

## Q1 2021 Earnings Call

### Company Participants

- Felipe Navarro Lopez de Chicheri, Capital Markets and Investor Relations Director and Treasurer
- Fernando Mata Verdejo, Group Chief Financial Officer & Member of the Board

### Presentation

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

Good afternoon, everyone, and welcome to MAPFRE's Result Presentation for the First Quarter of 2021. This is Felipe Navarro, Head of Investor Relations and Capital Markets.

We have the pleasure of having here with us, Fernando Mata, our CFO, who will walk us through the main figures and highlights of the quarter.

Additional information can be found on our website, including the MD&A, the 2020 Embedded Value Presentation, as well as the usual spreadsheets. At the end of the presentation, we will open up the Q&A session. You can submit questions, ask -- using the Ask a Question link on the bottom of your screen. We'll try to answer all your questions as the time allows. The IR team will be available afterwards to answer any pending questions.

Before we start the presentation, I would like to give you an update regarding MAPFRE'S response to the pandemic. We have maintained our focus on the three main priorities. First, the health of our employees and collaborators. Second, business continuity, guaranteeing the commitment to our clients and shareholders. Third, our solvency and capital strength. As the vaccination process continues, we have initiated a return to the office, always keeping in mind the highest health standards. Currently, around 89% of our employees in Spain and 39% in the United States are working on the premises. In Brazil, due to the negative development of the pandemic, 100% of the workforce are currently working remotely. We will continue adapting to the changes in conditions in every country.

Now, let me turn the call over to our CFO. Fernando, the floor is yours.

#### Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Felipe, and thank you everyone for being here with us today. Hopefully, you and your families are coping well during the pandemic and staying safe and healthy. First of all, I'm pleased to present strong first quarter results that are confirming that we are on the right track to reach the guidance announced at our AGM.

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Top line performance is excellent, taking into account the impact of the pandemic on the macroeconomic situation, as well as the drag from currency movements. On the bottom line, Motor frequency is still below pre-pandemic levels and mitigating COVID-related claims. Performance has been especially strong in Iberia, where we are outperforming the market in key segments, while maintaining best-in-class technical performance in Non-Life. In the United States, thanks to the reorganization that started several years ago, underwriting results are strong, especially in the Northeast, although the top line is still reflecting this streamlining process.

The impact of COVID in Latin America is especially relevant with a strong increase in cases and mortality, with further mobility restrictions. Furthermore, the vaccination process has been slower than expected in many countries. We are seeing higher level of Life Protection and Health claims across the region, especially Brazil, Mexico and Peru, although in the latter, these claims were compensated by other positive effects. Brazil is still benefiting from excellent top line performance in Agro, and there has been a change in trend in Motor with a return to growth in local currency. The Life Protection business is deeply affected by lower branch activity due to a semi-lockdown situation, which started in mid-March.

Since the onset of the pandemic, MAPFRE's strategy has managed headwinds from lower economic activity, mobility restrictions and currency movements. This quarter, MAPFRE is again delivering recurrent and stable profitability metrics with limited impacts from COVID.

I would like to comment that the group recently received approval from the Spanish supervisor for use of the longevity risk internal model, bringing the Solvency II ratio to around a 193% at 2020 year end. Finally, we're happy to announce that the final dividend will be paid on May 24th, one month earlier than other years, which is proof of our commitment with both institutional and retail shareholders, while injecting -- helping inject cash in the real economy.

Now, I'll take you through the main figures of the first quarter. At constant exchange rates, premiums are up around 3.2%, with outstanding performance in Non-Life, up 3.5%, and Life Premiums up a little under 2%. In euros, they're down around 3% due to currency depreciation, mainly the Brazilian real as well as the U.S. dollar, and the Turkish lira. The Group combined ratio is in line with 2020 full year figures and stands at 94.3%, a 6 point decrease compared to the pre-pandemic first quarter of 2020 and below the 2021 target of 95%.

I would also like to highlight the significant 1 point reduction in the expense ratio, thanks to strict implementation of our cost contention plan. Combined ratio for insurance units remains low at 93.8%. And MAPFRE's net results amounts to over EUR173 million, up over 36% and in line with our guidance for adjusted net income for 2021 of EUR700 million.

Assets under management are up around 0.2% with the investment portfolios slightly down, but compensated by growth in pension and mutual funds. Lastly, embedded value was down 0.5% to over EUR7.8 billion, mainly due to the impact from currency

depreciation in Latin America during the year. You can see the full disclosure of our embedded value at our website.

Please turn to the next slide. On this slide, I'll take you through the breakdown of the adjusted attributable result. First of all, due to the offsetting nature of the different COVID impacts at insurance operations, we have not considered this in the adjusted result as the final effect should be neutral. In addition, winter storms in Spain are not being considered extraordinary, because they had been recurring for the last three years. Nevertheless, the Filomena snow storms in January has been one of the largest events in Spain with over 40,000 claims and a EUR20 million net impact for the Group.

