

Mapfre, S.A. BME:MAP

FY Nine Months 2020 Earnings Call

Transcripts

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S&P Global Market Intelligence Estimates

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Call Participants

EXECUTIVES

Alfredo Castelo Marín
*Chief Executive Officer of the North
America Region*

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

Fernando Mata Verdejo
Group CFO & Director

Natalia Núñez Arana
*Deputy Director Capital Markets & Head
of Investor Relations*

Presentation

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Good morning, everyone, and welcome to MAPFRE's results presentation for the first 9 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 RE. 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 3 main principles: first, the health of our employees and collaborators. Second, business continuity, guaranteeing the commitment to our clients and shareholders; and third, our balance sheet, focusing on solvency and capital strength.

In Spain, currently around 50% of employees and all top group executives and managers are working on the premises, and around 40% of employees in the rest of regions, ranging between 20% and 60% depending on the conditions in each country. The remaining employees are still working from home. We have resumed some of the strategic initiatives that were postponed at the onset of the pandemic and also, we are maintaining client service levels in line with MAPFRE standards.

As usual, at the end of the call, we will answer all questions received at the Investor Relation e-mail 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
Group CFO & Director

Thank you, Natalia, and good afternoon, everybody. Good morning for those in the U.S., and thank you, again, everyone, for being here with us today. Before we go into the details, I would like to point out that it was a good quarter, despite the current COVID and macro scenario, with a group profit of EUR 180 million. Insurance units are thriving in 2020 with an attributable result of EUR 610 million, up over 7% on the year. Iberia continues contributing with strong growth and profitability metrics. Improvements are notable in Brazil, the U.S., Mexico and other important Latin American markets as well as Turkey and Italy. The largest impact from the pandemic continues to be on the top line due to confinement measures and economic slowdown.

Currency depreciation has been a headwind, even more so in the third quarter as well as the negative environment for life savings products. On the claims side, direct COVID impact at insurance units, mainly from burial in Spain and life protection in Brazil and the rest of Lat Am, have been mitigated by lower frequency across all markets, especially in motor. The cost of COVID- related claims at MAPFRE RE had a EUR 57 million impact on the attributable result, unchanged in the third quarter, and the travel system business was hit mainly, as you remember, in the first quarter. Another important effect has been on financial income, with yield compression, lower dividend income and a difficult scenario for realizing capital gains. We continuously review our asset exposure and valuation. And in Q2, we booked a provision for undeveloped land in Spain with a net impact of around EUR 20.5 million. And in the third quarter, we booked a write-down for software at MAPFRE USA with a net impact of EUR 14.6 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 3 main rating agencies. Please turn to the next slide. Regarding September figures, premiums are down around EUR 2 billion in the year, affected by: first, currency depreciation with a EUR 1.1 billion impact. Second, life savings premiums are down EUR 690 million in Iberia. And finally, as a reminder, last year

there was a 2-year policy issued in Mexico for PEMEX for EUR 449 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 EUR 450 million, down around 3%. The combined ratio improved over 1 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 the good news from the first quarter. Just as a reminder, the Solvency II ratio at June stood at 184%, within our range.

Please turn to the next slide. On this slide, we will discuss the different components of the adjusted attributable result. Due to the offsetting nature of the different impacts of COVID on insurance operations, we have not considered this in the adjusted result, as the final effect should be almost neutral. Regarding large claims events during the year, earthquakes in Puerto Rico had an impact of EUR 65.5 million, around EUR 4 million higher than in 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 write-down for goodwill at ASISTENCIA for EUR 65.6 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 EUR 5 million impact in the U.S. as well as a provision at MAPFRE ASISTENCIA for EUR 11 million. This year, there has been a EUR 15 million net impact from our restructuring provision booked at the second quarter.

Financial gains and losses are down over EUR 50 million, mainly due to lower equity sales. This a big hit. Had 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 public -- there is a couple of headlines quite recently in the newspaper, one as a buyer and another as a seller. Excluding all this impact, the adjusted net result reached EUR 577 million, up EUR 75 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 unit 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 U.S.A. and improved profitability is coinciding, but important is coinciding with lower frequency from the pandemic effect. Iberia continues to perform well. The fall in the result is mainly due to lower realized gains in the Life business. As last year, there were higher financial gains driven by asset sales from surrenders. In Non-Life, the fall in financial income was offset by an improved technical result. And regarding premiums in Spain, we outperformed the market in most retail business lines. In motor, premiums are down due to discounts made to policyholders at renewal in the current COVID scenario. Regarding Iberia Life premiums, we are outperforming as well the market in protection, which is a higher-margin segment, with premiums up 2.6% although issuance has slowed down on the quarter. Life Savings premiums are down EUR 690 million due to a difficult environment for these products.

