

Mapfre, S.A. BME:MAP

FQ3 2021 Earnings Call Transcripts

Friday, October 29, 2021 11:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-		-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE	CONSENSUS
EPS Normalized	0.04	0.03	▼ (25.00 %)	0.06	0.23	NA	NA
Revenue (mm)	4804.48	4969.30	▲ 3.43	5174.13	21586.92	NA	NA

Currency: EUR

Consensus as of Oct-29-2021 8:45 AM GMT



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Call Participants

EXECUTIVES

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*Head of Capital Markets & Investor
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Fernando Mata Verdejo
Group CFO & Director

Presentation

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Good afternoon, everyone, and welcome to MAPFRE's results presentation for the first 9 months of 2021. This is Felipe Navarro, Head of Investor Relations and Capital Markets as well as Corporate Treasurer. Fernando Mata, our CFO, will walk us through the main figures and highlights of the quarter.

As a reminder, additional information can be found in our website, including the MD&A as well as the usual spreadsheets. At the end of the presentation, we will open up the Q&A session. [Operator Instructions] We will try to answer all questions as time allows. The IR team will be available afterwards to answer any pending questions.

Before we start the presentation, I would like to give an overview on how the pandemic is developing in our main markets. As you're aware, infection and mortality numbers are coming down at global level. This allowed us to feel more optimistic about the outlook of the pandemic, with more countries close to reaching some form of normality as vaccination rates should continue to increase, but at a slower rate.

At the end of September, around 96% of employees in Spain were working from premises, 78% in the U.S. and 89% in Brazil. We will continue adapting the changes in conditions in every country.

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

Fernando Mata Verdejo
Group CFO & Director

Thank you, Felipe, and thank you, everyone, for being here with us. Before I go into the details, let me start by saying that we are very satisfied with our third quarter results. Performance at the Insurance units was in line with expectations, showing that we are on track to meet the guidance announced at our AGM.

Top line performance was excellent, and it's worth highlighting strong local currency growth in Spain, Brazil and also Mexico. The normalization of economic activity and lifting of restrictions should continue to support premium trends.

There were 3 main elements impacting third quarter results. One, regarding COVID claims. There has been a normalization in mature markets and the Reinsurance business. Life Protection and Health claims in Latin America continue at high levels, but improving compared to previous quarters. We expect these improvements to feed into results in the coming quarters.

Two, in general, the normalization of economic activity has led to an overreaction in mobility, causing the Motor combined ratio to increase. On the other hand, we are also seeing positive trends in other lines like Homeowners and Health. In the end, we should expect these ratios to normalize in the coming quarters.

Last, in terms of NatCat losses, it has been an active quarter, with the Bernd storm in Germany and Central Europe being the most relevant event. In order to offset these cat losses, we opportunistically took advantage of market conditions, realizing a significant amount of capital gains fundamentally in equity.

In Iberia, we continued to outperform the market in premiums in key Non-Life segments with very good growth in Life while maintaining strong underlying technical margins.

Reinsurance and Global Risks are also consolidating positive trends on the back of tariff increases. Despite the active NatCat quarter, the combined ratio is still down over 4 points year-on-year.

In the United States, results are resilient, thanks to the streamlining process over the last few years. And the Northeast continues to be the largest contributor to profits. Brazil is also well positioned to improve metrics as the economy recovers.

Finally, I would like to highlight our strong capital position with the Solvency II ratio of 195% at the end of June, which is in line with our risk appetite. Dividend upstreaming continues to be strong at subsidiaries, and the Board has approved an increase of EUR 0.01 to reach a EUR 0.06 interim dividend to be paid on November 30, 1 month earlier than usual, in line with the group's commitment to returning to a sustainable dividend.

Now I will comment on some of the main figures. We are on track to meet our guidance. Premiums are up 7% in euros. At constant exchange rates, growth was over 10%, with strong trends in both Life and Non-Life. Currency movements reduced growth by approximately 3 percentage points, but have been less of a drag than the previous quarter. On the other hand, the renewal of a multiyear policy in Mexico added approximately 3% of growth.

The group combined ratio was 96.5%, slightly above guidance, and 95.7% at the Insurance units, mainly due to the high NatCat activity during this quarter.