Regarding other Nat-CAT claims, it has been a quiet quarter, fortunately, with nothing to report. As a reminder, last year there was a EUR54 million impact from the earthquake in Puerto Rico. Financial gains and losses are down over EUR28 million due to a real state gain at MAPFRE USA last year with a 14 -- approximately EUR14 million net impact as well as lower gains on the actively managed portfolio, as a result of our decision to accumulate gains this year in line with a prudent approach. Excluding these impacts, adjusted net result reached a EUR163.5 million up over EUR20 million.

Please turn to the next slide. On this slide, we show the main trends this quarter. Performance at the insurance unit is remarkable with a combined ratio below 94%. The main drivers of the improvement are technical measures implemented in previous years, mainly in Brazil and USA, and lower Motor frequency from the pandemic. In Iberia, premiums are up 3% with excellent performance in Non-Life. Motor premiums are up over 1%, mainly due to a good contribution from renewals, along with new business from Santander. The total number of vehicles insured increased by around 56,000 units year-to-date and up nearly 3% year-on-year. MAPFRE is outperforming the market in the most relevant lines showing solid growth in Health 8%, Condominium 5.5%, Homeowners 3%. The attributable result is up 5%, contributing over a EUR108 million with excellent technical performance reflected in a combined ratio of around 93%.

In Brazil, currency headwinds were relevant with average real exchange rates down 23%, while premiums are up 13% in local currency. The net result is down EUR14.5 million, as the strong improvement in the combined ratio, now at 88%, was not able to compensate COVID claims, particularly Life Protection and a reduction as well in financial income. Premiums in LATAM South grew 3.9% in euros, offsetting currency effects. On the other hand, premiums in LATAM North are still down, mainly due to the depreciation of the Mexican peso. Local currency growth in both regions was remarkable with Colombia up 29%, Chile up 27%, Peru up nearly 11%, and Mexico over 8%. Combined ratios in both regions remain at good levels with a slight deterioration in LATAM North, but still at 93% due to you to COVID-related health claims. Performance in North America was excellent with a 15% increase in the net result and a 5 point reduction in the combined ratio, now at 96.6%, mainly due to the earthquake in Puerto Rico that I already commented last year.

The region shows remarkable stability with recovering profits after restructuring. In Eurasia, premiums are down due to the non-renewal of the dealership channel in Italy as well as the depreciation of the Turkish lira. All countries have contributed positively to results except Italy, where expenses have to be adapted to the new business model.

At MAPFRE RE premiums are also up, supported by positive pricing trends. The combined ratio was 95%, in line with previous quarters, with excellent performance both in reinsurance and global risks.

And in the Assistance business, results are up nearly EUR10 million and last year was extremely affected by travel cancellation claims. Volumes are down 46% as we continue with our streamlining process.

Please turn to the next slide. On this slide I would like to comment on the Life business at insurance units. In Iberia, premiums are performing well, despite the challenging market context with Life Protection down only 1% and Life Savings down 2%, but in line with market growth in both segments. As I already mentioned, bank activity in Brazil has been hurt by the pandemic situation, which has taken its toll on Life Protection premiums, which are down 7% in local currency in the banking channel. Life savings premiums are also down in Mexico and Panama.

Regarding results, performance in Iberia was stable, despite lower business volumes and lower financial income. In Brazil, the result is down due to the COVID-related claims, lower financial income and currency depreciation.

This slide includes a full disclosure of the breakdown in variations of the investment portfolio and total assets under management. Spanish sovereign debt continues to be our largest exposure, now a little over EUR12 billion and Italian debt with around EUR2.6 billion is the second largest. Both sovies are mainly allocated to immunized portfolios. The fall in the investment portfolio is due to higher yields with the Spanish sovereign up over 35 basis points year-to-date. Pension and mutual funds have had strong performance both due to market movements as well as positive net contributions of EUR22 million in pension funds and EUR98 million investment funds at the end of March. Please remember that these figures do not include Bankia MAPFRE VIDA portfolios.

Please turn to the next slide. On the top left are the details of our euro-area actively managed fixed income portfolios. Market value of these portfolios is around EUR13 billion. The accounting yield is around 1.6% in Non-Life and 3.6 in Life, well above I mean the market yields. Realized gains and losses in these portfolios were around EUR7 million, down EUR22 million compared to the previous year. As right now, as I mentioned, we prefer to accumulate unrealized gains in order to compensate the fall in value of fixed income portfolios. On the bottom left, you can see the details of the fixed income portfolios in other main markets. Accounting yields in LATAM and also in the U.S. are still well above those in Europe, and we have even recently seen rising rates in some markets, like Brazil for example.

Please turn to the next slide. Shareholders' equity stood at a EUR8.3 billion, down around 3% during the year. The most relevant changes are a decrease in net unrealized gains on the available for sale portfolio, with a EUR271 million negative impact due to rising rates, which especially impacted the Spanish Non-Life business with a EUR96 million impact, EUR53 million in North America, U.S. and Puerto Rico and around EUR42 million in both

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Brazil and LATAM South. On the other hand, the impact in the Spanish Life portfolio was very limited - EUR13 million - and it was due to the high share of immunized portfolios.

