

# Mapfre, S.A. BME:MAP

## FQ1 2020 Earnings Call Transcripts

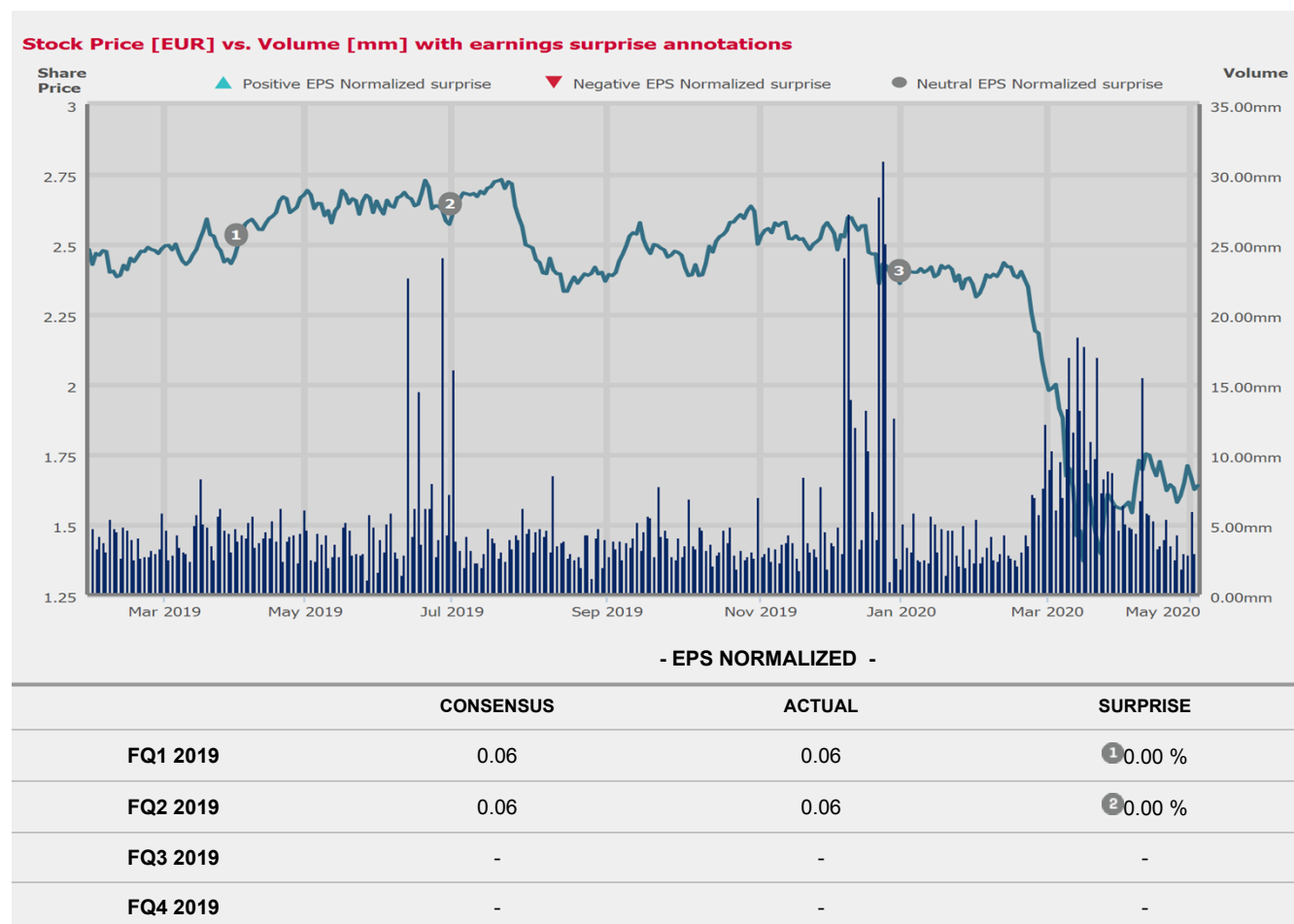
**Tuesday, May 05, 2020 9:30 AM GMT**

S&P Global Market Intelligence Estimates

	-FQ4 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	-	0.20	0.24
Revenue (mm)	5151.00	22564.21	21567.14

Currency: EUR

Consensus as of Apr-30-2020 4:51 PM GMT



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# Call Participants

## EXECUTIVES

**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 the presentation of MAPFRE's preliminary results for the first quarter of 2020. My name is Natalia Núñez, Head of Investor Relations. Just as a reminder, these figures are provisional as the financial information will be approved by the Board of Directors on May 18. This presentation is shorter than usual, and it includes basic data to give you an overview of MAPFRE's performance this quarter. The MD&A and other information, including the usual spreadsheets, will be released on May 18.

As always, we have here with us our CFO, Fernando Mata, who will go through the highlights of the quarter and the key figures. On this occasion, it's also a pleasure to have Eduardo Perez de Lema, MAPFRE RE's CEO, here with us. He will briefly comment on MAPFRE RE's figures, and at the end of the presentation, he will also participate in the Q&A session.

At the end of the call, we will answer all questions received at the Investor Relations e-mail address during the Q&A.

With no further ado, let me turn the call over to Fernando Mata.

**Fernando Mata Verdejo**  
*Group CFO & Director*

Thank you very much, Natalia, and good morning, and welcome, everyone. First of all, I hope you are healthy and doing well. Before going through the preliminary results, I would like to comment on the current situation. During the first quarter of the year, the entire world has been impacted by the spread of COVID-19. The crisis will have relevant social and economic implications, both in the short and medium term. Since the second half of March, the coronavirus has already affected insurance activity and the lives of all the people who are both directly and indirectly connected to MAPFRE.

In the midst of these unprecedented crisis, MAPFRE has 3 main priorities: first, guaranteeing the health and safety of collaborators; second, ensuring business continuity to provide MAPFRE's quality service level to our clients; and last, contributing to the economy -- the economic recovery. To achieve this, a wide range of initiatives were implemented, including: first, roll out of our business continuity plan in all countries and business units, adapting it to the special nature of the COVID crisis with nearly 90% of employees worldwide working from home. Guaranteeing essential services for clients through the entire provider network, including tow trucks, repair shops, home reports, medical centers and funeral homes.

We are also carefully monitoring and evaluating the risks that have emerged from the crisis. We are protecting our balance sheet, especially the investment portfolio and preserving the group's capital position. We are also focused on ensuring we have liquidity and financing that could be necessary in the case of further financial tension, especially in emerging countries.

