

# Mapfre, S.A. BME:MAP

## FY 2020 Earnings Call Transcripts

**Thursday, February 11, 2021 11:00 AM GMT**

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
<b>EPS Normalized</b>	0.05	0.02	▼ (60.00 %)	0.20	0.17	▼ (15.00 %)	0.22
<b>Revenue (mm)</b>	4601.00	4932.30	▲ 7.20	20245.76	NA	NA	20662.02

Currency: EUR

Consensus as of Feb-12-2021 4:37 AM GMT



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# Call Participants

## EXECUTIVES

**Antonio Huertas Mejias**

*Chairman & CEO*

**Eduardo Perez de Lema**

*Chief Executive Officer of Mapfre Re*

Felipe Navarro López de Chicheri

**Fernando Mata Verdejo**

*Group CFO & Director*

Natalia Núñez Arana

*Deputy Director Capital Markets & Head  
of Investor Relations*

# Presentation

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

Good morning, everyone, and welcome to MAPFRE's Results Presentation for Full Year 2020. This is Natalia Núñez.

As usual, the presentation includes the main figures to give you an overview of MAPFRE's performance. The MD&A and additional information, including the usual spreadsheets, are available on our website.

On this occasion, it's a pleasure to have Mr. Antonio Huertas here with us, our Chairman and CEO. He will give us a brief overview of results and the status of the pandemic and will later wrap up the presentation. It's also a pleasure to introduce Fernando Mata, MAPFRE's CFO, who will take you through the main trends and figures of the year. We also have another guest here today with us, Felipe Navarro, taking on my current role, as I will be taking on new responsibilities at MAPFRE Asset Management. He will comment more on this -- and we will comment more on this at the end of the presentation.

As usual, at the end of the call, we will answer all questions received at the Investor Relation e-mail address during the Q&A. The IR team will be available afterwards to answer any pending questions you may have regarding this disclosure.

Now let me turn the call over to our CEO, Antonio. The floor is yours.

**Antonio Huertas Mejias**  
*Chairman & CEO*

Thank you. Thank you, Natalia. Thank you, everyone, for being here with us today. First of all, I hope you are -- and your families are coping well during the pandemic and staying safe and healthy.

Okay. So let's get started. Everybody says that I would like to highlight that no one was able to predict the magnitude of what happened in 2020, and therefore, no companies was fully prepared. Nevertheless, what everyone agrees on is that the companies and institutions that best reacted to the pandemic are those that started with solid financial positions, sustainable business models and advanced digital transformation processes in all these structures, as was our case.

In addition to the problems caused by the pandemic, in August, MAPFRE suffered a big cyber attack in Spain. But despite this, we were able to get our operation up and running again with a couple of days -- within a couple of days while also ensuring that all of our branches were providing services to our clients. In just 2 weeks, we took full control of all of our systems, restored them and avoided the loss of any data.

I do believe that if 2020 have been a stress test, MAPFRE would have passed it with an excellent score. In response then to the pandemic, MAPFRE focused on 3 main lines of action: people, business continuity and protecting our balance sheet. Our first priority was the activation of our business continuity plan in all countries and units, with nearly 90% of all employees worldwide working remotely at the peak of the crisis while maintaining essential service levels, including many branches, tow trucks, repair shops, et cetera. Currently, we are still continuing to focus on the health and safety of our people, employees, agents, collaborators and clients.

In 2020, we mobilized resources and transferred funds to the real economy via [ director nation ] through our foundation and premium discounts for clients as well as extra financing aid for agents and service providers. In addition, we put in a special focus on the self-employed and SMEs, which we considered a more vulnerable client segment. On top of this, we executed a portfolio retention plan for our main business lines. And fortunately, we are observing relatively stable churn rates, especially in Spain.

In relation to efficiency, we implemented a cost-cutting plan of over EUR 100 million in all countries and business units in order to compensate for the unprecedented drop in business. This involved postponing certain strategic initiatives, cutting off many non-strategic projects and reducing general expenses. These savings have exceeded by far the non-budgeted expenses related to the COVID-19.