As you can see on this slide, unrealized gains are completely matched by shadow accounting adjustments in this immunized portfolio. Currency conversions differences had a positive net impact of EUR79 million during the quarter, mainly due to the 4% appreciation of the U.S. dollar, which offset the depreciation of Emerging Market currencies, especially the Brazilian real. The breakdown of currency conversions differences, and also, the sensitivity analysis are shown in the table on the right.

On the chart on the left, you can see the breakdown of the capital structure, which amounted to EUR12.6 billion, of which over two-thirds is equity. Leverage is slightly up at 23.7%, but we are comfortable at this level, which supports our current financial needs. On the right, you can see the Solvency II provisional figures for 2020 year-end -- they're provisional because we have to report and also to be approved by the Board in mid-May - but which now reflect the approval for the longevity risk, internal model for the Spanish Life business. This brings the ratio to a 193%, comfortably within our range. And keep in mind, that we estimate a 6% uplift from the Bankia exit, assuming no change in Eligible Own Funds. The final figures with a full disclosure will be released on May 20th.

Please turn to the next slide. Embedded value was down 0.5% to over EUR7.8 billion, mainly due to the impact from currency depreciation in Latin America during 2020. Embedded value attributable to the parent company is up 7%. There was a positive contribution from new business during the year, especially Life Protection. Furthermore, the Life Savings environment is still challenging due to the low interest and a lack of fiscal incentives, particularly in Spain. There was also a positive impact from the fall in risk-free rates.

On the right, you can see the sensitivity analysis. This year, we have included the impact from the exit of Bankia-related Life business, which will imply a reduction of EUR715 million.

At this point, I would like to make a few comments on the current status of the bancassurance agreement with Bankia. As you are aware, we have communicated all developments in a timely manner. The process began in September of last year with the approval of the proposed banking merger of CaixaBank and Bankia, which was later approved at the AGM of both entities in December. After receiving all necessary regulatory approvals, the merger was finalized on March 26th, being the trigger for the change of control of Bankia. MAPFRE informed CaixaBank that the put options stipulated by contract for MAPFRE's 51 [percent] shareholding in Bankia MAPFRE VIDA as well as termination of the agency contracts for both Life and Non-Life insurance distribution were effective March 31st.

The change of control also triggered the established procedures to assess the compensation for the termination of the bancassurance agreements, defined as a 120% of market value of MAPFRE VIDA's 51 [percent] in Bankia MAPFRE VIDA and the Non-Life insurance business, excluding the value of the insurance portfolio. Any results earned by Bankia MAPFRE VIDA as of April 1st will correspond to CaixaBank.

Finally, the process of appointing an independent appraiser has been initiated in April. And as we mentioned, MAPFRE will inform the market of any new developments as they arise.

Before moving on to the Q&A session, I would like to make a few closing remarks. First of all, in Iberia, growth is excellent and we are outperforming the market in our main segments, while maintaining strong technical margins. Our leading positions and strong brand recognition is helping us to come out of this crisis even stronger than before. Underwriting results are robust in the United States, especially in the Northeast region and we continue making progress in the restructuring process.

In Latin America, the pandemic and economic outlook remain challenging and we are monitoring this closely. The impact of COVID in Latin America has been especially relevant with a strong increase in cases and mortality with further mobility restrictions. The vaccination process has been slower than expected in many countries. A reduction in COVID-related losses and full economic recovery will depend on the speed of vaccination.

At MAPFRE RE, results have been robust, excellent, and both the reinsurance and global risk segments are on the right path to more normalized profitability levels, supported by tariff increases. We expect similar trends to continue in the second quarter, assuming no significant changes in the pandemic context, proving that MAPFRE is able to adapt to this constantly changing environment while delivering solid results.

Regarding our formal bancassurance agreements with Bankia, right now, we're focused on completing the procedures and formalities of the exit process. And finally, we continue to prove our strong commitment to shareholders, reflected in the dividend payment, that has been advanced from June to May, which is supported by a strong financial position.

Thank you. And we'll now hand the call over to Felipe to begin the Q&A session.

## Questions And Answers

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

(Question And Answer)

Thank you very much, Fernando, for this thorough presentation. We'll start with the Q&A. The first question is coming from Andrew Sinclair from Bank of America Merrill Lynch, and it's related with the Life and Health business that have COVID-related claims in Brazil and LATAM, and he's asking what was the cost of these in the first quarter.

And Ivan Bokhmat from Barclays, the COVID impact of EUR190 million remains substantial in the first quarter '21, with most of it coming through the Life and Health business. Can you explain how long may that impact persist and what are the key indicators you monitor in that expect? There's also another question related with this topic, which is Paco Riquel

from Alantra. Can you comment on the losses of the Life Risk business in Brazil, and what shall we expect for the coming quarters in this segment and from Brazil overall?