Also, I have to remind you the provision for early retirement booked in the second quarter. Excluding this provision, the combined ratio would be 95.8% for the group, 94.8% at the Insurance unit. And the expense ratio would be 28% with a nearly 1 percentage point reduction. As a conclusion, we are on track to meet the 95% guidance, assuming normal cat activity in the fourth quarter.

MAPFRE's net result is EUR 524 million, up over 16%, in line with the EUR 700 million guidance for year-end. The ROE, excluding goodwill write-downs, is 8.6%, slightly above the guidance of 8.5%. And finally, shareholders' equity is slightly down on the year, mainly due to the reduction of unrealized capital gains on the available-for-sale portfolio.

On this slide, I will take you through the breakdown of the adjusted attributable result. Regarding NatCat claims, it was an active quarter. We had smaller impacts from Storm Volker and Hurricane Ida, but we have considered this claims business as usual.

On the other hand, Storm Bernd in Central Europe in July, which was initially considered as a mid-sized event, has become one of the largest cat events in Europe with a EUR 92 million impact for MAPFRE. We have reached the priority limit, EUR 125 million. So we will not be affected by any negative -- any potential negative loss development from this claim.

Furthermore, a second layer of cat coverage, what we call the frequent cover -- the frequency cover, has also been triggered. Therefore, potential impact from any single relevant event would have a quite limited impact on P&L.

In previous quarters, we didn't consider the different COVID impacts at the Insurance operations as extraordinary due to their offsetting nature. This year, most of the COVID impact in Non-Life lines remain neutral, but COVID-related Life Protection claims are being considered as a large loss, particularly in Latin America. So we are disclosing the effect for both years. The impact of COVID claims, including Insurance and Reinsurance, reached EUR 107 million as of September, EUR 23 million higher than last year, but lower in the quarter.

Our investment portfolio was well positioned to take advantage of the favorable financial markets to offset these losses. As a result, realized gains are up over EUR 76 million.

The line other has contributed positively, mainly due to asset sales and the release of an earn-out provision in Spain, which were communicated in the second quarter. You can see the details on the slide. In 2020, other items included a provision for restructuring.

Excluding these impacts, the adjusted net result was EUR 623 million, slightly higher than last year. And regarding the third quarter, the EUR 210 million adjusted result is down compared to the second quarter due to the uptick in Motor frequency.

Finally, I would like to mention that this quarter reflects a EUR 20 million contribution from Bankia's second and third quarter results, stemming from the change in accounting treatment following conversations with regulators. The change is a consequence of the length of the process and the majority voting rights still held by MAPFRE.

On this slide, we show the main trends this quarter. I would like to highlight the positive performance in Iberia. Premiums are up over 7%, and we are outperforming the market in both Life and key Non-Life segments, recovering the leading position. We are growing 1% in Motor, while the market is down by a similar amount. And the number of units continues strong, up 3.6%.

Growth is also robust in other segments. Health is growing nearly 10%. Condominiums is up 6%; and Commercial lines, nearly 10%. The combined ratio remains strong at 96% despite an uptick in mobility and Motor frequency during the quarter.

In Brazil, currency headwinds are still relevant, but improving significantly with average real exchange rates down 8%. Premiums are up over 16% in local currency, with healthy growth trends in Agro, Motor and Life Protection. The EUR 31 million decrease in the attributable result is mainly due to still high COVID-related Life Protection claims. The combined ratio remains strong at 87%, slightly higher than last year, driven by the uptick in Motor frequency.

The economic outlook continues to improve with growth in consumption and exports and Selic rates up. The currency is improving, but with high volatility, while we're keeping an eye on inflation trends. Premiums in LATAM South grew around 7% in euros, and premiums in LATAM North are up over 44%, 5% excluding the large multiyear policy in Mexico.

Local currency growth was solid in most segments, and it's worth mentioning Colombia, up 30%; Peru, up over 15%; and Panama, up 8%. Combined ratios in both regions remain at good levels with some deterioration in LATAM North due to COVID-related claims affecting Health as well as the uptick in Motor frequency.

Performance in North America has been affected by currency depreciation, with average dollar exchange rates down around 5%. The combined ratio is in line with the previous year, and investment results have been strong. In the U.S., we should expect new business to catch up as the economy continues to recover.

In Eurasia, premiums are down due to the nonrenewal of the dealership channel in Italy as well as some depreciation of the Turkish lira. All countries have contributed positively to results, except Italy, which was affected by hailstones during the quarter and also high expenses that still need to be adapted, as we mentioned in previous results presentation, to the new business model.