We are mobilizing resources and transferring funds to the real economy through direct donations as well as through measures for our clients and other stakeholders, coordinated with MAPFRE Foundation's contribution to society.

Please turn to the next page. The COVID-19 crisis has had asymmetric economic impact for MAPFRE. The asset side of the balance sheet is already reflecting the crisis after the downturn in equity markets and in currencies from emerging countries.

Business volumes have also been affected by lower economic activity as well as lockdown measures. It is important to highlight MAPFRE's diversification by geography and product line. Technical margins should be resilient as direct impacts in lines of business related to the virus, including Health, Burial or Life Protections are expected to be mitigated by other lines. Particularly, we're seeing, mainly in April, a short-term fall in Motor and General P&C claims due to lower business activity and lockdown measures.

The health crisis and economic slowdown had a very limited impact on insurance and reinsurance operations during this first quarter, as the spread of the virus in Europe and America to place mainly in April. Therefore, still too soon to evaluate the longer-term impact, which will depend on how long and how severe this crisis proves to be.

Finally, regarding NatCat events, the earthquake in Puerto Rico and Storm Gloria in the northeast of Spain, during early 2020, had a EUR 67.5 million impact on the attributable result. MAPFRE's capital position continues to be excellent with limited exposure to interest rates and credit and with a high share of sovereign debt in our portfolio.

Balance sheet flexibility is a guarantee for resilience. Our assets are very liquid. Our cash position is relevant and could be complemented by available credit and other available financing. Also, we continue to manage our balance sheet with a prudent approach. Technical reserves are booked on an accrual basis with a potential risk margin. And during the first quarter, we didn't book -- didn't any additional provisions to cover potential cost due to the change in economic cycle. Nevertheless, IBNR reserves were strengthened during the first quarter and based on actuarial hypothesis for General P&C in Iberia and travel assistance in the United Kingdom.

Please turn to next page. Regarding the figures for the first quarter of the year. Our top line has been largely impacted by currency movements, financial market volatility and also fall in business activity. At constant exchange rates, Non-Life premiums are up slightly, 0.6%, and Life premiums are down 9%, mainly due to the challenging environment for Life Savings product, which has been going on for some time. On the other hand, Life Protection premiums have proven quite resilient.

The net result stands at EUR 127 million and has been hit by the 2 significant weather-related events that I just mentioned. As a result, the combined ratio stands at 100%. And excluding these 2 events, it would be around 97%.

Assets under management are down around 7% during the quarter. And shareholders' equity is down 11% due to the downturn in financial markets and currency depreciation. The ROEs, excluding last year's goodwill write-downs, would have been 7.6%. Our capital position continues to be strong with the Solvency II ratio standing at 187% at the close of 2019.

On the next slide, we will take a look at the key figures by business unit. First of all, I would like to highlight the contribution from our insurance units continuing the solid trends from previous quarters. Iberia continues to be the largest profit contributor and the fall is due to higher weather-related claims. Regarding premiums, in Spain, we have continued to outperform the market in Non-Life in most lines of business, with the exception of motor, where we have taken a more cautious approach given the current pricing environment. Premiums are down in Life Savings, but we are significantly outperforming the market in Life Protection. In our business outside of Spain, it is important to mention the strong impact that currency movements have had both on premiums and results, especially in Brazil, Mexico, Colombia and also Turkey.

In Lat Am, I would like to highlight that all 3 regions are reporting ROEs over 10%, and combined ratios are in the range of 90% to 97%. Results have improved mainly due to the strong performance in Mexico and across Central America, especially in General P&C.

I will also like to highlight our acquisitions of 51% stake in a health insurer in the Dominican Republic, which has already contributed over EUR 54 million in premiums during this quarter with a net result of EUR 1.5 million.

Regarding the international business, results are up by over EUR 17 million year-on-year. There were 2 large impacts in North America. First, the EUR 14 million realized gain. It was as a result of the sale of a building in Boston. This sale was initially scheduled for the fourth quarter of 2019. Probably you remember, we have a couple of units in the market, but finally, we couldn't materialize last year. And second, the EUR 21 million net loss in Puerto Rico as a result of already mentioned earthquake.

It is also important to mention the improving results in Turkey. We've seen a significant decrease in motor frequency based on a stricter underwriting policy implemented in previous years.

In the system business, the lockdown situation and the massive flight cancellations at the end of March have triggered a reduction in premiums and a significant increase in potential travel insurance losses. Practically the entire ASISTENCIA net loss is derived from IBNR booked in the U.K. travel assistance.

On the next slide, we will take a look at the extraordinary drivers of the attributable results. Now I will hand over the floor to Eduardo to comment briefly on MAPFRE RE.

**Eduardo Perez de Lema**  
*Chief Executive Officer of Mapfre Re*

Thank you, Fernando, and good morning, everyone. MAPFRE RE results were also affected by the Puerto Rican earthquake, with a total impact around EUR 32 million. Also, we suffered from some large manmade losses, both in the Reinsurance and in the GLOBAL RISKS segment and some increases in general frequency losses. In addition to that, given the uncertainty about the future developments of the year due to the COVID crisis, MAPFRE RE has decided to take a particularly conservative approach on certain reserving actions. That includes not releasing certain reserves that would usually be done during the first quarter. Further, we had suffered some timing differences in the accounting of some reserves usually done during the second quarter, and conservative premium earning patterns that are different in our inwards and our outwards portfolio.

Finally, we suffered from an increase in -- of retrocession cost in 2020 due to general market trends and portfolio growth that we will account earlier than the corresponding increase in premiums from the incoming portfolio. It is important to keep in mind that the positive impact of the 2020 renewals on earned premiums will not be seen until later in the year, while increased retrocession cost has mostly been recognized in the first quarter.

Regarding COVID, we didn't have any meaningful impact during the first quarter as any claim activity that could potentially affect our portfolio didn't materialize during that period. MAPFRE RE doesn't have any material exposure to some of the most affected lines of business-like event cancellation, travel insurance or certain lines of casualty. Furthermore, in the vast majority of our business interruption portfolio requires material damage to trigger any recovery, which is not the case with COVID-19. However, there are very few specific cases where coverage without existence of material damage is granted, and we will have some claims activity derived from the crisis. At present, it is impossible to precisely quantify the economic impact this crisis would have, but we expect it to be manageable within the risk appetite of MAPFRE RE and aligned with our market share in the affected markets.

Please turn to the next slide to look at the breakdown of the adjusted attributable results. As we already mentioned, we faced 2 large claims during the first quarter. The Puerto Rican earthquake had a total impact at the group of around EUR 54 million. The breakdown by units is on this slide.