Finally, Jonathan Denham from Morgan Stanley is asking what in LATAM offset the Life Protection COVID losses, and do you expect these positives to continue in the second quarter? So, there's a lot of interest on the situation in Latin America for the COVID related losses. Fernando?

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

Yes. Thank you very much. Quite comprehensive series of questions. First of all, we haven't disclosed the information of COVID losses by regions, we only have included in financial report by line of business, but in the text, I'm going to take some of the -- I'm going to get you to the page -- but we have put by regions. The reason for this lack of disclosure, probably we'll increase information probably at June, but the thing is that some of the impacts are happening in some of the countries, in countries in which we're holding business with minority interests, particularly in Brazil.

And since BB Seguridade, the Bank of Brasil Seguridades is a listed company, haven't published results yet, it wouldn't be fair I mean just to disclose this information that are affecting as well their accounts. So for MAPFRE, sorry, for Brazil, the information is on Page 24 and the impact of COVID-19 for this region both mainly it's Health and Life, but particularly Life is EUR33.6 million, Page 24. And it's for both I mean the bancassurance channel and also MAPFRE channel.

For LATAM North, the disclosure is on Page 26. And in that case, the impact of COVID-19 is EUR31.4 million. In the case of LATAM North, it's affecting mainly Mexico, but also Health, particularly in the Dominican Republic. In that case Health business as you well know, there is a JV with BHC, it's a financial institution and -- it's an institution regulated. So we do not consider fair I mean just to publish the impact.

And for LATAM SOUTH. On Page 28, in that case, the impact of COVID-19 is EUR19.5 million. In that case it's affecting both, Health and Life business, but we're running Life business as well with a minority shareholder. So, we will see. I know that this information is quite important for you and quite sensitive, but perhaps, as of June, we will be able to give you a full disclosure by line of business and also by regions or countries.

Regarding more question. I mean, it's extremely difficult to foresee what is going to -- how big is going to be the impact in the following quarters. We know that Brazil, I mean, we've been hit, particularly in March in Brazil because of the lockdown measures and the amount of Life losses. But April looks, I wouldn't say much better, but better. And we should expect, I mean in most of the regions with different intensity and frequency a sort of decrease in impacts.

On the other hand, other lines business, particularly P&C, Automobile as well, we should expect an increase, moderate increase in combined ratio, and lower profitability. But moderate I will reaffirm moderate, since lockdown measures are being lifted. And also there is an increase in mobility. On the long run for Non-Life I will say that the 95%

combined ratio that was given by our Chairman at the AGM, it was just in March. We feel comfortable with this guidance. Now it's a little bit lower, but there is a seasonal impact as well, seasonal reason for this situation, particularly in Automobile.

And we believe that we will finish this year, if there is no significant changes in the pandemic, below this 95%. And in the rest of regions, Spain, compared to Latin America, looks more promising. I mean, the pace of vaccination is increasing day by day, and hopefully, we will have a high percentage of the population fully vaccinated by summer.

We're seeing some increases in mobility, particularly in the big cities. I mean, we are seeing traffic jams in Madrid which is good, I mean, because means a re-vamping of the economy, but it's extremely difficult to foresee what is going -- what we're going to face in the in the future. I mean I'm not sure this is the fourth or the fifth wave of the pandemic but fortunately I mean April looks better and more promising. Any question I mean we haven't answered, I don't -- Felipe, please help me.

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

I think that we completed, we covered the main part of the questions related with a Life and Health business, because the main interest was on the impact in Latin America, As you said, we are going to try to do some kind of disclosure on the regional results.

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

Okay. I promise I will try to do our best in order to increase our disclosures regarding COVID-19 by regions.

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

Okay. Thank you very much, Fernando. We'll move now to another topic, which is the Motor business. We have several questions, and I'm going to read them as I did on the previous one, so we can we can give a broad answer on all the topics. The first one is coming from Paco Riquel from Alantra, and he's saying the Motor premiums in Spain grows by 1.3% gross but the net premiums earned fell by 2.8%. Can you please explain the difference?

The next one is asked by Alex Evans at Credit Suisse. You reported premium growth in Spain Motor at 1.3% versus a fall in the market of 1.8%, what is driving your outperformance here? Have you been more competitive on price in the quarter?

And Ivan Bokhmat from Barclays is asking about -- is asking the following question. Spain Motor business increased number of insured vehicles by 2.9% year-on- year, suggesting a market share gain. What do you think helped you most?

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

Yeah, thank you for the questions, Felipe. I mean, we're quite happy, I mean with this premium growth in this first quarter. Probably in the next quarter, we see this catch up of a premiums earned. Basically it's due, if you remember, if I remember well, it was the third



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quarter when it was significant drop in the average premiums because we started implementing discounts on an individual basis to our best drivers in order to transfer part of this decrease in frequency to rates.