In the other regions, currency movements continue to have a strong impact, both on premiums and results. In LATAM, results are up nearly EUR 30 million, and all 3 regions are reporting excellent ROEs with LATAM North up to 17%. The combined ratio for the region is outstanding at 89%. Despite the economic situation, results have improved in Brazil and Mexico, the Dominican Republic and across Central America, especially in Panama. Regarding the international business, results are up by around EUR 30 million. There were several large impacts in North America. First, the EUR 14 million net realized gain from the sale of real estate in the first quarter. Second, the EUR 26 million net loss as a result of the earthquakes in Puerto Rico. And third, this quarter, results were impacted by the software write-down already mentioned. Results continued to improve significantly in Italy due to a decrease in 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. The assistance business, the largest hit was from travel cancellation claims in the first quarter. We have been prudently reducing -- we've 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
Chief Executive Officer of Mapfre Re

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 valuation 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 2 years ago and a very positive momentum in that business segment. Premium growth is very strong in this segment, mainly coming from significant rate increases and initiated already a year ago and is starting to be seen in -- in the P&L account. On the reinsurance portfolio, the past renewal periods of April and mid-year have 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 PML accounts also in the coming quarters. Turning to the next slide, you can see that the large loss burden for MAPFRE RE in the first 9 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 EUR 302 million compared with EUR 166 million a year ago. On the natural catastrophe side, we have to highlight the earthquakes in Puerto Rico that affected mainly our group portfolio. In addition, we had a large number of medium-sized claims affecting mainly the U.S. and Spain this year, being the biggest one for us, the derecho storm affecting the U.S. 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 the explosion occurred in Beirut also in August with an impact of EUR 30 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 EUR 81 million, of which the largest amount, EUR 49 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 a 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 has 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 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 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 profitability, 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 proves its very high-value for the whole MAPFRE Group. Finally, taking about -- 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 turn around the low level of margins that we have seen recently across the industry. In that regard, we are confident that the trend seen in recent renewal periods will continue and actually might accelerate. In this context, a strong focus will be on clarifying and potentially limiting scope of coverage in addition to pure pricing behavior. I will be happy to take the questions later, and would give now the floor back to Fernando.

Fernando Mata Verdejo
Group CFO & Director

[For the] usual explanations, we 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 EUR 8.4 billion, down 5% during the year. The most relevant changes are first, a EUR 650 million decrease from currency conversion differences during the year, EUR 226 million during the quarter, mainly due to the depreciation of the Brazilian real, our second largest exposure, which is down nearly 32%. Also the U.S. dollar underperformed the euro in the third quarter with a 4% fall. We expect the U.S. dollar and Brazilian real to stabilize in the near future. Net unrealized gains on the available for sale portfolio have had a EUR 35 million positive impact during the year, improving -- it's very important -- by over EUR 120 million during the third quarter, basically driven by the strong performance of Spanish and Italian sovies. The 2019 final dividend amounting to EUR 262 million was paid in June. Dividend upstreaming has been stable with total inflows reaching nearly EUR 303 million, with EUR 232 million from Spain, EUR 37 million from the U.S. and EUR 29 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 EUR 1 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 3/4 of MAPFRE's total portfolio, the available for sale portfolio. Most unrealized gains are in immunized portfolios, and gains have increased mainly in freely managed portfolios, thanks to better performance of fixed income markets.

At this point, I would like to comment on the Board's decision regarding dividends. As you know, MAPFRE aims to pay out a sustainable dividend to allow investors to participate in MAPFRE's profits based on a 50% minimum payout approved at the AGM. [Certain] 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, on considering the group's current liquidity, solvency and also financial conditions, the Board has approved the 2020 interim dividend amounting to \$0.05 per share, \$0.06 last year, which will be fully paid in cash on December 22. This \$0.01 reduction will strengthen our capital position. The total dividend paid in the 2020 calendar year will amount to \$0.135 per share, equivalent to EUR 416 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 of the left, you can see the breakdown of the capital structure, which amounted to EUR 12.7 billion. Our credit metrics are pretty strong with leverage around 24%, and it should convert 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 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 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 2020 year-end -- to apply this to 2020 year-end calculations. This will imply roughly tacking a 10 percentage point uplift to the Solvency II current ratio. The process -- the second regulatory topic, the process for diversification benefits of the matching adjustment will be taking a little bit longer.