At MAPFRE RE, premiums are also up, supported by positive pricing trends. The combined ratio is down over 4 percentage points year-on-year at 98.5% despite the high NatCat activity. The net result is up significantly, and the unit has shown a high level of financial flexibility, realizing investment gains to offset this impact. Furthermore, the turnaround in Global Risks is evident, with results up over EUR 20 million year-on-year.

In the assistance business, volumes are down 18%, as we continue with our streamlining process. Regarding results, we are very close to breakeven, reporting a slight profit during the last 2 quarters. As a reminder, last year was strongly affected by travel cancellation claims. And this quarter, there was a positive EUR 5 million impact from the closing of InsureandGo in the U.K.

On this slide, I would like to comment on the Life business at the Insurance units. In Iberia, premium performance has been outstanding, thanks to the rollover of product maturities with a focus on unit linked and also several large single-premium policies that were issued during the quarter.

In Brazil, premiums were affected by currency depreciation, while local currency growth was healthy with improving trends throughout the year in both channels.

The Life attributable result is down mainly due to a strong impact from COVID claims in LATAM. Mortality in Brazil has declined continuously since June and is now at the lowest level since November 2020. Situation in Mexico, Colombia and Peru is also improving. Just as a reminder, the result in Iberia is up significantly due to the already mentioned release of an earn-out provision.

On the right, you can see the quarterly evolution of the impact of COVID-related Life Protection claims in the region. There was a total impact of EUR 92 million, of which EUR 43 million were in Brazil. Mexico, Colombia and Peru were also strongly affected. The third quarter impact was lower than the previous quarter, and with September data, it seems that we have passed the peak. Average cases and death figures are beginning to come down, which makes us more optimistic about the outlook for the coming quarters.

Now I will move on to the balance sheet and capital. This slide includes a full disclosure of the breakdown and variation of the investment portfolio and total assets under management. Spanish sovereign debt continues to be our largest exposure, now EUR 12.4 billion, and Italian debt with EUR 2.8 billion is the second largest. Both sovies are mainly allocated to immunize the portfolios.

The investment portfolio is slightly up, mainly due to the rally in equity markets, which helped mitigate the fall in fixed-income investments due to higher yields, with the Spanish sovereign up over 40 basis points year-to-date.

Pension and mutual funds have had strong performance, growing 7% and 14%, respectively, both due to market movements as well as positive net contribution of EUR 104 million in pension funds and EUR 290 million in mutual funds at the end of September.

On the top left are the details of our Euro area actively managed fixed-income portfolios. The market value of these portfolios is around EUR 12.6 billion. The Non-Life portfolio has an accounting yield of around 1.5%, down only 15 basis points year-to-date. The Life portfolio has a yield of a little under 3.5%, down 20 basis points. The falling yields is consistent with the reduction in duration in both portfolios. Duration in Non-Life is now at 7.8%, around 4.5 years, excluding the Burial segment, which, as you know, is a long tail business, while in the Life portfolio duration is 6.8%.

On the bottom left, you can see the details of the fixed-income portfolios in other markets, which portfolio yields up around 50 basis points in Brazil, now at 6.6% and relative stability in North America. Realized gains and losses in actively managed portfolios in the Euro area were around EUR 96 million, significantly up year-on-year and on the quarter as well as we took advantage of favorable equity markets to realize gains to compensate NatCat losses. At the end of September, there were still EUR 85 million of unrealized gains in equity and investment funds in our actively managed portfolio in Iberia and MAPFRE RE.

Shareholders' equity stood at a little under EUR 8.5 billion, slightly down in the quarter. Currency conversion differences were relatively stable during the quarter, but up EUR 113 million on the year, stemming from a notable appreciation of the U.S. dollar, together with stability in the Brazilian real.

Net unrealized gains on the available-for-sale portfolio were down EUR 397 million on the year due to rising yields. The breakdown by region, which is a new information we're disclosing, is as follows: LATAM with a fall of EUR 151 million; Iberia with EUR 136 million; MAPFRE RE with EUR 57 million; and North America with EUR 50 million. As you can see, Iberia's impact has been limited due to the high degree of immunization of Life portfolios as well as profit sharing.