And so we'll see probably in the next quarter I mean, this catch up in premiums earned. Regarding this increase in units, frankly, I mean this quarter has been -- was extraordinary in terms of both distribution channels - bancassurance. I mean we had Bankia that came to an end at the end of March, and we had as well Santander, that the net premiums for Santander exceeded EUR10 million I mean, it's a big chunk of new business. And also well the RED MAPFRE performed extraordinary well during this period. I mean, the churn ratio is quite good, even lower than the standard periods, showing that, what we mentioned, that the brand recognition of MAPFRE is a must and is a plus in this moment.

Regarding number of units, it goes parallel to increase of premiums, and it's a strong contribution from Banco Santander. And also, there is a small increase as well in fleet, not relevant. But we overall, I mean, we're quite happy. We're outperforming the market in both premiums and units, and we see what we mentioned, what I mentioned in the past. During these hard times, the brand of MAPFRE, I mean it weighs a lot. And when we see the net promoter -- NPS, net promoter score, I mean, it's quite good for MAPFRE. And when we ask shoppers and they said that the MAPFRE is a guarantee of solvency, and good quality of services in these difficult moments.

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

Okay. Now, we are going to move to some questions related with Bankia. Marina from JB Capital is asking, could you please elaborate more on the valuations you presented on the impact of the exit of the JV in Bankia. I don't think that we presented anything, but I mean, you will be able to answer.

And there's another one related coming from Andrew Sinclair from Bank of America. And she is -- he's asking, what is the carrying value for -- of both the Life and Non-Life entities of Bankia JV that is now set aside for this for the sale.

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

Yes. Marina, as Felipe said, as far as I know, and I am the one presented numbers, there is not any valuation published by MAPFRE regarding this potential transaction. It was just the other way. As we mentioned in previous presentations back in September and due to the new merger presentation, I mean, it was some information regarding any potential valuation of the exit of the JVs. But MAPFRE, from our side, we haven't published any valuation.

Obviously, we are expecting, I mean the -- as I mentioned -- next step we're working with Caixa -- is just to appoint an independent appraiser, that they will assess, he will assess, the value of the business to be transferred. And also the 20% penalty, I mean for the change of control.

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Regarding other information on the carrying value, Andrew, we do not publish, I mean, we do not disclose this information. The financial report, the management discussion & analysis, on Page 5, there is a disclosure. The main, the main metrics, for BANKIA MAPFRE VIDA, in that case, those are the statutory, let's say the numbers from the statutory accounts. And from BANKIA MAPFRE VIDA it's premiums, net results, and net equity and also a balance sheet metrics for the full year 2020 and also for the first quarter. But we do not publish the carrying value of our business with Bankia.

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

Together linked, always linked with the same topic. Andrew Sinclair from Bank of America is asking just to get the latest update on the PC side - has distribution of MAPFRE products now ceased? And what was -- and what renewal experience are you seeing so far for customers previously sourced through Bankia?

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

This is a path that we walked before, Andrew, this is a very interesting question. And because we have terminated, because it wasn't in our wish, but we have terminated because of the circumstances and reasons other bancassurance agreements. And let's say MAPFRE is very well prepared. It happened with -- originally with BBVA with our coinsurance agreement to sell Automobile, and also with Caixa and then later with DUERO. I mean we have a lot of power I mean, ready to reinforce our retention procedures in order to keep the portfolio. This is a business we pay that was retained in our books.

So far, I mean is that we are an early stage and even we do not have figures, I mean for April. But let's say that we are quite positive. And so renewals from the portfolio, and portfolio means Non-Life policyholders till 31st of March, we will protect, because it's our business.

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

Okay. Thank you very much, Fernando. Marina from JB capital is asking, where do you see your Solvency II at the end of the year? Is there any negative impact that we should be factoring in going forward?

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

Thank you, Marina. We should expect Solvency II ratio to move between, just my guess, between 190 and 195. The only if you call extraordinary or let's say recurring on a quarterly basis is the transitional effects for provisionals that is like a one point something I don't remember 1.5 I guess, that we will book in the first quarter. But -- and also as you know we published as well, I mean the exit of Bankia will have a significant impact on Solvency II. We already know it, but only the exit or the reduction of the SCR will be like a 6 point at least in the Solvency II ratio. But we have to know this before any speculation.

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

Okay. To sum up, there's no negative impact that we are expecting on this.

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

No, no negative impact. I mean, it will be positive in any case, but in this range between a 190 and 195, I will highlight that this it is not included this six-point uplift from Bankia.

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

Okay, thank you very much Fernando. Alexander Evans -- Alex Evans from Credit Suisse is asking Solvency II ratio is now back towards the middle of -- the middle end of your range. I mean in fact is in the, right in the middle. Where do you view yourself an adequate level of capital at this current environment? Is there any need to hold more because of impacts, like we have seen in LATAM this quarter?

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

We're quite comfortable in this range of the target, it's not a target, it's a framework of 200% with a 25 percentage points tolerance, higher -- lower and higher ends. We don't see any additional capital needs from Latin America. Even some of the countries particularly in Colombia for instance in which we have a production on business, we're holding quite let's say prudent solvency ratios. And -- but let me say as well, which is key for us is keeping the current ratings at this level at A plus. And let's say that we set 200% Solvency II ratio based on maintaining I mean the current ratings for financial strength.