MAPFRE's current ratings are in an excellent position and have been recently reaffirmed by all 3 agencies. Please turn to the next slide. This slide includes a full disclosure of the breakdown and variations of the investment portfolio and total assets under management, which are down driven by currency effects and also the fall in stocks, but we saw recovery during the third quarter.

Asset allocation has been stable throughout the year with most changes driven by market movements. Spanish are in debt for a little under EUR 18 million and Italian debt around EUR 3 billion, are both our largest exposures. Both sovviess performed very well during the quarter with 10-year Spanish sovviess down over 20 basis points and in the case of Italy, 40 basis points. These investments are mainly allocated, as you well know, to immunized portfolios. Cash is up to EUR 2.7 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 have been 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 EUR 27 million, down EUR 57 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, they were close to the red line, we sold them by September 30. MAPFRE RE allowed to mitigate these losses with strong gains, but at modest levels. We continue with a 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 EUR 180 million in the quarter confirming our profit-generating capacity. Performance of the insurance unit has been outstanding, reaching a net result of EUR 610 million, up over 7%. In Iberia, growth has been resilient in several key Non-Life segments with strong underwriting results, despite a quite competitive market. This is helping to mitigate the pressure on financial income as well as a challenging market for life savings products. In LATAM, we've seen improving results in Brazil, Mexico, Panama and Colombia, despite currency headwinds. Top line in this market has been hurt by economic slowdown. Results continue to improve in the U.S., 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 and MAPFRE RE maintains a strong financial position and prudent underwriting approach.

Right now, our top priority is maintaining our 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, it has been the longest lasting bancassurance agreement in the Spanish market. Fortunately, we are very well protected under the terms and conditions of the bancassurance agreement, specifically the exit clauses for change of control. Regarding the timeline, we expect the transaction to close by mid-2021.

Going forward, we continue to focus on our multichannel 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 a 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 pay ratio; second, stable solvency levels and liquidity positions. And third, we had 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.

Question and Answer

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

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 reinsurance 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 Sabadell says that in spite of the impact of 3 quarter catastrophes, MAPFRE's combined ratio of 95% has been very positive. Could you confirm if there has been a positive runoff in the quarter? Could you detail the cost of 3 quarter catastrophes in the quarter?

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

Well, thank you for the questions. On the one-offs for the quarter, I would say the one-off was the frequency of large loss events that we suffered during this period. None of them being extremely big but in fact, a significant amount of medium-sized losses. Overall, the burden for large losses in the quarter was EUR 105 million -- EUR 104.9 million. With the biggest ones, as mentioned, being the explosion in Beirut and the derecho storm, but we had other hurricanes affecting the U.S. during the quarter. So none of them very big, but the aggregated figure, EUR 104 million.

Talking about Puerto Rico, there was a deterioration during the quarter. That was not big. It was before tax in the region of EUR 10 million. The main reason for that is that due to COVID, there is a delay in claims reporting and claims adjustment in Puerto Rico and everywhere else, and it proved to be a bit more than initially expected, and that's the reason for that negative runoff in that part. Concerning COVID on the reinsurance and global risk portfolio, as mentioned, it has been stable. There is a EUR 1 million increase that's coming from 1 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. In what concerning runoff, I think there was nothing extraordinarily positive during the quarter. We didn't have any -- well, we had a small reduction on the IBNR for cat events last year that was in the region of EUR 10 million, EUR 10 million to EUR 15 million, but nothing really significant and worth mentioning. I would say the good evolution of the underlying result is -- was something that we had already advised. 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.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Thank you, Eduardo. And also continuing with this question, [Otho K] asks about this COVID impact on MAPFRE. Since the reserves have not been increase in the third quarter, bearing in mind it covers such as event cancellation or business interruption, do you expect larger provisioning in the fourth quarter of 2020 or in the first quarter of 2021?

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

Well, on the evolution of COVID, as I mentioned before, it's still uncertain, and it will be uncertain for some time. That's sure. In the case of MAPFRE across the group, the event cancellation issue is nonexistent 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 last few months, to what extent they will be favored 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, the 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 are -- we shouldn't have big surprises. But there is a certain risk there, of course.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

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 cyber attack suffered last summer?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you, Paz. First of all, I would like to highlight that there is a strong recognition from 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 the Spain and also the insurance business has been the target for those cyber terrorists, particularly this summer. There is a full disclosure of this cyber attack in the financial report, but let me just comment a little bit longer about this. We admitted in August that we suffered a ransomware cyber attack on our Spanish operations. As a result, MAPFRE activated our internal protocols to increase IT security protection, and by which had to turn off some online and customer service over a few days.