In the initial assessment of the -- at the beginning of the year, significant losses were not observed, as there were -- there was limited external damage to -- from the earthquake. However, as frequently happens with earthquakes, when loss adjusted, we were able to visit the sites, there was evidence of more severe damage, affecting a small number of buildings and commercial accounts. The loss assessment process has been affected by the lockdown in Puerto Rico. So we have decided to take a conservative approach to claims reserving in order to avoid any deterioration in future quarters. The severe rains and storms in Spain had a total impact of EUR 13.6 million in the quarter.

Now I will hand the floor back to Fernando to take a look the other extraordinary impacts of the -- on results.

**Fernando Mata Verdejo**  
*Group CFO & Director*

Thank you, Eduardo. Due to the solid performance of MAPFRE RE in previous years and also the decrease of frequency in recent quarters, you're becoming a permanent guest at these calls and thank you for your explanations.

Gains and losses are up EUR 20 million compared to the previous year, mainly due to a property sale in Boston. Again, this is remarkable, the MAPFRE's capacity to realize gains in adverse financial conditions without jeopardizing [ deals ]. Excluding all these impacts, the adjusted net results reached EUR 156 million, down EUR 14 million compared to the previous year.

Please turn to the next slide. Shareholders' equity stood at EUR 8.8 billion, down 11%. The most relevant changes are: first, an over EUR 500 million decrease in net unrealized gains on the available-for-sale portfolio, mainly driven by the fall in equity markets and some sovereign spread widening, especially in Europe; second, a EUR 328 million deterioration of currency conversion differences due to the depreciation of almost all currencies.

The Brazilian real, by far, our second largest exposure, is down over 20%, and the Mexican and Colombian pesos are also down by a similar percentage and the Turkish lira has fallen nearly 9%. On the other hand, the U.S. dollar is up 1.7% during this quarter.

Finally, a decrease of EUR 262 million, corresponding to the 2019 final dividend approved by the AGM and that will be paid on June 25. On the right, you can see the breakdown of currency conversion differences. As of March 31, the balance is negative, over EUR 1.5 billion, with EUR 328 million deterioration during the quarter.

Here, I would like to comment that this EUR 1.5 billion includes EUR 538 million of adjustments in Venezuelan and Argentina currencies. This figure was included in reserves last year and was reclassified to currency conversion differences this quarter, following an interpretation of the IFRIC. The IFRIC is the International Financial Reporting Interpretations Committee. Shareholders' equity has not been affected anyway by this reclassification.

On the bottom right, you can see the detail of the available-for-sale portfolio in Iberia, which represents 3 quarters of MAPFRE's total available-for-sale portfolio. As you can see, the majority of unrealized gains are immunized portfolios.

Please turn to the next slide. Regarding Solvency II, on this slide, you can see that according to preliminary 2019 figures, the ratio finished at 187%, within our target range of 175% to 225%. We will publish the solvency financial condition report on May 19 with the final numbers and a full disclosure. The ratio is slightly down compared to last year, mainly due to the lower benefit from transitionals, which explains around 2 percentage points decrease every year. In addition, the solvency capital requirement has increased due to higher exposure to equity, mutual funds and real estate in our portfolio. In addition, lower symmetric adjustment this year has increased the capital charge for equities.

On the right, you can see the sensitivity analysis. It is very much in line with last years, except for interest rates. There has been an increase in duration due to the fine-tuning of burial expense portfolio.

The greatest impact occurs when an increase of 50 basis points is considered across all corporate and government bond spreads, with an almost 12 percentage point reduction in the Solvency II ratio.

Following your request to provide insight on current regulatory developments, we have provided figures with a pro forma ratio at 204%, which offers an important capital buffer for the future.

Regarding Life portfolio, there are 3 alternatives under Solvency II. Volatility, the matching adjustments and not using any adjustment at all. At MAPFRE, the matching adjustment is applied to 35% of total technical provisions. This mainly affects the immunized portfolio in Spain, which have a market value of over EUR 13 billion. These portfolios are treated as a ring-fence under the Solvency II standard formula and do not benefit from a credit diversification. There is a high level of consensus among experts in Europe that this treatment is unfair, as in reality, that diversification exists. We are in conversations with regulators, and we expect these restrictions to be eliminated in the upcoming Solvency II review.

Also, in 2019, we received approval from the local supervisor for the use of our internal model for long duty risk at the MAPFRE VIDA unit. The approval process is already underway for the use of this model for group solvency calculations.

Please turn to the next slide. You can see the breakdown of the investment portfolio. On the left, the investment portfolio is down 6% year-to-date due to the crisis. During the quarter, there was a decline across most asset classes, with stock indexes down and credit spreads are slightly widening as well as strong currency depreciation. The largest exposure corresponds to Spanish sovereign debt, almost EUR 18 billion, very similar to previous quarter. We also have around EUR 2.8 billion in Italian debt, of which 80% is in immunized portfolios.

Our portfolio is well prepared for market volatility going forward. We have defensive fixed income portfolio, in majority investment-grade, with a high degree of liquidity and very well diversified across sectors.

Please turn to the next slide for closing remarks. Performance of the Insurance business has been outstanding reaching a net result of nearly EUR 200 million, up 10%. Regarding MAPFRE RE, no doubt, it will be a challenging year for Reinsurance. As we've seen in the industry, direct exposure should be manageable, although there will be some claims activity. MAPFRE RE, for sure, will be able to weather the storm, thanks to its financial strength and prudent approach.

Right now, our top priority is the health, safety and well-being of our stakeholders, especially employees and collaborators. This pandemic and the related economic crisis is far from over, but MAPFRE has reacted quickly, implementing our business continuity plans and the digital transformation has accelerated even further. MAPFRE has a privileged financial position with a strong capital basis and a high level of liquidity and financial flexibility.

We continue to demonstrate our commitment to shareholders. The final dividend against 2019 results will be paid on June 25. And going forward, the Board of Directors will assess future dividends during the third quarter of the year. Net income -- as usual, net income, cash generation and solvency levels will be key factors for this decision.

And regarding the targets announced at the AGM, it wouldn't be logical or prudent to provide any guidance right now, given the high level of financial and economic uncertainty. Later in the year, we should be able probably to give you more color on the outlook when the situation is clear.

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*

Fernando, thank you, Eduardo. We are going to start the Q&A. First questions are regarding Solvency II. Alessia Magni and Ivan Bokhmat at Barclays and Alfredo Alonso at BBVA had the following question. Can you please update us on the Solvency II movements year-to-date?