And so far, let's say that we shouldn't expect any change in both, as long as there is no change in the capital models of both ratings agencies, I mean Fitch and Standard & Poor's.

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

Thank you very much, Fernando. Now we're going to move to the MAPFRE RE which had an outstanding quarter, I mean going back to good profitability. The first one is coming from Paco Riquel from Alantra and he is asking, can you update the business interruption losses at MAPFRE RE?

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

Yes. We published in the financial report, Paco. there is just 4% increase in the cost, in the accumulated cost of the COVID-19 losses. And I mean it's a negligible increase, and it's based on just an update of the provision. Also, we have published as well the amount of provisions, outstanding provisions as of March. If you see numbers practically there is no payments so, practically is the same, the COVID losses from last year and also this EUR4 million increase.

And there is not any significant change. We assume that there are losses, there are claims that they're going to last in our balance sheet for more than months. And there are a lot of different interpretations and probably some litigation as well, and we had to wait some rulings as well. But so far, the good thing is that there is not any negative impact on both -- I mean the valuation or the expectations of any negative run-off.

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

Okay. Another question related with MAPFRE RE coming from JB Capital from Marina, and she says that RE had a solid set of results. Should you, should we assume positive dynamics will continue for 2021. And Evan -- Alex Evans is asking, what would be a fair run rate for a yearly NatCat losses? I mean, it's most related with the activity of MAPFRE RE.

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

Yeah. Thank you, Marina. This expression I mean, it comes from my heart, to say MAPFRE RE finally, I mean some of you mentioned that we need a quarter without any extraordinary I mean topic on MAPFRE RE. Finally, I mean, we had one. And this is the first quarter of 2021.

And the solid performance is based on of let's say stricter underwriting processes; we've retained less risk on global risk, so less exposure. And also and as you know the market is hardening particularly in reinsurance on those geographies that were affected by CAT losses, NatCat losses. I will mention obviously Puerto Rico, but as well the U.S. and also Japan in the past.

So let's say, that let's keep our fingers crossed. MAPFRE RE will keep this performance across the regions and also across lines of business. And hopefully, I mean we have a very good return to a stable profitability for this unit.

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

That's our hope of course. There's a comment - Paz Ojeda is asking us from Banco de Sabadell. She's asking us to do some comments on the performance of the Northeast region that seems a little bit for her a little bit weak but with stronger deterioration in the combined ratio, what is related to -- is this related to one-offs?

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

Let's say thank you, Paz. Let's say that North America, I mean there are different interpretations. I mean, first on top-line, on premiums, we're not satisfied. There are both effects - I mean first is currencies but the second is the lack of new business. And practically Northeast has been in a lockdown permanent situation. There is no new cars sold in this territory. So let's say, that premiums are hurt by this situation. On the combined ratio, I wouldn't say that. I mean, we're happy. I mean it's let's say is a very good number, a very good ratio.

And if you compare I mean with recurring combined ratios as well for the last quarter 2020, it's quite similar. And the only unit in which there is a difference and it's seasonality, the explanation as well, is Brazil, in which there is a slight increase in combined ratio. But the remaining units is quite similar; the first quarter is quite similar to the fourth and the third. And we should expect a similar trend for the second at least quarter of 2021. I mentioned as well and Felipe said that the first quarter 2020 should be considered as a peak COVID quarter. so let's say the comparison is not apples to apples, when we put the 2021 numbers and compare it with the previous quarter.

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

Okay. We have a question coming from Alex Evans of Credit Suisse. Have been any remittances back to the group in the quarter? Coming from the dividend flow from, subsidiaries coming from back to the company -- to the main company. I think that there's was no declaration of main dividends in the first quarter but the second quarter is acting as expected. So probably most part of not in the totality, the dividend that we are announcing and we're going to pay against 2020 financial year is going to be paid with a dividend coming naturally from the rest of the group.

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

Also the dividend will be paid in April this year, this month, sorry. And also it's important to mention we hedged U.S. dollar for the dividends coming from the U.S. And we booked a good profit as well. Well let's say, we offset part of the loss.

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

That -- we stabilized the profit from the U.S. and the change from the U.S. to the euro. Marina from JB Capital. She's asking, could you update us on the contract with PEMEX in Mexico. How is it going? Has it been renewed?

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

Yeah. This is a two-year policy. Thank you, Marina. It expires in June, if I remember well. It would be the fourth time that we are tending I guess we will participate in the tender. And also we will be more than honored if finally I mean, we are the company that they cover damages from PEMEX. I mean it's a quite -- it will be the fourth renewal. I mean, this is very important for MAPFRE. It gives us a lot of confidence and also, let's say -- I mean, it's a good flagship policy, I mean, for MAPFRE in LATAM.

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

Okay, good. There is a question coming from Jonathan Denham from Morgan Stanley. And he's, he's asking about Linea Directa. I mean, he's asking if the listing of the company will change the competitive environment in Spain.