Let's say that we realized that we had a server attack 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, 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 the 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 cost and with relevant loss of profits for business interruption. But no -- let me say that so far, the only net effect that is included in our accounts is a EUR 2 million loss, which is equivalent to the deductible amount for the damage coverage. That's all. You got plenty of information in the financial report.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. 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 bancassurance agreement? How much do you expect to be compensated for -- how do you expect to use this capital? Also Sofia Barallat at CaixaBank has asked for more color on the investment of the proceeds from the end of the bancassurance agreement with Bankia.

Fernando Mata Verdejo
Group CFO & Director

Yes. 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, is still a MAPFRE subsidiary, and we're working together with Bankia in order to optimize, I mean, results during the fourth quarter. And I would like also to highlight that this agreement has been extremely fruitful for both entities for over 20 years. Unfortunately, and it's coming to an end due to an external factor, in this case, is a change in Bankia capital structure. It's a change of control. And it is a moment when the relationship between MAPFRE and Bankia, they're pretty satisfactory for both sides. From the point of view of business volumes, there is a full disclosure as well because we usually disclose numbers 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. It's around 2%, it's like 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 are confidential information. But we can say is that the clauses protect both sides and they're binding for both sides in the case of a termination of the agreement by either partner. You asked for an evaluation of proceeds. I'm not in a position right now to unveil an evaluation of current business with Bankia, embedded value with Bankia. Yes, 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, it was published a number. It was EUR 0.5 billion as a reduction in the future capital position, and it was due to the cost of future restructuring of the JV and other concepts. Let me say that this assessment was made by Bankia without any price 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 occur as a result of the bank industry in Spain. Currently, we had 3 with Bankia, Bankinter and also with CCM, which is a business -- 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 cancellations. But in the past, we did it very well. I mean, when we sign a bancassurance agreement it is not for the near future. It's 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 a change of control, we try to optimize, I mean, the exit value. The sales of the subsidiary, because there are 3 subsidiaries: Bankia MAPFRE and also the 2 recent acquisitions from Caja Granada and Caja Murcia. There is [approved] merger currently underway, probably finished by year-end. And the sales of these subsidiaries and probably the next one, next year, the CCM, they will not negatively impacted MAPFRE's volume as a whole, I mean, and I guess in terms of valuation, we will receive a 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 strategic growth in the future. We're based on a multichannel approach and the different options to expand our business. And for sure, we will deploy the proceeds from this transaction in business development.

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

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. 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 U.K. not had an impact on your reinsurance business this quarter?

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

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. Talking about the U.K. judgment, I would say it's not a U.K. judgment, it's -- there's a number of judgments or a 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.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

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 reinvesting the Bankia proceeds for profitable growth will be better for shareholders than buying back stock? And also Farquhar Murray at Autonomous would like to know: Are there transactions in the pipeline as you see it currently? What will happen if there are no immediate acquisition opportunities?

Fernando Mata Verdejo
Group CFO & Director

Thank you, both Jonathan and Farquhar for 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're 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 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 that 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 transaction in the pipeline, despite the current noise in the market, let me say that there, 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. Next step will be just to agree on Bankia value, exit value. And once the inflow is done, we will focus on the outflow of money. And -- but 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 budget, next year budget. But what will happen in immediate acquisition opportunities, let's wait. We are at the early stage, and there is no discussion, as I mentioned, there is with Caixa, we're just waiting for the current legal process, which is underway. And once the merger is finished, that we will continue with a very well-established procedure written in our bancassurance agreement. That's all what I can say at the moment.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

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

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

Yes. Thank you, Jonathan. We've seen a lot of moving parts in this situation. First of all, I mean, the pandemic moving westbound. And so the most significant impact was in Europe in the second quarter and during the third quarter was in LATAM. Perhaps, I mean, you read numbers and from claims, those are reported -- these are reported claims. And we disclose the net -- the [cut spread] of COVID in both reported claims case-by-case and also IBNR reserves. And as of June, it was currently [run] like 2.5. The cost -- the effect in combined ratio of the IBNR booked has been reducing practically in 1/3 during the third quarter as long as the losses were declared in the different geographies. Particularly the increase in life was due to the increase of reported claims in Brazil. But let's say that most of the cost 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 notion I mean the cost of COVID that we knew at the second quarter, we booked in the case-by-case provision and also as IBNR reserves. Net effect, probably in the -- we 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 [afwadiad] fundamentals, and we will see some -- perhaps some releases during the fourth quarter.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