Regarding investments, we additionally carried out an extensive review of equity, fixed income and real estate portfolios, goodwill and other intangibles. As a result of this review, we concluded that there was no evidence of any fixed income or equity impairments throughout the year. Nevertheless, a goodwill impairment was booked at year-end. Fernando will go

through the main impacts of this later in the presentation. I do not have any doubt that MAPFRE will come out of this crisis even stronger than before and with more opportunities for organic and profitable growth.

Please turn to the next slide. Before we go into the details, I'd like to point out that this was a good quarter with a group profit of EUR 280 million, excluding write-offs. And overall, we are quite happy with the results this year. Insurance units continue consolidating profitability trends, with an attributable result of over EUR 790 million. Iberia continues outperforming the market in key segments, growing both in policies and in clients, while also delivering excellent profitability metrics. Furthermore, improvements are notable in Brazil, the U.S., Mexico and other Latin American markets as well in Turkey and Italy.

The largest impact from the pandemic continues to be on the top line due to confinement measures and economic slowdown. Currency depreciation has been a headwind, with all main currencies depreciating against the euro, although we saw some stabilization during the fourth quarter. The current environment, still complicated for Life Savings products. Regarding direct COVID claims, impacts at insurance units, mainly from Burial in Spain and Life Protection in LATAM, have been mitigated by the lower frequency in Motor across all the markets. The cost of COVID-related plans at MAPFRE RE had a EUR 80 million impact on the attributable result. COVID-related travel assistance business was hit mainly in the first half of the year.

Another important effect has been on financial income, with yield compression, lower dividend income and a difficult scenario for capital gains. On the other hand, we have made the most of our opportunities in the real estate market, with 2 relevant sales which helped us to offset provisions for undeveloped land in Spain. We booked EUR 132 million in intangible write-offs, which was mainly goodwill at operations in Turkey, Indonesia and VERTI Italy. We also booked EUR 26 million in write-downs for software at MAPFRE U.S.A. related to the implementation of a new operating system in the second half of the year.

Concerning large events, we have various earthquakes in Puerto Rico during the first half of the year with a EUR 68 million net impact, and the second half of the year was also active in terms of large losses. Despite this, MAPFRE continues to boast an excellent capital position and a high degree of financial flexibility.

At this point, I'd like to comment on the Board's decision regarding dividends. As you know, in order to allow investors who share in MAPFRE's profit, we aim to pay out a sustainable dividend based on a 50% minimum payout approved at the AGM. For 2020, the final dividend to be proposed to the AGM stands at EUR 0.075. Therefore, the total dividend against 2020 results will amount to EUR 0.125, equivalent to a 73% payout ratio or 58% when adjusting for write-offs.

In 2020, the year of the global pandemic and despite everything that has happened, we have been able to pay our shareholders EUR 416 million. This decision is proof of our commitment to shareholders without compromising our balance sheet while also following the recommendations from regulators.

I will now hand floor over to Fernando to go into details of the results. Fernando, please.

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

Thank you, Antonio, and good morning, everybody.

Please turn to the next slide. I don't think it's working well, at least on my screen. Yes, that's -- no. Please go back. Sorry about that. That's perfect. No. Another one? Sorry. That's perfect. Yes.

On this page, this slide, the chart on the left includes the full year figures. While on the right, you can see the H2 standalone figures, which has been quite stable in terms of premiums and recurring results. Premiums are down around 11%, equivalent to EUR 2.5 billion in the year, affected by: first, the currency depreciation with EUR 1.6 billion impact; second, Life Savings premiums are down over EUR 750 million in Iberia; finally, as a reminder, last year, there was a 2-year policy issue in Mexico for PEMEX for around EUR 450 million.

Non-Life premiums are down 8% but at constant exchange rates. And excluding the PEMEX policy, there has been modest growth of 0.6%. The net result reached around EUR 527 million, impacted by the already mentioned goodwill write-offs. And excluding this, the net result was nearly EUR 660 million, down a little bit over 2%. The combined ratio improved nearly 3 points to under 95%, driven by the insurance units. And main variations in balance sheet items are due to the reclassification of all banker-related assets and liabilities to the lines held for sale.