**Fernando Mata Verdejo**  
*Group CFO & Director*

Yes. Thank you, Alessia and Ivan. For sure, there will be several moving parts that will affect the first quarter 2020 figures. Obviously, we've seen a lot of volatility. We've seen some market movements this quarter, affecting principally equity markets, a slight widening of credit spreads, as I mentioned, and also rates and currencies. Also, YOPA has requested quite quick recalculation of the solvency capital requirement for the March 31, solvency position. And therefore, these sensibilities, the one we're presenting in our presentation will not be exact. Also in March, we will see the impact of the phaseout of transitionals as well as lower expected future profits in premium. It will be logical to expect a fall, all in all, in the March solvency figures, but it will be manageable for sure. We are not currently in a position to give you the exact number. But for sure, it will be manageable.

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

Thank you. We have another question regarding Solvency II, pro forma ratio of 203.9%. The regulatory changes account for 22 percentage points. However, the adjustments are close to 70 -- 17 percentage points. Can you please clarify the difference between these 2 numbers?

**Fernando Mata Verdejo**  
*Group CFO & Director*

Yes. Thank you. Thank you, Alessia, again. And regarding this pro forma impact, it will be a combined 12 percentage point uplift from credit risk diversification benefit for matching the German portfolio and nearly 10 percentage point uplift increase from the internal model for longevity risk in the Spanish Life business. But both there are individual effects. However, as they are overlapping impacts and the combination of both, the total increase uplift is 17 percentage points.

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

Thank you. Also, Jonathan Denham at Morgan Stanley asks, when do you expect the credit risk diversification benefit and longevity risk internal model to be approved for the group Solvency II model?

**Fernando Mata Verdejo**  
*Group CFO & Director*

Thank you, Jonathan. I mean this is -- I wouldn't say tricky, but this is a very difficult question because it depends on both. I mean the work we had to do that, but also the approval from regulators. In the case of the diversification -- the credit diversification from matching adjustments, it will depend on when Solvency II review is approved. Hopefully, I mean, we expect next year. For the uplift of the longevity internal model, there is 2 steps that we had to fulfill. First, we need the approval for the longevity internal model for Bankia MAPFRE VIDA, it's MAPFRE VIDA subsidiaries in order to have the longevity risk fully calculated under partial model for this line of business. Then we have to apply for the approval for consolidation purposes, I mean, for the MAPFRE Group as a whole. So there's 2 steps ahead. And time line, extremely difficult to assess. We're working extremely hard. Probably at the end of this year, it will be, I mean, a good guess, but it depends on the difficult -- or the different activities and approvals from both bodies. I mean the internal bodies in MAPFRE and also the local regulator.

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

Okay. Thank you. The next set of questions regarding dividend and strategy. Alessia Magni and Ivan at Barclays have the following question regarding the strategic plan. Do you confirm 2021 targets?

**Fernando Mata Verdejo**

*Group CFO & Director*

Thank you, Alessia and Ivan, again. And I remember very well when Antonio Huertas, our Chairman, unveil the new 2021 -- or the update of the 2021 targets. He explicitly mentioned that this thing was -- we will leave in the first impacts of the COVID crisis. The updated objectives will be evaluated throughout the year in order, if necessary, to make any changes or adaptation. So let's say that the updated targets we announced at the AGM, in any case, did not contemplate the current COVID crisis. As I said, it could be one of the largest insurance events in history and both due to the virus itself, but also to the collateral effects of the economic crisis. We are in an unprecedented moment, and it will be prudent or logical to -- wouldn't to give any guidance at this point and given the high level of uncertainty. No one has ever experienced an event like the one we're seeing.

However, I would like to say that our priorities haven't changed. The transformation of our business model continues to be a top priority for us. And we are focused on profitable growth. Let's say that, this is a famous saying, necessity is mother for innovation. And even that with -- we have tested the contingency plan. I mean the first week after the crisis, I mean, was the right moment to accelerate this process and a lot of information technology initiatives were extremely quickly implemented. The current crisis even bring us opportunities. We wouldn't like to see only threats, but there is opportunities. And we are continuing accelerating our digital transformation and also putting a lot of importance to our digital channel.

As you know, we don't usually provide annual guidance but even we did, in the current situation, it will be impossible due to the high level of uncertainty that we are facing. I can ensure that we continue working towards those targets.

Natalia Núñez Arana

*Deputy Director Capital Markets & Head of Investor Relations*

Okay, thank you very much, Fernando. What I'm going to do is now to start with the MAPFRE RE questions in order to give you some breath and time to drink some water. Okay. First question from Jonathan Denham at Morgan Stanley regarding MAPFRE RE is, what drove the disappointing result in MAPFRE RE other than the highlighted weather not cut claims?

**Eduardo Perez de Lema**

*Chief Executive Officer of Mapfre Re*

Well, thank you, Jonathan. I gave a little bit of information already during the presentation. First of all, I would like to say that if we compare with the first quarter last year, the last -- that quarter last year was really outstanding. We closed the combined ratio of about 90%. And with the Non-Group business, we've been well below 90% at that point. So that comparison is a little bit misleading because it was a very good one. This one hasn't been good, obviously. Obviously, the biggest impact is the earthquake in Puerto Rico. But in addition to that, we mentioned already, there were a number of additional effects that are pretty much one-offs, but we decided to concentrate on that quarter, first of all, on our retrocession cost. As you may have heard, the retrocession market has hardened a bit, not that much in our case, but we suffer it as well. And we have been growing the portfolio, as we mentioned. So we had an additional cost in this quarter that we decided to book a little bit earlier than usual this year and in the first quarter.

And then the increased premium, both from a pricing perspective and from a growth perspective will be earned on the incoming business a bit later on. We estimate that impact in the region of EUR 14 million. So that's a significant one. Also, usually, we would release some reserves during the first quarter, we have decided not to do so because of the uncertainties that we have on the quarters to come due to the COVID crisis. So all in all, there were a number of different effects that are pretty much one-off that are impacting overall results, with also not to hide the little bit of increase in frequency that we have seen across the market.

Natalia Núñez Arana

*Deputy Director Capital Markets & Head of Investor Relations*

Okay. Thank you very much. And also regarding MAPFRE RE, Andrew Sinclair at Bank of America asked, even stripping out that NatCat losses, MAPFRE RE will have delivered a lower than normal profit in Q&A. What else drag on the results? Perhaps he's asking about GLOBAL RISK business to...