There was also a EUR 92 million negative adjustment against reserves due to the acquisition of minorities in MAPFRE PERÚ VIDA in the third quarter, which is reflected in the line Other. The breakdown of currency conversion differences and currency movements are shown in the table on the right, along with the standard sensitivity analysis.

On the chart on the left, you can see the breakdown of the capital structure, which amounted to EUR 13 billion, of which over 3/4 is equity. Leverage is slightly up on the quarter, around 24%. The slight increase is mainly due to seasonality. The upstream of dividends forecast for the fourth quarter should lower leverage and financial needs by year-end.

On the right, you can see the Solvency II figures for June 2021, which were released last month. The ratio sits at 195%, comfortably near the midpoint of our range. The main moves in the quarter were related to the investment portfolio, including the rating downgrade of Colombia as well as the symmetric adjustment which increased the capital charge for equity.

Before moving on to the Q&A session, I would like to make a few closing remarks. First of all, we're very satisfied with the results in Iberia, our largest operation. We have recovered our position as market leader with a strong premium performance, and we are well positioned for profitable growth. We're moving ahead with our transformation and digitalization plans to have leaner and more efficient operations.

Profitability is robust in the United States, especially in the Northeast, and we are benefiting from a successful restructuring process. The new agreement with the AAA Club will strengthen our position in this distribution channel.

In Latin America, we successfully adapted our business model to the new environment. The pandemic and economic situation remains challenging, but with a significantly improved outlook. It was a tough quarter for the reinsurance industry, no doubt, from a NatCat perspective. MAPFRE RE still reported resilient results, underpinned by its investment approach and a strong contribution from Global Risks.

As for Bankia, the exit process is moving forward, and the approval from the competition authority was already granted. Furthermore, we are expecting to receive the independent appraisal value by November. So if everything goes well as planned, the transaction should close by year-end. As usual, we will keep you updated with any further developments.

In conclusion, it has been another positive quarter, showing growth in premiums and results in a more positive scenario, but not without uncertainties coming from the economic environment. Volatility in combined ratios will remain in the short term across different segments and geographies as activity continues to normalize with an expected neutral impact on the

underwriting results. In the medium and long term, future tariffs will be adapted to reflect changes in underwriting trends and risk profiles.

We are on the right path to meet our 2021 commitments. And so far, we haven't seen any evidence that jeopardizes this guidance. The interim dividend of EUR 0.06 is proof that we're committed to return to our sustainable dividend path.

Thank you again. I will now hand the call over to Felipe to begin the Q&A.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Thank you. Thank you very much, Fernando, for this very complete and deep explanation of the results.
So we move now for the Q&A.

Question and Answer

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

First one is from Maksym Mishyn from JB Capital. Do you see risks on the Non-Life claims if inflation persists and logistics costs remain high? Which segments could be the most impacted?

Fernando Mata Verdejo
Group CFO & Director

Well, we have to analyze, I mean, this inflationary risk for both line of business. Regarding Auto, as we already mentioned, we're very well protected. We've got a wonderful garage network, preferred garage network with a significant reduction in cost when we compare to standard garages. And also, we have a bargaining agreement, which is -- I mean it's fixed for this year. There is no adaptation to inflation rate at year-end. And also, we are directing most of claims to these preferred garages. According with the data from the last month, I guess they're like 90%, correct me if I'm wrong. 90% of the car crashes are directed to preferred garage network. So from this side, I don't see an inflationary risk affecting Motor line.

Others such as Health, and we mentioned at the -- during the presentation, we really noticed a significant increase in hospitals' bills, I mean, the rate increase due to the COVID scenario. And also the average cost from medical services increased as well due to the additional test carried out in this COVID environment. Fortunately, this trend has changed and average cost coming to normality, even though, I mean we should expect a significant increase in Health for renewals, as you probably read in the paper, in the Spanish paper affecting civil servants and also -- which is by far, is the largest policy in Spain, but also affecting too normal personal policies. The remaining and particularly commercial lines, I don't see any inflationary risk.

And just as a conclusion, if you look back for the last 10 years, I mean Motor line has been extremely competitive. And also, there is a lot of transparency basically derived from price comparison sites. So for the last 10 years, most of the efficiencies in cost were automatically transferred to prices. And so it has been, in relative terms, a reduction in the average premium for Auto for the last 10 years. So we should see a similar trend. And let's say that as a general rule, I mean we expect the sector assuming part of the inflation cost and transferring only a small part of the inflation to rates.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. Thank you very much. We have another question coming from the same person from JB Capital. Do you see -- no, sorry, from Ivan Bokhmat from Barclays. We have seen a deterioration in the combined ratio in Iberia in the third quarter 2021. Same trend, the same of your peers have experienced already. How much of that comes from the accident frequency normalizing? Can you update us on claims inflation and pricing in Motor and another PC lines?