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

I don't expect, Jonathan, any change in the, particularly in the Motor line of business in Spain. I mean it's very good. I mean, to have rather than two, three entities listed in the Spanish stock market. We're happy. I mean, having another peer being public. And also it gives a lot of transparency as well to the market. But I don't see any change in the strategy coming from Linea Directa in that way.

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

Thank you very much, Fernando. We have now question coming from Alex Evans of Credit Suisse, and it's related with the Asistencia business. Is it possible to keep some details on the losses as a lot of companies are now reporting positive travel results from the lower rate? Lower travel sorry.

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

Yes. There is a disclosure on the page 35. We disclose losses by regions and also by coverage. As you see as you could see, I mean, out of this EUR2 million net loss for the entire unit, EUR5.4 million are coming from travel insurance. And I can say that most of them EUR3.7 million -- it's in the chart - is coming from the UK, and also France, and Belgium. We'd practically, I mean close this business so most of this is coming from the UK.

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

Okay, thank you very much Fernando. Ivan from Barclays is asking that, saying that the interim report also talks about other disposals like the annuity portfolio in Chile, Industrial RE, Rastreator and Preminen. How substantial could these transactions be if completed to your 2021 result?

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

Yes. Yeah, thank you Ivan. They are minor disposals. Regarding MAPFRE, but I can give you more information regarding this. Regarding Industrial RE, it's a small subsidiary, practically with no activity, like a EUR35 million, if I remember well, total assets. So if there is a profit that -- we should expect a profit, but it will be extremely small.

Regarding Rastreator and Preminen, I mean the two subsidiaries with business with Admiral, let's say that in that case we should expect a higher gain, and probably we can get it, I mean one of these days, I mean anytime soon. We've been told by Admiral that is practically coming to an end, I mean discussions. So probably we'll see one of these days. It will be a little bit higher, probably in the 2-digit area.

Regarding other in Chile, Chile is the project that I mean, probably is one of the projects that is taking longer time, I mean, for MAPFRE M&A department. I guess is more than two years. In that case, it's like a EUR115 million assets to be transferred to the potential buyer. And in that case, the result will be probably, I mean, since the -- this is some unmatched annuities and we don't like to have -- to hold it in our balance sheet, probably we will report a small loss but one single-digit loss in any case.

But all-in-all I mean those are small transactions. We want to let's say improve our capital allocation. Those are non-strategic activities, and we will keep on this streamlining processes in order to have a better capital allocation. The one that will be important that we will focus on is the Bankia exit, obviously.

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

Thank you very much Fernando. Now, we have a number of questions related with the impact of the COVID in the frequency in Motor, and the Motor activities in the combined ratio. First one is coming from Ivan from Barclays and he's asking, Motor combined ratio across the business has improved by 2.4 percentage points in first quarter 2021 year-on-year, which appears reasonably low to the -- for the substantial drop in driving globally, including Spain and the U.S.

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As the world comes back from the lockdown what run rate do you expect for the remainder of the year? Andrew Sinclair from Bank of America, He's asking, can you provide an update on the latest trends for Motor frequency benefits? How much do you allow it for your EUR700 million of net income guidance for the year? Marina Massuti from JB Capital, Could you please touch more on the claimed ratios? Do you expect claims ratios in Non-Life to normalize? Do you expect the speed to be different across regions?

How do you see the combined ratio for Motor evolving during the second half 2020? And Alex Evans from Credit Suisse. How would you categorize the net impact you have seen from lower mobility versus COVID losses in the quarter.

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

A lot of questions, and believe me even in the best moment of my life, I wouldn't be able to answer these questions. I mean, as I mentioned at the beginning of the Q&A, let's say the increase of mobility and economic recovery will depend on the pace of vaccination basically, across the regions. What we see is sort of asymmetric trends in different countries. Hopefully, I mean. But particularly in the U.S. we're seeing a nice bounce in recovery in the economy. And also we'll see as well in Spain. But in other countries extremely difficult.

What I can say at the moment is that the, with the information we have, and we stick to the 95% combined ratio for the Non-Life business, for the Non-Life lines that we published at the AGM. But what we should expect is a sort of variation, fluctuation in trends across the regions and also, across the lines of business. And one quarter ago, I mean, nobody in MAPFRE expected a dramatic increase in Life Protection combined ratio as the one we published this quarter.

On the other hand I mean combined ratio on other Non-Life lines of business is performing quite well because of the lack of economy. Everybody wants to have a full recovery, and -- but we're going to see a quarter by quarter it's a sort of catch up of activity, and also of increase of mobility. But so far, the longest scenario I can give you is just the 95% combined ratio for this year, sorry about that.

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

Okay, thank you. Thank you very much, Fernando. Understand perfectly well. There is a question related to the emerging markets. Marina Massuti from JB Capital is asking how do you see the outlook evolving of the emerging markets which have been heavily impacted by the pandemic?