**Eduardo Perez de Lema**

*Chief Executive Officer of Mapfre Re*

Well, on global risk, I didn't mention on that one because the rest of the explanation is the same for -- also for, Andrew. For GLOBAL RISK, they have been impacted by some large losses. The biggest one for them was the earthquake in Puerto Rico as well with some -- 2 large risk affected and one additional on the aviation side. So there has been a little bit of activity on the large claim side. And there portfolio is pretty volatile, so that's the main explanation for that impact.

Natalia Núñez Arana

*Deputy Director Capital Markets & Head of Investor Relations*

Okay. Thank you, Eduardo. Fernando, we have a question regarding investment income outlook. Low interest and weak emerging market currencies versus euro are likely to continue. What impact do you expect on investment income for 2020?

**Fernando Mata Verdejo**

*Group CFO & Director*

Yes. Well, taking into account the duration in naturally managed portfolio has been between 7, 8 years, more or less. We've seen 20 -- between 20 and 30 basis points falls in portfolio yields per year, particularly in the past years. If I remember well for MAPFRE España, the drop in the accounting yield was like 8 basis points or between 7 and 8. But -- so you multiply it by 4, it will be between 40 and -- sorry, 20 24, but you should consider it as well that there is an increase in yields due to the widening of spreads. And so let's say that perhaps, I mean, the decrease in accounting yields that we saw in the past it will be different, I mean, in 2020.

Of course, I mean, market yields -- will be up and all in all, investment income, I mean, in the next quarters, will depend on what interest rates and currency do. We've seen a lot of volatility in April and practically the gains from the stock market of April were they balanced during the 2 first days of May and against more volatility. But as I mentioned, I mean, we're implementing a lot of measures in order to protect our balance sheet and also our capital base. First was reducing a reduction in duration. Also, we increased our liquidity. And also, we postponed -- perhaps, I wouldn't say that we were lucky. But the reality is that out of this EUR 1 billion for alternative investment that approved the Board, only EUR 600 million were already materialized at the last year. So it's like EUR 600 million that they were ready to be invested. But fortunately, I mean, this investment has been postponed, I mean, to have a clearer view of the financial markets.

Natalia Núñez Arana

*Deputy Director Capital Markets & Head of Investor Relations*

Okay. Very comprehensive answer. Thank you. Now regarding ASISTENCIA business. Andrew Sinclair at Bank of America have asked regarding travel insurance business the following question. What travel insurance exposure have you seen so far? And what exposure do you expect from COVID-19?

**Fernando Mata Verdejo**

*Group CFO & Director*

Yes. Unfortunately, I mean, MAPFRE ASISTENCIA is a topic again for discussion. And as you're aware, the tourist sector and the assistant companies have experienced unprecedented crisis that has not spared our insurance operation in U.K., Australia and Ireland. This is our main exposure. We stopped underwriting in the first quarter. And if I remember well, we stopped single trips at coverage at the end of February and multitrrips at the beginning of March.

In any case, in U.K., the pandemic situation has triggered a significant increase in potential, I said potential during the presentation, travel insurance claims, especially at the beginning of the outbreak, I mean, the end of March. Trip cancellation coverage is affected by the limitations on travel and border closings resulting from COVID-19. And most of the losses in the system business are concentrated in the U.K. Having said that, at MAPFRE ASISTENCIA, lead under a third business -- is travel assistance. One of the units that we've been restructuring was the travel assistance business in the U.K., and we have already been reduced exposure to these segments.

As I mentioned as well, IBNR reserves for travel assistance in the U.K. were strengthened during the first quarter based on actuarial hypothesis. Practically the IBNR we booked was equivalent to the MAPFRE ASISTENCIA loss. Therefore, given the portfolio mix, the covers, including these types of products and inclusion in new business, the impact is expected to run off quickly over the coming months.

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

Okay. Thank you very much, Fernando. Now we can continue with some questions for Eduardo regarding MAPFRE RE. [ Bobby ] Mohanty at [ Amylase ], would like to know the following with respect to the provisioning in MAPFRE RE. Could you kindly throw more light on how you plan to keep changing the current buffers during the next 3 months? We understand that this global pandemic is going to continue even beyond these 3 months.

**Eduardo Perez de Lema**  
*Chief Executive Officer of Mapfre Re*

Well, thank you, [ Bobby ], for the question. As far I understand this, for -- you are asking about our reserving policy, as I mentioned before, during the first quarter, we have decided to be careful on what we do with our current existing reserves on business that we have in the portfolio. And we decided to release a little bit slower the reserves than we would usually do to have additional buffers for the future. That is correct.

And overall, reserving policy in MAPFRE RE is strict and is governed. So we will keep the reserving at a very conservative level at any point. And we will recognize any claim that we have in the future. And the buffers that we have are not going to change because of this crisis. We will pick up the losses that we have, and we will keep that.

On the duration of the pandemic, unfortunately, we don't have a clear picture yet on how long that could last. It may be more than 3 months, I don't know. We are prepared for whatever comes, and we'll work on that basis.

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

Thank you, Eduardo. And also, there are a lot of interests regarding business interruption claims. Farquhar Murray from Autonomous, Francisco Riquel at Alantra, Jonathan Denham are asking about that. Do you expect to pick up any business interruption claims via any of your primary business or MAPFRE RE? If so, what is the expected magnitude of the loss? Also, please, could you outline the nature of any exposures you have to business interruption? And in what respect the current pandemic is or is not trigger for claims?

**Eduardo Perez de Lema**  
*Chief Executive Officer of Mapfre Re*

Well, I have to admit it, it's not a surprise that this is a hot topic for most of you because that's probably the hot topic in the industry overall. First of all, I would like -- if Fernando allows me to cover a little bit on the insurance portfolio of MAPFRE and the exposure to business interruption.

There, we have been reviewing both group reinsurers and within the Executive Committee what kind of exposures. The view, as of today, is that the exposure is extremely limited or inexistent in almost all the portfolio. On the insurance portfolio of MAPFRE, the business interruption coverage that we are providing requires material damage to be triggered. We don't consider COVID as a material damage. And as such, coverage wouldn't be provided for material damage. And it was never intended to cover such an event of this kind.

So on the insurance portfolio, at this point, we don't foresee meaningful impacts. What refers to the reinsurance portfolio, it's obviously a little bit more complex because it comprises a worldwide portfolio with many different clients. I would say, in the very vast majority of our exposures also on the reinsurance portfolio, the same criteria applies then on the MAPFRE insurance portfolio. So business interruption is covered when there is a material damage.

Same applies to contingent business interruption to the extent that we are exposed. So in the very vast majority of the cases, we wouldn't be providing coverage according to the policy wordings, which is important to mention in this context and with some litigation that is ongoing. According to wordings, most of the cases is not covered.