Assets under management are down around EUR 8 billion to EUR 55 billion. Of which, EUR 7.4 billion is Bankia's investment portfolio. Shareholders' equity is down 3.6% due to currency depreciation but recovering nearly EUR 700 million from the first quarter. Just as a reminder, the Solvency II ratio at September stood at 180% within our tolerance range with a reduction in the quarter, mainly due to the interim dividend, which was paid in December.

Please turn to the next slide. On this slide, we will discuss the different components of the adjusted attributable result. Due to the offsetting nature of the different impacts of COVID on insurance operation, we have not considered this in the adjusted result as the final effect should be almost neutral. Also, midsize firms in Spain have not been considered extraordinary because they're recurring in 2019, 2020. And this year, again, 2021, we have Filomena storm. Regarding large claims events during the year, earthquakes in Puerto Rico had an impact of EUR 68 million, only slightly up versus September by EUR 2 million. And regarding COVID losses, the impact on MAPFRE RE has increased on the quarter by EUR 23 million, following a prudent approach based on information from cedents.

This year, we booked a write-off of goodwill at ASISTENCIA for EUR 65.6 million. And this year, as the Chairman mentioned, we carried out a review of all intangibles in line with ESMA's recommendations and applying more prudent assumptions due to the economic outlook. Write-offs reached EUR 132 million.

Regarding the reorganization of operations, last year, there was a positive EUR 13 million impact in the U.S., the positive tax impact in Spain for EUR 13 million as well as a provision at MAPFRE ASISTENCIA for another EUR 10 million. This year, there had been several restructuring expenses in the assistance business, the U.S. and Spain, but most of them were due to a need to adjust our cost structure to the new COVID environment.

Financial gains and losses are down over EUR 90 million, mainly due to lower equity sales as well as higher real estate provisions, which offset most of the gains from property sales. In the fourth quarter, we booked a gain from the sale of MAQUAVIT, another strategic business. And there were also realized gains in the Life business. Excluding all these impacts, the adjusted net result reached EUR 763 million, up EUR 110 million.

Please turn to the next slide. Regarding the goodwill write-offs at year-end, as you are aware, we are currently facing a very uncertain economic context as a result of the COVID. Within the framework of our strategic planning process, we have lowered our forecast for medium and long-term growth on earnings and the related cash flows, mainly in those markets that we consider more exposed to these risk factors. We have also increased the risk premiums, a component of discount rates, applying public and commonly used data updated at year-end.

Regarding other units, we currently have EUR 1.4 billion of remaining goodwill in our balance sheet, of which the largest is from MAPFRE U.S.A. with a little under EUR 600 million. A full disclosure of assumptions and values are available in our annual accounts.

Yes. On this slide, I would like to go through the main trends by business unit. Performance at insurance units has been remarkable, with a combined ratio below 93%. We're reporting better performance based on technical measures implemented in previous year, mainly in Brazil and U.S.A. and improved profitabilities coinciding with the lower frequency from the pandemic effect.

Iberia continues to perform very well. The attributable result is down due to the extraordinary tax effects last year. And regarding premiums in Spain, we outperformed the market in most retail business lines. We have finished this year with healthy growth in policies. In Motor, premiums are down due to discounts made to policyholders at renewal, but insured vehicles are up by over 90,000 units.

We are outperforming the market in Life Protection as well, which is a higher-margin segment, with premiums up 1.5%. Life Savings premiums are down over EUR 750 million due to a difficult environment for these products. In the other regions, currency movements continue to have a strong impact, both on premiums and results. In LATAM, results are up EUR 15 million, and all 3 regions are reporting excellent ROEs, with LATAM North at around 16%, the highest of the group. The combined ratio for the region is standing under 90%. And despite the economic situation, results have improved in Brazil, Mexico, the Dominican Republic and across Central America, especially Panama.

Regarding the international business, results are up by around EUR 14 million. There were several large impacts in North America, the real estate gain -- the capital gain in the U.S. and the earthquakes in Puerto Rico, both in the first quarter, as well as the EUR 26 million software write-down already mentioned booked in H2. Results continue to improve in Italy due to a decrease in motor frequency, and Turkey is benefiting from underwriting discipline.