Fernando Mata Verdejo
Group CFO & Director

Yes. I'm going to take the first last one, I mean regarding trends in pricing, and also talking on Motor line business. As you remember, I mean last year, we implemented a sort of individual discount policy for good policyholders in order to retain and reduce any potential churn among, I mean, the COVID scenario.

These discounts were -- came to an end at the end of 2020. But obviously, I mean this reduction in premiums is also being a carried over for earned premiums in 2021, also affecting the combined ratio. Let's say that that's a general rule. I mean rates has come to a normality, and we should -- this reduction in earned premiums to phase out for the coming months.

Regarding loss ratio. And I know that some of the peers, they already made comments on that topic. We're a little bit different. Regarding average cost, we haven't seen any change in previous metrics. So practically, I mean, we're close to 0 in terms of variation.

Regarding frequency, it's right. I mean it's quite similar to the increase in mobility. But I would like to give an additional comment on this. Most of the increase in the frequency on the reported claims are on smaller crashes -- smallest

scratches affecting physical damage for the full cover policies. And -- but we understand they're being filed with the company due to some reduction on coverage. It's a trend that we've seen in the past as well in time of restriction of -- or economic unrest. And we see some change from full cover to full cover with deductions on -- sorry, with deductibles, and also from full cover to basic policies on the TPL.

So let's say that it seems to me seems to be sort of catch-up effects as some of these claims are coming from previous months and the clients before switching from coverage or from other carriers -- to other carriers. What they want is just to leave their car in perfect conditions before reducing coverage and their policies. So my conclusion is that some of -- or part of this increase in frequency is temporary and it should phase out in the coming quarter. But obviously, there is an increase in frequency as we've seen in other peers.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. Thank you very much, Fernando. Now from Maksym from JB Capital. Do you continue to see pressure in premiums in Motor insurance in Spain? Are they easing?

Fernando Mata Verdejo
Group CFO & Director

Well, more than pressure on premiums, which has existed for since ever, I mean Spanish motor market. What we're seeing is a reduction in coverage and also switching to other carriers and which is normal in economic scenarios like the one we're living.

I guess it's also related to the age of the Spanish fleet. It's almost 13 years old, if I remember well. And it's basically due to the reduction in new car sales. I mean it's extremely difficult to see if we'll cover policies for cars older than 7 years. So our policyholders remain in within MAPFRE, and they changed to lower and simpler policies in order to reduce the bill. So this is the basic, let's say, new trend that we see in this quarter and probably remain for the fourth quarter as well and some months.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. Basically, there's not such a war on the -- or softening in the market that we can translate into a war price in...

Fernando Mata Verdejo
Group CFO & Director

I don't see a war price currently, a lot of pressure on -- I will say, on coverages, I mean switching from full cover to simpler policies.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. There is a question from Mario Roperio from Bestinver. And he's asking about what can we expect from the La Palma eruption, this volcano that erupted in the Canary Islands, and which is mainly covered -- I mean so it's all covered by the Consorcio. So any other consequence for the -- from that?

Fernando Mata Verdejo
Group CFO & Director

not really. I mean it's part of the social aid that we granted to some of our policyholders with properties insured in MAPFRE. And we granted a EUR 9,000 indemnity for those that did lose their properties. And MAPFRE has a quite significant market share in the Canary Islands. And as has happened in other cat events, MAPFRE will be close to their policyholders in order to provide the help they need.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. Thank you very much, Fernando. Farquhar Murray from Autonomous has a question on COVID. In broad terms, what is the net balance of COVID impacts in the primary Insurance business between positives from frequency versus negatives from mortality? He says that -- he thinks that previously the suggestion was that at around the balance, they

were around -- almost balanced. And now he feels that these are presumably a net negative for the 9 months 2021. We can have some kind of color on this effect.