However, there are specific cases and specific clients and specific portfolios where there have been ceding companies that have been providing business interruption coverage without material damage. It's usually an extension, and it's provided on an extremely limited number of cases and portfolios. But of course, those portfolios that are providing that coverage, they have the material -- they would probably have a material impact on that specific portfolio. So it's -- again, it's a relatively limited number of cases. But in those cases, we will see claims in the portfolio of MAPFRE RE.

The second question after that one is to what extent there is reinsurance coverage for those cases? Because there is sometimes difference between the insurance wordings provided to clients and the reinsurance coverage that has been bought and how it has been designed. It will be a very long-standing discussion and conversation to assess, first of all, if there is a primary insurance coverage and then how the reinsurance coverage will be provided. We know for sure that we have cases where there is no doubt that the insurance coverage has been provided. There are some cases where there is no doubt that the reinsurance coverage is there. In many other cases, there are a lot of questions.

To be honest, at this point in time, to give a figure on the amount of claim that we could have is absolutely -- well, it's putting a figure out there, but it's so uncertain that we would be misleading at any point. So we prefer not to give any figure to that. What I would say is a limited number of cases. It's within the risk appetite of MAPFRE RE. We don't see that it will cause any imbalance on the company in itself. We will be able to deal with it. And of course, we will have claims, and we would have to pay for some of those. But nothing that is -- where you would see a surprise in MAPFRE RE. It will be aligned with the market losses that the industry will suffer and within what we expect in our normal risk appetite for our ratios.

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

Okay. Thank you very much, Eduardo. I think this question deserves your insight. And it was very useful, I guess, and I hope for our investors. Now we can move to questions regarding COVID-19. Ivan Bokhmat and Alessia Magni at Barclays ask, of the EUR 200 million mobilized within the group, how much do you expect to be reflected in your financial results? And when? Is any of that already included in first quarter 2020?

**Fernando Mata Verdejo**  
*Group CFO & Director*

Thank you, again, Ivan and Alexia. First of all, I mean, the figure of EUR 200 million, I mean, is pretty big, pretty important. And this is the way that MAPFRE contributes to society and also our stakeholders. Let me just to split into 3 components, this EUR 200 million. First, this total includes approximately EUR 35 million, the direct contributions from MAPFRE Foundation. So let's say that they are in the consolidation accounts of MAPFRE SA. As I mentioned, I mean, we're doing these contributions to society. We're doing quite -- coordinated with MAPFRE Foundations in order to avoid duplications and overlapping activities.

The remaining -- the main -- the remaining amount, the most relevant part is the financings that MAPFRE is providing to collaborators and agents, which amounts approximately to EUR 100 million. Obviously, this is a financing. This is a credit line. It's like a revolving credit line. We are anticipating, I mean, future commissions and also for those that they need cash, and we're providing cash. And the underlying effect is exclusively the interest that we're getting from financial investment that we are cashing in order to give this finance or credit lines.

And the remaining amount, which amounts approximately between EUR 50 million and EUR 60 million, some of these contributions, they got a -- they have a full impact in the profit and loss. And others, they have a partial impact in profit or loss. But before assessing this EUR 200 million, let's say that the -- sorry, EUR 200 million, let's say that the first thing we've done in MAPFRE is a full and deep review of our expense budgets for 2020. And it was a significant reductions in near a 3-digit figure.

And because some of the initiatives that they were planned for 2020 didn't make a lot of sense in the current scenario. So some of them, they were canceled. And some of them, they were postpone for a better moment. And some of them, we didn't incur, such as travel or entertainment and other P&L concepts. All in all, we strongly believe that the savings from the original budget will offset for sure additional expenses from COVID-19.

Regarding your second questions, on the expenses that they already -- in the first quarter, let's say that only the reduction in premiums for self-employee people during the lockdown in Spain and some donations, I mean, it was a small figure.

They were booked in MAPFRE Spain. All in all, we expect that the overall, in terms of expenses, general expenses, we believe that they will be -- the impact quite neutral in 2020.

And regarding underwriting results, we -- let's say that some of the premium return and also help the financing that we give into basically the self entrepreneur -- policyholders. I mean they will be upset as well for the reduction that we see in frequency, particularly in some line of business, such as home and also automotive. That's all.

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

Thank you, Fernando. Now regarding COVID, too, Andrew Sinclair at Bank of America. I would like to know if we have provided premium rebates or discounts to customers in any key markets. Paco Riquel at Alantra has also a similar question. So this is it.

**Fernando Mata Verdejo**  
*Group CFO & Director*

Yes. As the Chairman said at the press presentation, MAPFRE wants to be part of the solution to these crises. And we are adopting measures, including premium refunds and also discounts in order to -- and also credit lines and financing facilities to our policyholders and also collaborators.

In Spain, we made the largest effort with self entrepreneur and small and medium enterprise policyholders. And they are the key to the economic recovery due to the multiplier effect that they have an employment and activity. Currently, there are 3 countries in which we already published this sort of aids to policyholders. First, Spain, and we will return premiums to self-employee claims during the state of alarm, with an estimated total amount of between -- it depends on how long, but it could be a range between EUR 40 million and EUR 60 million, nobody knows, because it depends on the length of the current situation. And out of this is EUR 16 million, before taxes were -- was booked at the first quarter.

In U.S.A., we announced as well a premium return amounting to 15% of motor premiums on a monthly basis for April and May in the state of Massachusetts, and following, let's say, a strong recommendation from the local -- from the state supervisor. And we're analyzing other territories, other states and similar measures in other states could be not taken. But obviously, the amount will be much lower due to our smaller presence in the remaining states. And finally, in Panama, we recently announced a 45% return on premiums on a monthly basis as well in April and May for motor own damage, and the estimated amount of this is less than EUR 1 million.

In addition, which is very important as well as the -- as our Chairman stated at the press presentation, grades are assessed on majority of the countries in MAPFRE on an individual basis and according to the risk profile of each policyholder. It means that in the future, with renewals, I mean, we will assess the risk profile. And for those drivers that -- they are lower frequency in claims, they will get additional discounts as well in tariffs at the renewal date. That's all for me. Natalia?

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

Thank you, Fernando. We have now 1 question regarding investment income, and that question comes from Paz Ojeda at Sabadell. And is -- what is the level of equity unrealized gains?

**Fernando Mata Verdejo**  
*Group CFO & Director*

We know the -- thank you, Paz. But unfortunately, I can't answer the question right now. We're not releasing this number today. But the information will be available probably the 29th because this is a number that we usually include in our financial information and in the management discussion and analysis report.