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

Let's say that more promising than one quarter ago. And even today, I mean there is a nice rebound as well or this week, by the Brazilian real, that it was the one that hit our top line, basically our top line or net [profit] during this first quarter.

But the most relevant and -- as you know, is the Mexican peso, Colombian peso, Peruvian peso, and above them the Brazilian real and the U.S. dollar. As long as the U.S. dollar

remains in a range between USD1.20- USD1.22, we're fine. But -- and also as you see as well in the, I mean, they are not emerging countries, but it is the one that moves really the equity base for MAPFRE. And the real between this range of BRL6.4 and BRL6.7 we find as well. Other emerging countries' currencies such as Turkish lira, doesn't have a significant effect and because after year-by-year depreciation, the base for devaluation or depreciation is much lower.

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

We have a question related on the outlook, it's coming from Paco Riquel from Alantra, and Alex Evans from Credit Suisse. They're asking on the same topic. If we annualize the first quarter net profit, you will fall short of the EUR700 million of net profit target for 2021, and the Bankia joint venture will be consolidated from second quarter. Do you think that the target is challenging? And if not, what level do you see to improve profits in the coming quarters?

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

Thank you, Paco, Alex. I said that we're happy with -- let's say with the current result for this quarter. As extraordinary, there is only EUR10 million capital gains, and it was the normal peak's rotation, frankly. And we got plenty of leeway to realize extraordinary, we didn't do it and we're not going to do it. But let's say, that the -- well we're happy and we stick to the EUR700 million net equity guidance for the entire year.

Usually the first quarter I mean is lower than average profit contribution quarter. As I mentioned, Gloria last year and this year Filomena, we didn't consider extraordinary. We -- I'm sure, we're not going to have the same storm over Madrid in the second quarter, nor in the third quarter. And also, the third quarter usually is by far historically is the best quarter in terms of profit contribution for MAPFRE. So I don't think it would be fair just to multiply by 4 the recurring profit for the first quarter. So let's say that so far, if there is nothing extraordinary, mainly from COVID, we will stick to the EUR700 million recurring net profit for the entire year.

Regarding Bankia you asked for the contribution. It was smaller than last year, I mean, the net contribution, and let's say that it was this profit from Bankia was already included in the EUR700 million net income as a guidance.

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

Okay. Thank you very much, Fernando, that clarifies very much the situation. Ivan from Barclays is asking when looking at the gross PC premiums which were down 2.6% year-on-year in first quarter 2021, how much of that is lower exposure, and how much is lower price. Now that the economies are recovering and some regions are seeing inflationary pressure, how do you think about your ability to increase pricing?

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

As a general trend, because I don't have numbers, I mean, for each region or for any country, Ivan, but let's say that we've seen an increase for a number of reasons. I mentioned particularly in Spain because of the -- our brand recognition, also as well in



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some countries in Latin America. But on the other hand, there is a decrease in premiums and also in units in the U.S. and also, in Italy because we decided to quit this car dealers distribution channel. On average premium, let's say that we're seeing a reduction which is lower month-by-month on Spain and was based on this strong effort to protect our portfolio. And in the remaining regions, particularly in the U.S. I mean there is no changes in the tariffs or let's say there is not any change in the average premium. And in the rest of countries, I don't see -- I don't remember any relevance. So, so let's say most of the growth is coming from an increase on risk number.

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

Thank you very much. We have a question now related with the M&A activity, coming from Paz Ojeda of Banco de Sabadell. It is related with Italy activity. There have been a lot of M&A operations, around Aviva and Allianz bancassurance et cetera. Could MAPFRE consider at some point this business as non-core? She is referring to Italy.

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

Thank you for the question, Paz. Regarding Italy, I mean we are focused on digital business. When we decided to quit the car dealerships, it's because we want to concentrate -- because it was loss making channel, obviously, first; it was 80-20 decision. And we decided to focus on the digital channel.

Obviously, we're selling as well digital business with white brands as well in other countries, particularly in Germany, where we have agreements with some car makers. And probably we can do as well.

I mean we will be quite active in looking for digital business growth in both countries. But I don't see, let's say any standard bancassurance agreement because we have a digital business just in Italy.

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

And no disposal in Italy?

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

And no disposal, absolutely.

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

Okay. Thank you very much. It seems that there are no more questions. So we come to the end of the meeting. Thank you very much. Thank you, Fernando. Before we close the call today and moving on to logistics, next Wednesday, the 5th, we will be hosting two group meetings during the afternoon. First, there will be a group in Spanish at 4 o'clock Madrid time followed by another group in English at 5:15 Madrid time. Both meetings would last around 45 minutes, and as we published updated provisional Solvency II figures applying the partial internal model as well as our 2020 embedded value disclosure, these meetings will be a good opportunity for any questions you may have on those topics. Please get in touch with our Investor Relations teams to confirm your attendance. You

have the contact details in the presentation. And that's it. Thank you very much for your time and please stay safe. Thank you.

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

Thank you, everybody for your presence, and as Felipe said, stay safe and healthy. Bye-bye.

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