Regarding reinsurance and global risks, results were extremely resilient, considering the quite active second half of the year in terms of non-COVID additional related losses. In the assistance business, the largest hit was from travel cancellation claims, and it was in the first half of the year. We have been prudently reducing exposures, and we have also taken further steps in our restructuring process. Finally, the other -- the line Other, apart from holding expenses, includes the goodwill impairments booked at year-end.

Please turn to the next slide. On this slide, we disclose Life business by region. We have already covered the main variations in premiums. Brazil, despite the current situation, showed a solid local currency growth, with premiums up 12% in the bancassurance channel. Regarding results, the performance in Iberia was strong, thanks to improved Life Protection technical ratios and also resilient growth. Together with the capital, it's very important to mention as well, together with capital gains booked in Bankia and MAPFRE VIDA, which didn't completely offset the extraordinary positive tax impacts booked in 2019. The pretax result in MAPFRE VIDA was up 1%. In Brazil, the largest impact was from the previously mentioned currency depreciation, but there was also a drag from lower financial income and some COVID-related claims, especially in the second half of the year.

Please turn to the next slide. It doesn't come out? Yes. In relation to the Iberia Life business, at this point, I would like to comment on bancassurance agreement. As you are aware, in December 2020, CaixaBank and Bankia's AGMs approved the merger of both entities, and the remaining regulatory and legal aspects are expected to be completed in the first quarter of 2021. Once the Bankia change of control is completed, this will trigger the process to transfer operations as established in the MAPFRE-Bankia bancassurance agreement. Consequently, we expect to have all the processes completed during the year.

On the right, you can see the main figures for Bankia MAPFRE VIDA. This is the first time we disclose this information, which includes Bankia's Life business, of which MAPFRE holds 51%. The 2020 numbers include Caja Granada and Caja Murcia, the 2 acquisitions made a couple of years ago, which were merged with Bankia MAPFRE VIDA at the end of the 2020. We also include the pro forma 2019 figures for comparison reasons.

The Non-Life business is included within the MAPFRE España unit is run as an independent distribution channel. So therefore, the figures are not publicly disclosed. Bankia's total premiums were EUR 392 million at 2020 year end, of which EUR 179 million is Life and EUR 213 million is Non-Life. This is equivalent to [ EUR 1.9 billion ] of total premiums for MAPFRE.

This slide includes a full disclosure of the breakdown and variations of the investment portfolio and total assets under management. The largest changes in asset allocation have been driven by the reclassification of the Bankia financial investments as assets held for sale, which has led to a strong reduction in government bonds, mainly Spain and Italy as well as a smaller fall in corporate bonds. Spanish sovereign debt continues to be our largest exposure, but now a little under EUR 13 billion and Italian debt around EUR 2.4 billion. As I mentioned before, both sovies are mainly allocated to immunized portfolios.

Please turn to the next slide. On the top left are the yields and durations of our euro area actively managed fixed income portfolios. The market value of these portfolios are down from EUR 14 billion to EUR 13 billion, mainly as a result of the already mentioned reclassification of Bankia-related assets as held here for sale. Accounting yields in Non-Life are fairly in line with yields at September, although down year-on-year by nearly 30 basis points.

Yields in Brazil are up due to a lengthening of duration and a change in asset allocation, moving from inflation-linked bonds to fixed rate notes. And regarding realized gains and losses in these portfolios, gains reached around EUR 79 million, down nearly EUR 100 million compared to the previous year. On the bottom left are the details of the portfolios in other main geographies. Despite falling interest rates in several markets, accounting yields in LATAM are still well above those in Europe.

Please turn to the next slide. Shareholders' equity stood at EUR 8.5 billion, down around 4% during the year. The most relevant changes are, first, assist -- EUR 176 million decrease from currency conversions differences during the year, mainly due to the depreciation of the Brazilian real, our second largest exposure, which is down 29%; as well as the U.S. dollar, our largest exposure, we've had 8% fall. Negative currency conversion differences increased by only EUR 26 million in the fourth quarter. On the right, you can see the breakdown of currency conversion differences and changes during the period as well as sensitivities.