Fernando Mata Verdejo

Group CFO & Director

Yes. Thank you, Farquhar. This is a quite interesting question. As we mentioned in previous presentation, I mean it's extremely difficult to isolate or differentiate those improvements in combined ratio due to efficiencies or better underwriting policies implemented in the Auto lines and differentiate from the lockdown or the confinement or the lack of mobility.

As we mentioned in previous presentation, we understand that the both negative and positive effects from the pandemic were neutral in 2020; and also during the first half of 2021, were sort of neutral. I wouldn't say that in the third quarter, as we presented the numbers, and we expected an uptick in Life Protection, particularly in LATAM because of the lack of the small pace of vaccination and the lack of vaccines. But the third quarter was a surprise. And let's say that the third quarter wasn't symmetric effects. And I will say that it is a little bit negative from Life Protection.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Should we -- we could define the third quarter as a transitional quarter between...

Fernando Mata Verdejo

Group CFO & Director

Yes, I guess they -- yes, I mean it's quite different from different geographies because in LATAM South, there are still some countries, you just see the financial report with combined ratios below 90%, which is amazing. I mean in these conditions, even recovering mobility. Other countries, such as Brazil or Spain, combined ratio in automobile is around 100%. And so there is a lot of moving parts affecting different geographies and different lines as well.

This is a transitional quarter, as Felipe said, and we've seen recovery in mobility, reduction in other lines as well and increases in particularly in Life Protection. But as I mentioned in the wrap-up, I mean we should expect those lines and those combined ratios to convert into standards in the coming months.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Okay.

Fernando Mata Verdejo

Group CFO & Director

In the coming quarters, sorry.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Thank you very much, Fernando. Next question is related with the dividend. I mean it's Ivan Bokhmat from Barclays. He's asking, can you remind us the intention regarding the dividend? Is it to return to 2019 level with EUR [0.14] per share?

Fernando Mata Verdejo

Group CFO & Director

Well, Ivan, this is -- at this moment, it is a difficult question, and it can't be answered. I mean we returned to the same interim dividend, EUR 0.06, is the first step to return to a sustainable dividend path. And once we finished this year, and if we meet the guidance, I think it will be a big push and probably another step, I mean, to return to this dividend path.

The final amount, we have to wait for the Board, at the beginning of next year, just to know the final decisions. But we are pretty committed with investors. And we will come back to this sustainable path as soon as possible. That's what we mentioned, and we stick to this policy.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Okay. Thank you. Thank you very much, Fernando. Maksym from JB Capital. Could you update us on how you plan to replace the business volumes lost due to the end of Bankia MAPFRE JV?

Fernando Mata Verdejo

Group CFO & Director

Well, organic growth, a big push from SANTANDER, any potential market opportunity we can get. And I mean MAPFRE is growing very, very well. And 7% in Spain, I think with this growth, we offset any lack of new business from Bankia. And we'll not worry. I mean with this situation, we know it was a very important channel. But what MAPFRE has shown with this extraordinary performance in premiums growth is that we are able, I mean, to offset any potential lack of -- or any distribution channel that they could lower, I mean, their expectations.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

I mean it's very important to speak about the extremely resilience of the organic business now of Iberia. That is ready to offset any other big effect like the one of closing the Bankia's network.

Fernando Mata Verdejo

Group CFO & Director

Absolutely. You can have a look, I mean, to the financial report at the Life MAPFRE VIDA. You see the extraordinary premium growth on the MAPFRE's network compared to the bancassurance distribution channel. So let's say that this is a very important distribution channel that we have to optimize in this situation and also putting in value, I mean, which is very important.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Thank you very much, Fernando. We have another question for you related with RE activities, coming from Phil Ross from Mediobanca. Can you recap on Reinsurance, please? You mentioned the EUR 125 million limit with the reference of to the EUR 90 million -- EUR 92 million Storm Bernd loss.

And secondly, have you recognized some benefit on the third quarter from frequency cover? Do you anticipate an impact on your Reinsurance retro buying next year? It's quite a complex question.

Fernando Mata Verdejo

Group CFO & Director

Yes. Yes, you're right. I mean the -- we hit the priority limit, which is EUR 125 million with Storm Bernd. So we booked a recovery from Reinsurance for this particular event.

Regarding the impact in our next year cost of protection, probably we can see an increase. But in any case, I mean, if we can increase for our retroceded business, I mean we will pass it to our ceding entities as well. So...

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

It's normal with the hardening of the reinsurance market that we will be able to pass this kind of...

