

We've got a very good track record with previous bancassurance agreement cancellations, which occurred as a result of the bank restructuring in Spain. Currently we had three with Bankia, Bankinter and also with CCM, which is a part of the business of Liberbank. You already know by the press that there is a conversation between Unicaja and Liberbank and probably we will have to face next year another Bancassurance cancellation.

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

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

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

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

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

Thank you very much Fernando. Now we have another question for Eduardo in MAPFRE Reinsurance regarding, you have highlighted stable valuation of business interruption losses. What is the risk that business interruption losses increase in the future? I guess you have already answered about that. But there is another question. Why has the court judgment in the UK not had an impact on your reinsurance business this quarter?

A - Eduardo Perez de Lema Holweg {BIO 20385404 <GO>}

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

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

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

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

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

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

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

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

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

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

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Next step will be just to agree on Bankia, exit value and once the inflow is done, we will focus on the outflow of money. And particularly as far as I know, there is not any transaction in the pipeline. We're pretty focused on the fourth quarter, and also next year's budget. What will happen if there are no immediate acquisition opportunities. Let's wait. We are at an early stage and there is no discussion. As I mentioned, there is -- with CAIXA we are just waiting for the current legal process, which is underway, and once the merger is finished, we will continue with a very well-established procedure written in our bancassurance agreement. That's all what I can say at the moment.

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

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

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

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

Particularly the increase in Life, was due to the increase of reported claims in Brazil. But let's say that most of the costs was already booked, because of the IBNR. I mentioned was Non-Life, but when I said Non-Life means both, I mean in general premium risk was Non-Life, but also protection for life business.

So in a nutshell, I mean the cost of COVID that we know at the second quarter was booked in the case by case the provision and also as IBNR reserves. Net effect, probably in the -- we'd see some increase in the case by case cost of COVID, but it will be further reduction in IBNR reserves, which by the way is based on actuarial fundamentals and we will see some perhaps some releases during the fourth quarter.

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

Okay, thank you. And also regarding COVID, Alex Evans at Credit Suisse would like to know if it is possible to give any detail on the frequency benefit you saw in the quarter or compare this to what you saw from either first quarter or second quarter?

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

I mean it's extremely difficult to differentiate the net effects in frequency, particularly in Automobile because of the -- as I mentioned -- the pandemic is moving westbound, with different effects in different regions. Let's say that what we're living is like three

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

Current combined ratio is not sustainable, in Spain it's 84. We're looking at a higher combined ratio in the near future, but it will depend as I mentioned at the press presentation on the confinement measures. Looking at the current Europe and Spain there is a lockdown confinement measures approved by different governments, curfews, so on. And so let's say there are a lot of uncertainties regarding car mobility across Europe and particularly in Spain.

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

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

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

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

As I mentioned, our main strategy is to protect our portfolio. And what we're doing so far -

- we've done and we're doing so far -- is just to apply rebates, particularly in Automobile in Spain, according to the risk profile of each policyholder. Obviously due to the confinement there is a reduction in the loss ratio for most of the -- let's say retail business, I mean personal business. But it could be that there is an increase in rates as well, because for some, perhaps group, or commercial business, it could be an increase also in the loss ratio.

In general, I mean, we are protecting our portfolio across the regions and we are doing rebates for those risk that loss ratio I mean is pretty low, and we can transfer part of this reduction in loss ratio to rates.

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

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

A - Eduardo Perez de Lema Holweg {BIO 20385404 <GO>}

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unfortunately, we don't know exactly how you are working -- how you applying our sensitivities to make your estimates. It happened as well during the first quarter that the sensitivity analysis we published for the first quarter then, it was a small difference with

the actual numbers for the second quarter. But let's say that when applying the sensitivities, the impact on Life portfolio with profit sharing could be material, and also distort results.

You would like to look into this in more details, Natalia and also our CFO -- sorry Chief Financial Risk [Officer], Ramon Carrasco, will be more than happy, I mean, just to give you more details in a phone call.

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

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

Could you give a sense of the current regulatory dialog on dividends, and how this compares between the Spanish regulators and others? Additionally, Paz Ojeda at Sabadell asks, which are the most important criteria to establish the final dividend for 2020 payout, solvency, liquidity?

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

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

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

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

Regarding regulatory, we've got a lot of pressure, particularly from Mexico, that there was a strong recommendation from the Commissioner. And so at that point we decided to a stop dividend as well, the upstream from Mexico. Then it was some relaxation in Mexico

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and in the end we proposed, I mean, probably we'll retake, I mean, the upstream of dividends from Mexico in the fourth quarter.

But in general, most of the regulators, they recommended to be prudent in the dividend, regarding the dividend policy. The dividend is what it is; it's EURO.05 and there were different factors. And the Board considered all the situation regarding this dividend payment, and in the end we agreed, just to pay this EURO.05 per share. And there is not any subliminal message regarding the final dividend to be paid next year, and at the end, when we have the full year accounts, we will again analyze the liquidity situation, Solvency II ratio and also our financial position, in order to assess the dividend for the full year.

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

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

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

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

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

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

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

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

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

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

Now we have the last question.

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

Sorry. Sorry, last thing, I mean the payout you asked for the payout ratio, I guess, for Iberia it's close to 90%. But let me say that most of the Solvency II surplus is being kept in MAPFRE RE, MAPFRE ESPANA and MAPFRE VIDA. So let's say, that in any case, the Solvency II ratio won't be affected by this outflow of dividends.

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

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

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

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

Let's say that so far the bancassurance channel is the one which is suffering the most from the current crisis. Our own network in Spain is working very well. Practically, there is no change in the churn ratio and there is a lack of new business, but it is quite pretty defensive. And there is a lot of variation that is difficult to explain. I mean we're quite happy, I mean, with performance in global risk, quite happy as well with Germany with a 4% increase in premiums, and particularly if we remove those extraordinary effects in Spain, let's say that the growth in Condominiums in both the channels is like 8% this year. In Homeowners, is around 3%, and other lines of business in Non-Life regarding SMEs, small and medium enterprises, working very, very well.

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

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

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

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

Thank you for your presence. I know it has been a difficult time. But above all please stay safe, thank you again. Bye-bye.

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

Thank you.

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