But let's say that there is a lot of volatility in equities, as I mentioned, they're affecting basically MAPFRE RE and MAPFRE España portfolios. And we have a quite prudent approach on equities. There's been, let's say, sales in order to avoid further deterioration of some stocks. And let's say that the loss, if any, and at the end of, let's say, mid of the year, will be, in any case, in terms of both net equity under IFRS and for Solvency II capital base, will be manageable.

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

Okay. Thank you very much. Now we can continue with 1 more question for Eduardo regarding MAPFRE RE. Paz Ojeda at Banco de Sabadell says that the impact of Puerto Rico earthquake has been similar to Hurricane Maria in 2017, whereas the total insurer cost for the industry has been lower. Could you explain why MAPFRE RE's premium fall minus 7%, although renewals in January were positive? Could you give us some color?

**Eduardo Perez de Lema**

*Chief Executive Officer of Mapfre Re*

Yes, sure. Thank you, Paz. On the earthquake in Puerto Rico, what we have released is net impact, and of course, this is after reinsurance. The main difference with the Hurricane Maria is that in Maria, we used very extensively our reinsurance program. And in this event, it's a net retained loss. As you remember, when we explained our reinsurance program, we said that we have some proportional sessions and nonproportional session, where we recover losses that exceed a certain amount. That amount for a first event in a year is \$100 million for our group business.

This -- in this case, the earthquake is well below \$100 million, and we -- pretax, we are in the region of \$75 million pretax. So it's almost fully retained in MAPFRE. Whereas the Hurricane Maria was -- we retained a more or less the same figure, \$100 million for the nongroup business of -- in our insurance group, but we recovered almost -- more than \$1 billion from our reinsurance program. So the loss suffered by MAPFRE from the different event is very different, of course.

Talking about our drop in premiums, which is true, is 7%. The reason for that is it's a merely accounting movement that doesn't have any impact on our earnings and growth of the portfolio. And it's a little bit complex from a technical point of view, but it's related to a premium portfolio transfer of -- on a large reinsurance program that we have with MAPFRE Spain. We transferred back to MAPFRE Spain some of their unearned reserves, and this is a pure accounting effect that doesn't have an influence on the earned premiums of MAPFRE RE and on the prospective ability to generate profits.

Just for you to know, the nongroup business has grown 6.5% in the quarter. If we exclude the currency effect, it's more than 10%. So the business is growing and developing as planned.

Natalia Núñez Arana

*Deputy Director Capital Markets & Head of Investor Relations*

Okay. Thank you very much, Eduardo. Now there is more questions regarding the investment income. And the next one is from Farquhar Murray at Autonomous and is regarding impairments. Please, if you could outline what we might expect in terms of impairments? Should markets remain at current levels? And the likely timing of those implements, particularly with respect to equity impairments where outcomes mechanically follow the accounting rules.

**Fernando Mata Verdejo**

*Group CFO & Director*

Yes. Thank you. First of all, I mean, we assess -- I mean, we -- on a permanent basis, we are monitoring potential deterioration, particularly on our equities. We got a deep analysis at June, usually at the mid of the year. And -- but also due to the current circumstances, we analyze, particularly those stocks that -- they were performing badly during the first quarter. The criteria for equity impairments -- to establish, first, if impairment is necessary in equity investments, we carried out an analysis on an individual basis, I mean, stock by stock if there is -- has been a significant deterioration.

And this is defined as a long-term fall in value considered as more than 18 months, or a significant fall compared to its cost value of 40%, if -- I mean, 18 months and decrease of the cost value of 40%. If after an analysis, both conditions are met, the impairment takes place. Unless they're very favorable indication that the value could recover, for instance, when we compare to a stock index or other measures we can take. On the other hand, if only 1 condition is met, impairment takes place, either other circumstances that indicate that the value cannot be recovered.

As I said, we carefully monitor our equity portfolio. And we analyze the situation at the end of the first -- of the quarter. And the conclusion was that if there is any potential, impairment was negligible. We didn't book at this quarter because we want to spend -- we wanted to see the release of the first quarter results for the majority of the equities. And we looked at the share that have fallen more than 40% compared to the cost value. And our conclusion that we're still looking at quite manageable figures.

Going forward, for the second quarter, the evolution will depend on the directions that the equity markets take. We saw in April a good bounce in values in majority of the markets, but it vanished during the first days of May. So let's say that

we're still looking at a lot of volatility in equities. In any case, we will continue monitoring and analyzing its position on an individual basis.

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

Okay. Thank you very much, Fernando. Now we have a question from Farquhar Murray at Autonomous regarding the Euler Hermes business. This is the question. Please, could you outline the nature and phase of the trade credit exposure MAPFRE has through its Solunion JV with Euler Hermes?

**Fernando Mata Verdejo**  
*Group CFO & Director*

If -- I mean, this is a JV with Euler Hermes, so this is a figure that we do not disclose. And correct me if I'm wrong, but...

**Eduardo Perez de Lema**  
*Chief Executive Officer of Mapfre Re*

Maybe if you want to give a little bit of color, Solunion, it's true, it's a JV with Euler. And we are not separately reporting because it's not consolidated into the MAPFRE RE -- into the MAPFRE accounts. But however, what we can say is Euler is a heavily reinsured operation that is reinsured with -- to a big extent, with the 2 joint venture partners. And of course, we get some exposure from -- at MAPFRE RE from that side and also from some other credit acceptances in the market. To give today, again, an estimation on what the impact in terms of loss ratio for Solunion will be is extremely premature.

At this point in time, we haven't seen any insolvencies. Definitely in Spain and most of the countries, it will be something that will develop over time. Just for you to have some information on the net premiums of MAPFRE RE, all the credit exposure that we have is about 3% of our net premiums. So it won't be -- even if on that line of business, the impact, potentially, they can be meaningful on the overall portfolio of MAPFRE RE. And in the wider portfolio of MAPFRE, it's a relatively small figure.

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

Okay. Thank you very much, Eduardo. Now we have a question regarding Solvency II, and it comes from Paz Ojeda at Sabadell. Does a potential Solvency II ratio below 175% worries you?

**Fernando Mata Verdejo**  
*Group CFO & Director*

Thank you, Paz. Very interesting question. Let's say that 175% Solvency II is a quite good ratio in the current circumstances, but I don't see me like answering you back. But there are other indicators or our current capital base that provide additional comfort to MAPFRE, particularly S&P, the rating agency. They increased our -- in 1 notch our rating. And quite recently as well, Fitch reaffirmed our rating. Other capital models, such as InVEST, we're quite comfortable as well.