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

Fernando Mata Verdejo
Group CFO & Director

I mean it's extremely difficult to differentiate net effects in frequency, particularly in automobile. Because of the -- as I mentioned, the pandemic is moving westbound with different effects in different regions. And let's say that where we're living is like 3 completely different, from a pandemic view, quarters. The 2 first months, they were quiet. And we practically -- I mean we were meeting the budget, then end of March, April and May, practically, there 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, it was a catch-up of some claims during the second quarter, 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's very difficult to differentiate, as I mentioned, which credit should be assumed by MAPFRE due to the improvements made, particularly in Spain, 3, 4 years ago and also in Brazil and U.S. last year. Because 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 loss ratio is not sustainable. In Spain is 84%. We're looking at a higher combined ratio in the near future. But it will depend, as I mentioned at the press presentation, of 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 the 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 done so far is just to adapt our strategy to the current situation. And it was quite fruitful and is part of the benefit that we're reporting during -- in this third quarter.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

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

Fernando Mata Verdejo
Group CFO & Director

Yes. As I mentioned, our main strategy is to protect our portfolio and what we're doing so far -- we doing and we're doing so far is just to apply rebates, particularly in automobile in Spain according to the risk profile of its policyholders. 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 increase in rates as well, because there for some perhaps a group, so in commercial business, it could be an increase in -- also in the loss ratio. In general, I mean, we're protecting our portfolio across the regions, and we're doing rebates for those risk that the loss ratio, I mean, is pretty low, and we can transfer part of this reduction in loss ratio to rates.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you very much. Now Alex Evans at Credit Suisse has sent us the following question: Your accepted reinsurance slightly increased in the quarter. Is this a function of credit insurance business or business interruption? And should we expect this to develop further a situation 0.5% in fourth quarter so far?

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

I understand it is, again, COVID related claims. I would say the increase on the business interruption side, as mentioned, was 1 individual claim in the MAPFRE Global risk portfolio that is that EUR 1 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 a 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.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Thank you, Eduardo. Now we have questions regarding the year's tables, biometric tables. How does the year's of this EUR 1.7 billion net impact from the update of biometrics tables compare with your estimates on this matter? What is the provision built for this purpose? Can you -- can the pending impact, if any, be deferred faced?

Fernando Mata Verdejo

Group CFO & Director

Yes. Thank you, Sofia. We discussed this topic last year a couple of times, but you're right. I mean, for the last 2, 3 quarters, we've been quiet because there were no news. But as we're approaching them into 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, and we booked provisions in 2018 and 2019. What we did the same with the new [Baremo] regulations past 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 track 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 the final -- depending on the final outcome, perhaps MAPFRE has to add some, a small amount to our current provisions in order to adjust our book value, I mean to the future longevity tables. In any case, it will be a small amount, particularly negligible. I mean, while we're waiting 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 worry about the COVID-19 crisis really, rather than the longevity tables.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you very much. Paz Ojeda at Sabadell has a long question: According to Slide 12 of the presentation, Brazil's accounting yield rose 60 basis points stand-alone from 3.18 at June to 03.82 at September, despite interest rates have gone down. Could you comment on this?

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

We increased a little bit duration. And probably you seen the information, the modified ratio 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 in -- particularly in our [known] 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.

Alfredo Castelo Marín
Chief Executive Officer of the North America Region

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

Fernando Mata Verdejo
Group CFO & Director

Well, thank you for your question. Very little to comment on this. And we're pretty focused on the COVID-19 crisis, the reorganization of our business in the U.S. 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 U.S., but let me say that we're pretty focused on our current operating business. And there is nothing that we can do regarding the U.S. elections, nothing but to accept the final result. That's all.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. 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 could have expected, given your Solvency II sensitivities. Please, could you give some details on the moving parts here this quarter?