Second, net unrealized gains on the available-for-sale portfolio have had a EUR 275 million positive impact during the year, improving by over EUR 240 million during the fourth quarter, driven by strong performance of Spanish and Italian sovies, whose 10-year bonds narrowed by 20 and 30 basis points, respectively, in the last quarter as well as the rally in equity markets.

And third, a reduction of EUR 416 million as a result of the 2019 final dividend paid in June and the 2020 interim dividend paid in December. At the bottom, there is a breakdown of net unrealized gains as well as Iberia's available-for-sale portfolio, which has reduced significantly, mainly immunized portfolios, due to the reclassification of Bankia's held-for-sale and now represents around 2/3 of MAPFRE's total available-for-sale portfolio.

Please turn to the next page. In the chart of the left, you can see the breakdown of the capital structure, which amounted to EUR 12.8 billion. Very few changes compared to previous year. On the right, you can see the developments of our solvency position this year. The SCR has been fairly stable throughout the year, and the ratio has moved within our tolerance range. And regarding Solvency II, the ratio was 180% at the close of September. The main driver of the move of the quarter was the effect of the interim dividend paid in December.

In the same chart is the updated pro forma impacts from potential and regulatory developments, which are in line with previous calculations. The Board has already approved all necessary steps for regulatory authorization for the longevity internal model. We expect to receive approval in time to apply this to 2020 year-end calculations. This will imply roughly a 10 percentage points uplift to the Solvency II ratio. The process for diversification benefits of the matching adjustments, which is included in the Solvency II review, will take a little bit longer.

Please turn to the next slide. At this point, I would like to emphasize the resilient evolution of our capital position and credit metrics. Shareholders' equity and total equity were only down 3.6% and 2.7%, respectively, despite market volatility and currency depreciation and is supported by a high degree of diversification by geography, currency and asset class. Intangibles are down by around 16%, driven by a prudent approach to asset valuation with write-offs made this year as well as currency movements.

Regarding leverage, it is only slightly up to 23%, with debt closing the year at similar levels to the previous year and the increase mainly driven by the fall in our equity base. The Solvency II ratio down under 7 percentage points at 180% within our tolerance range and with a pro forma ratio of nearly 200%. MAPFRE's current ratings are in an excellent position and were recently affirmed by all 3 agencies.

And last of all, dividends paid were down 7%, optimizing shareholder return without compromising our balance sheet strength. All in all, we've seen very slight variation in our capital position and solvency ratio, but market capitalization is well below our book value, reflecting some uncertainty, obviously, in the market. We understand that some of these could be justified in the current context. However, some of these factors, like the dividend, and, which is more important, the stability of results in the third and fourth quarter, have already been clarified at the end of this year. And we are confident that the rest of uncertainties will be resolved with time in a positive direction.

Now I will hand things back over to Antonio.

**Antonio Huertas Mejias**  
*Chairman & CEO*

Thank you, Fernando. And before wrapping up, I would like to say a couple of words regarding sustainability.

On the slide, you can see the main global ESG commitments that MAPFRE is a signatory to. Regarding the ESG indexes, MAPFRE is already included in the main ones. And in January 2021, we were also included in Bloomberg's Gender Equality Index in recognition of our successful diversity and equality policies.

Also, please let me briefly mention our key ESG targets for the 3-year period: at least 45% of vacancies in positions of responsibility are going to be covered by women, an objective that was already achieved, reaching 46.3%. At least 3% of our workforce will comprise people with disabilities. Having reached 3.3%, high success. Another one, carbon neutrality will be achieved in all MAPFRE companies with headquarters in Spain and Portugal by 2021 and worldwide in 2030. We will not invest in companies deriving 30% or more of their revenues from the coal-fired energy sources. We will not insure the construction of new electricity-generation plants that are coal-fired nor insure new mines.



Please turn to the next slide. Despite our current headwinds, MAPFRE is thriving, with a net result of EUR 208 million in the fourth quarter, excluding write-offs, thus confirming our profit generation capacity. Performance of the insurance units has been outstanding, reaching a net result of EUR 790 million and a combined ratio below 93%. Although some of this improvement is due to lower frequency as a result of confinement measures, there are also underlying improvements and strong profitable trends in our main markets, particularly Iberia, United States and Brazil.