And also the ICS, the field test that we carried out so far with the International Capital Standards for Solvency, the provisional figures we have, I mean, they're quite comfortable for MAPFRE. So let's say that this is for Solvency II standard formula, what we're going to see is a V-shape change or perhaps a U, but our capital base, I mean, is quite solid. And we're quite comfortable within this range.

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

Okay. Thank you very much, Fernando. Now we have a set of questions that are more going into details that are regarding numbers and figures that I'm going to ask Eduardo. Carlos Peixoto at CaixaBank has sent this question. How much are the MAPFRE RE premiums that cover business interruption without material damage? How much does it represent of MAPFRE RE's total policies or premiums?

**Eduardo Perez de Lema**  
*Chief Executive Officer of Mapfre Re*



Thank you, Carlos. Unfortunately, I can't give you a figure on that because it's -- no one would split that premiums -- I would say, on premiums that we accept on individual basis, on individual acceptances, there is no premium without material damage because we don't write it. But our problem is sometimes included in automatic treaties, where we don't control the amount of premium that is there.

What I would say, actually, it's relatively meaningless, how much premium we have there. What is important is how much exposure we have there, which -- because what we will see is in the vast majority of the business interruption portfolio, it will have no impact. But on those that have there, the loss ratios will be going into very extraordinary figures.

But unfortunately, we don't have that figures. What we are controlling is -- what we are trying to do is to assess the insurance companies that we reinsure, that are providing that coverage, and then see how much is their exposure overall and that -- and then try to arrive at that information. But the premium information, we don't have that. And I don't think anyone in the industry can provide that figure.

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

And regarding travel insurance policies in the U.K., what could be the value-add risk there? It's also from Carlos.

**Eduardo Perez de Lema**  
*Chief Executive Officer of Mapfre Re*

Yes. That is probably more information for ASISTENCIA. I don't have the figure for that, but...

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

Regarding travel insurance policies in the U.K., Carlos, perhaps we can give you more color in the future when we release the results on the 18th of May because we will have more insight in ASISTENCIA business.

So we can continue with COVID-19 questions, as expected, as there are a significant amount of questions regarding this topic, impacts on future guidance. So actually, most of our analysts have sent us questions regarding this, for instance, impacts on motor claims and combined ratio with information by region, if possible. How the crisis could affect technical and financial results in the main regions?

First Q results only reflect a reduction of activity at the end of March. What have you seen so far in second quarter? Magnitude of the positive/negative impact on claims from COVID you expect on each line, you mentioned health, burial, life, motor and general P&C. What do you expect the net impact will be on claims? So is regarding expectations on...

**Fernando Mata Verdejo**  
*Group CFO & Director*

Yes. Thank you, everybody. As I already mentioned, it wouldn't be logical or prudent from our side, I mean, to provide guidance at this point in time. It's extremely difficult. I mean just as trends -- future trends, what we can discuss, I mean, a little bit longer, I mean, is what we booked in the first quarter and what we've seen in this first quarter rather than the following quarters. And I will split into 2 regarding underwriting results.

First, those line of business that they're getting a direct impact because of the virus and all that we're seeing an indirect effect on basically the combined ratio. I'll give you just 1 example. And the most painful, let's say, painful line of business from MAPFRE was burial expenses in April -- sorry, in March. The increase of cost compared to our expected combined ratio for burial expenses was much higher than the savings in automobile. And if you compare both the lines of business in terms of premiums, automobile is practically 4x burial expenses. Practically, the combined ratio was double the standard.

On the other hand, we get a small reduction in combined ratio due to the lack of -- or the lockdown of our policyholders and the lack of drivers on the street. Also, there is a quite important thing I would like to discuss with you. We've seen a change in the pattern of policyholder reporting claims. And I'll give you an example as well.

If you are locked down at home and you got an home accident, probably you report the claim. You call the MAPFRE's call center and say something is broken. But the thing is, when the home repair MAPFRE crew, I mean, knock on your door, you'll be reluctant because of your home, I mean, is a safe and clean space to live in. And you don't want to just turn up --

people just to stepping in your house. So a lot of claims, they've been reported or they're in the phase of being reported, but we can prepare. Same happened with health, with a lot of scheduled surgeries were postponed, I mean, basically in private hospitals because the IR and also the beds, I mean, they were occupied by patients with the virus.

What we're doing is just increase our IBNR, trying to assess a proper trend to assess this future impact on loss ratio. But so far, I mean, it's extremely difficult to see a proper trend, a standard trend. And hopefully, I mean, we will have a clearer view at June 30 in order to book the proper reserves. And that's basically, I mean, from my side. My apologies, it's extremely difficult, I mean, to give you any guidance regarding future trends at this moment. But I guess, it's the most prudent view I can give you.

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

Thank you very much, Fernando. We have 1 last question. This is from Paco Riquel from Alantra. He would like to know if you will be able to offset the Gloria term with lower frequency of motor during the rest of the year.

**Fernando Mata Verdejo**  
*Group CFO & Director*

Well, I think I already explained, I mean, Gloria, the amount was -- the net was EUR 13 million more or so. But really, I mean, hit our profit or loss account was the burial expenses increase of frequency in March. And also, we will see a similar trend as well in -- probably in April.

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

Thank you very much, Fernando. I would like just to end the call. And first, Fernando or Eduardo want to give some wrap-up or whatever. I would like to remind you that this -- these figures are preliminary figures and the full disclosure will be released on May 18. Unless you have questions relating -- related to this disclosure, I recommend, and we would appreciate if you held your questions until the full disclosure on the 18th. We are organizing virtual meetings on the 20th of May after you have had time to review the full disclosure. In these meetings, Fernando Mata, the CFO; and also Eduardo Perez de Lema, will be with us, and we can establish a schedule according your interest. Please contact the IR team to prepare the agenda for that day. And also, I remind you that you will have the opportunity to talk to Fernando Mata and Eduardo Perez de Lema. And thank you very much, nothing more from my part.

**Fernando Mata Verdejo**  
*Group CFO & Director*

Yes. Thank you. Thank you, everybody, for being here again with us another quarter. Thank you, Eduardo, I mean for your presence as well, very helpful.

**Eduardo Perez de Lema**  
*Chief Executive Officer of Mapfre Re*

Thank you.

**Fernando Mata Verdejo**  
*Group CFO & Director*

And as a conclusion, I only would like to say that MAPFRE is very well prepared for the worst and hope for the best. Thank you again for your presence, and bye-bye.

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