Fernando Mata Verdejo
Group CFO & Director

Well, unfortunately, we don't know exactly how you are working -- how you're 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 we apply the sensitivities, the impact to our life portfolio profile could be material and also to distort results. If you would like to look into in more details, Natalia and also our CFO -- sorry, Ramon Carrasco -- will be more than happy just to give you more details in a phone call.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Thank you very much. Now we have a set of questions regarding dividend and strategy. And Jonathan Denham at Morgan Stanley and Murray Farquhar (sic) [Farquhar Murray] at Autonomous have the following questions regarding dividends. 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 how this compares between the Spanish regulators and others? Additionally, Paz Ojeda at Sabadell asks, which are the most important criteria to establish the final dividend for 2020: payout, Solvency liquidity?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you. A lot of questions. To clarify your concerns: First of all, there is not only one single reason behind this \$0.01 reduction in the dividend yield -- 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 [AOPA] or the Spanish regulator, it's across all regions. We're keeping a quite fluent dialogue with different regulators, particularly with Direccion General de Seguros in Spain. And also, we will call them just before presenting the proposal to the Board. They note that the final proposal was a \$0.05 per share. So it was, first, the reasons behind this interim dividend of \$0.05 is, first, the regulatory environment, let's say, this strong recommendation at the beginning of the crisis, that they converted into mild recommendations, but they are still recommendations to be prudent.

Second, the Board wanted 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 will 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 will be finished in months, it will be probably in years. So we have to be pretty prudent.

Regarding regulatory, Sofia, we 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 stop dividend as well the upstream from Mexico. Then it was a some relaxation in Mexico. And in the end, we propose probably we will retake, I mean, the upstream of dividends from Mexico -- Mexico in the fourth quarter. But in general, most of the regulators, they recommended to be prudent in the dividend regarding dividend policy.

The dividend is what is. It's \$0.05, and there were different factors and the Board considered all the situations regarding this dividend payment. And in the end, we agreed just to pay this \$0.05 per share. There is not any subliminal message regarding the final dividend to be paid next year. And at the end of 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. Is -- we have a strong commitment with investors. And you see, I mean, the general overview, particularly in Spain with financial institution and also in Europe. There are cuts reduction in most of the -- from most of the insurance and reinsurance carriers. We're close to the dividend paid last year. And I think it's a very good midpoint, considering both things, our commitment with -- 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. That's all.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

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 EUR 20 million. How much is usually remitted for this time of year? Where can further remittances come from? How much surplus cash do you have available? Also regarding dividend

upstreaming, Paz Ojeda at Sabadell would like to know if we are expected more repatriation in the fourth quarter, and from which countries?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you. Let's say that the upstreaming of dividends from the first 3 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 cache a lot of money from subsidiaries. Instead, we left the money on 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 fully match of dividends paid by MAPFRE S.A., overheads at the holdings and the dividend upstream for its subsidiaries. So if I'm not wrong, total amount for the outflow will be approximately EUR 540 million. And remittances from subsidiaries will be equal to this amount. Just 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 U.S. will contribute as well with another dividend in the fourth quarter. In general, the smaller subsidiaries will contribute as well with dividends. If I'm not wrong, EUR 14 million will come from Central America, a small amount from Mexico, as I mentioned, like EUR 7 million, Peru will be in 2 digits as well. And the only entity that then not paying dividends is 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 that bad. Like the first -- Eduardo is looking at me and but in any case, if there is more profit, we have decided to retain in order to protect the final equity of MAPFRE RE. So MAPFRE ASISTENCIA 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're quite comfortable with these outflows from the subsidiaries. They're keeping quite a strong financial position. They're very good at keeping cash balances as well. We haven't seen -- we have not 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 questions.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Now we'll have the last question.

Fernando Mata Verdejo
Group CFO & Director

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

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you. Yes. 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.

Fernando Mata Verdejo
Group CFO & Director

Yes. 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 digital business is performing quite well. I mean VERTI results are outstanding. Growing almost 7%, EUR 6 million profit. Other .com operations across MAPFRE units, they're 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 network, 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 there it's quite pretty defensive. And there is a lot of variation that is difficult to explain. I mean, we're quite happy with performance in global risk. Quite happy with Germany with a 4% increase in premiums. And particularly, if you 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 close to around 3% and other line of business in Non-Life regarding to SMES, small and medium enterprise, is working very, very well. So let's say that there's a lot of up and downs in regarding different regions and also

different line of business. The only which is going to be hit for sure, is Life in Savings that I don't see any change in the current trend. So we'll still have to struggle in order to keep these life premiums within the MAPFRE perimeter.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

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

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

Thank you.

Fernando Mata Verdejo
Group CFO & Director

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

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

Thank you.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations
Thank you.

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