Fernando Mata Verdejo

Group CFO & Director

So in the end, it will be neutral.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

And just one comment on the EUR 125 million and EUR 92 million is the net retention of the same...

Fernando Mata Verdejo

Group CFO & Director

That's correct. EUR 92 million effect is without taxes and minorities. So in the end, is the net effect of the gross EUR 125 million.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. Another one coming from JB Capital. Maksym is asking on how should we see premiums of MAPFRE RE evolving in 2022 after -- I mean I say that after these excellent -- increasing during the -- during 2021.

Fernando Mata Verdejo
Group CFO & Director

But at this moment, I mean we are at an earlier stage in order to give you more color regarding 2022. But we should expect, let's say, a moderate increase. Renewals for midyear, they were pretty good in terms of rates, and we should expect a similar scenario, I mean, for next year.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. Ivan from Barclays is asking another question related with Bankia. Was the EUR 20.4 million one-off from the inclusion of Bankia's second quarter and third quarter result in the third quarter included in the Life business result during these quarters?

Okay. I'm trying to explain this. The way we -- as Fernando said, we made an adjustment on the third quarter on the result of Bankia because of a change in the accounting way that we were recognizing these results. So there is a full disclosure of the figures in the financial report. That's, I think, in Page 22. So that says that the EUR 20.4 million figure is after tax and minorities considered our 51% stake. So you need to gross it up and to add the minorities in order to make the total figures.

For the entire year, the result of the Life business included 100% of the result of this entity. So if you look at the total profit and loss account on the balance sheet, you will see 100% of this entity with before taxes and minorities. So it's only on the -- it was only on the last line that you will see the adjustment.

Fernando Mata Verdejo
Group CFO & Director

Yes, Felipe. If I may add something regarding this, I mean, just to put some clarity or additional clarity to the situation. I mean we booked following the accounting policy that we were told to. And before presenting results as of June, I mean, we called regulators and we presented, I mean, basically the shareholder agreement with Bankia. And also we concluded that the attributable result for the 51% shareholding of MAPFRE should be fully allocated to Caixa.

But then, due to the length of the process and also because the members of the Board representing MAPFRE at the Board didn't step down, and -- so we held the majority of votes at the Board. It was raised that we should book again and reflect in the attributable results the 51% shareholding of MAPFRE as a profit contribution. So both -- and also with the agreement of the external auditors, and we -- again, back to the regulators to say that we should change the profit contribution from Bankia at the third quarter, and they fully agreed. So I mean -- sorry for the confusion, but we did what we were told to, and that was pretty clear.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Thank you very much, Fernando. Carlos Peixoto from CaixaBank has a question on Spanish combined ratio. What are the expectations of the evolution of the combined ratios in the different Spanish business lines?

Fernando Mata Verdejo
Group CFO & Director

Well, Carlos, that's an extremely difficult answer. We should expect a lot of moving parts, as I already mentioned. The third quarter has been a transitional quarter. We should weigh some increase in frequency, particularly in Auto in the coming quarter, and -- but we should reflect as well an increase in premiums earned from the increase in rates or the

absence of discounts and rebates. And the remaining lines, I guess, we shouldn't expect no significant changes. That's basically my view.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. Thank you very much, Fernando. Ivan Bokhmat from Barclays. Can you provide an update on Bankia MAPFRE Vida joint venture? Is the deal completion still expected for 2021?

I think that Fernando was quite clear during the presentation. We -- he said that we were expecting in November, the final appraisal from the external appraiser. And that would give us to expect that everything will be completed by 2021. I don't know, Fernando, if you want to...

Fernando Mata Verdejo
Group CFO & Director

No, I mean, this is our expectation from our side. But let me tell you as well that I've read the paper, probably assuming that the paper is correct, but a similar statement was made by Gortázar, the CEO of Caixa, saying that it should be expected that this deal complexion by year-end should be completed. Yes.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. Thank you very much. It seems that we don't have any further questions, okay? So -- just one more. Carlos Peixoto from CaixaBank asks about the expectation on NatCat losses on the fourth quarter.

Fernando Mata Verdejo
Group CFO & Director

Well, nobody knows what is going to happen. I mean so far, in the Atlantic, I mean, it has been a quiet season from hurricanes. Earthquakes, there is still a risk in any territory we operate in. But since the frequency cover already -- has been already triggered, as I said at the presentation, the net effect of any individual cat event would be pretty, pretty reduced.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. So that allows us to have some kind of visibility or peace of mind related with this kind of frequency cover that you were mentioning. There is another question...

Fernando Mata Verdejo
Group CFO & Director

Global Risks. yes.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Global Risks, sorry, had a good quarter with lower volatility [indiscernible] losses. What should we expect going forward?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thanks, Felipe. I mean a couple of years ago, we implemented a new change in order to lower retention in Global Risk business and also increased commissions. So the current quarter and also previous quarter reflect -- are reflecting this change, so lower impact from losses and more stability in results. So let's say that we put a cap in order to reduce losses and also to increase gains. But we are quite comfortable with this reduction in exposure in Global Risks.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. Thank you. It's quite a successful operation right now.

Fernando Mata Verdejo
Group CFO & Director

Absolutely.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Farquhar from Autonomous, on 2021 guidance. Does this guidance include Bankia, which is now the headline figures a little longer? And are we still only adjusting for NatCat, which would seem to imply that we are not adjusting for the COVID-related claims in arriving to the guidance figure?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you, Farquhar. This is a question raised many, many times where we mentioned in the guidance. The first and part of the second quarter results contributed by Bankia was included in the guidance. Obviously, the first quarter pertained to MAPFRE. And the second quarter, it was part of the second quarter because, at that point, I mean, when we published the guidance, we didn't know what was the right moment when the Board of Directors representing MAPFRE will step down. So we assumed that part of the profit for the second quarter will be included in the quarter.

Actually, with the new accounting policy, let's say that -- if we assume that the second quarter was included -- part of the second quarter was included in the guidance, the third quarter wasn't included in the guidance. What we're doing within this new accounting treatment is just anticipate part of the capital gain where we will book when the transaction is completed and because -- the net equity doesn't change. It's the same at the transition date, which is the 31st of March. And the only thing we're doing is adding to this net equity, the profit contribution of MAPFRE. That's pretty simple.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. From Ivan Bokhmat from Barclays. Can you offer any early thoughts on IFRS 17?

Fernando Mata Verdejo
Group CFO & Director

Yes. We're working on this project with external advisers. The project has had a lot of up and downs. And provisional figures, they're not ready yet, Ivan. But let's say -- I mean our external advisers -- we're working with Deloitte, EY and also with SAP. And we believe that at the end of the -- probably after summer, I mean we will be able to give you more color on this topic.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. Philip Ross from Mediobanca and together with Carlos Peixoto has a similar interest on Global Risks. I mean, we already said that it was a good contributor to the results. What could we expect going forward? I mean is this going to be -- provide a lot of volatility to our results or the way of managing Global Risks has changed?

Fernando Mata Verdejo
Group CFO & Director

We should be a more normalized and in stabilization in loss ratio. We reduced our risk appetite. We reduced retention as well, increased commissions, as we mentioned. So let's say that we are limiting losses and also gains in order to have a narrower variation for profit. So in the end, I guess that they will be quite similar trends in the future. And also, we didn't renew some large policies that -- with really bad experience in the past, and they were loss-making portfolios. So let's say that we should assume that the current trend for Global Risks will remain in the near future.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Thank you very much, Fernando. It seems that there are no more questions. So thank you very much, everybody. I mean we've been almost an hour here in this presentation. But before we close the call and moving to -- we should move to logistics. I'm sure that most of you have received the invitation, but next Wednesday, November 3, I will be hosting

together with the IR team, 2 group meetings. First, there will be a group in Spanish at 9:30 Central European Time, followed by another one in English at 3:00 p.m., also Central European Time.

Both meetings should last around 40 minutes to an hour. Please make sure that you confirm your attendance using the e-mail invitation you received early this week, or get in touch with the IR team in order -- if you have any kind of issue. You have the contact details in the presentation.

Please stay safe, and thank you very much for your time. Fernando?

Fernando Mata Verdejo

Group CFO & Director

Yes. Thank you, everybody, again, for your presence. And hopefully, you will hear from us by year-end in order to give you more information regarding Bankia deal completion that I'm sure -- I mean we are well sure -- very well sure that we will finish this deal by year-end.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Okay. Thank you very much, Fernando. Thank you, everybody.

Fernando Mata Verdejo

Group CFO & Director

Bye-bye.

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