In Iberia, growth has been resilient in several key Non-Life segments, with strong underwriting results despite quite a competitive market. This is helping to mitigate the pressure on financial income as well as a challenging market for Life Savings. We'll continue to strengthen the MAPFRE brand with growth in clients.

In LATAM, we are seeing improving results in Brazil, Mexico, Panama and Colombia, despite currency headwinds. The top line in this market has been hurt by the economic slowdown. Results also continue to improve in the U.S., Turkey and Italy, thanks to profitability initiatives as well as lower claims frequency as a result of lower activity levels.

Regarding MAPFRE RE, results have proven resilient in a challenging time for reinsurance. MAPFRE RE maintains a strong financial position and a prudent approach to underwriting.

Now let me say a few words about our bancassurance agreement with Bankia. I do believe we are well-protected under the terms and conditions of the contract, especially in the exit clauses for change of control, and we expect the transaction to close in the first half of the year. As for net proceeds, any potential capital gain will be included in the attributable results and, therefore, could be a source of dividends if decided by the Board of Directors. In any case, a significant amount will be retained for business development. With the help of this sale, we expect to distribute a dividend as we used to before the pandemic.

Turning to the financial targets. With respect to our 3-year strategic plan, we are outperforming the 96% to 97% range for combined ratio, and the average ROE is near to lower end of the 8% to 9% range when adjusting for write-offs. However, given the current market context, premium growth will be the most challenging target. We will give more color on this at our AGM in March.

In conclusion, we are satisfied with MAPFRE's performance in an extremely difficult year. The group has a solid capital base, flexibility and a high level of liquidity, supported by strong cash generation from operating units, which allows us to pay sustainable dividends. The COVID-19 and related economic crisis is not over, but MAPFRE has proven able to adapt to this difficult scenario. If in such adverse circumstances, the group has been able to maintain profits, although slightly lower, we are convinced that we have the necessary business and strength to drive MAPFRE to relevant growth in profitability as soon as conditions minimally improve. Even so, we must be very cautious at this time because although we have high hopes of the effects that the vaccination can achieve and the ability of countries to reenter normality, the reality is that we still do not know the true depth and scope of the economic crisis we are experiencing. We are, of course, absolutely confident in MAPFRE's ability to cope with the complications that we may encounter as we did in 2020. Thank you for your attention. And now we'll hand the floor to Natalia to begin the Q&A session. Please, Natalia.

## Question and Answer

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

Thank you very much, Antonio. So yes, we are going to start the Q&A session.

First question is regarding Bankia. Almost all of our analysts have sent us questions on the bancassurance finance agreement with Bankia, so we are going to try to summarize them all: Paz Ojeda at Sabadell, Jonathan Denham at Morgan Stanley, Marina Massuti at JB Capital, Ivan Bokhmat at Barclays, Paco Riquel at Alantra and Sofia Barallat at Caixa BPI. The questions are the following: how close are you to the agreement with Caixa-Bankia on the sale of the bancassurance JV? And do you consider the EUR 500 million that the combined entity has set aside for JV restructuring to be the accurate reflection of the value of the business? We have more questions, but if you want...

**Antonio Huertas Mejias**  
*Chairman & CEO*

Let me start, Fernando, with the process. As you know, once things in the execution of the bank integration and another, the integration of the acquisition of insurance companies, in this case, I think probably the bank integration is close to the end. In a few weeks, CaixaBank and Bankia will merge, and so this will be one single bank, CaixaBank, because it's an acquisition. The second step is the acquisition of the insurance company. It depends on the regulators, and we are ready to do it. It's a matter of a process that we know well. The contract reflects well the condition of the change of control. So it's -- so the first phase is going to have an end in a few weeks, and the authorization for regulators in terms of final insurance integration will be probably in the second part of the year. Fernando?

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

Thank you, Antonio, for giving us more color regarding the current process. Regarding your question, as I mentioned before -- thank you, Paz, and the rest of the persons. This 5 -- EUR 0.5 billion assessment was one side estimation. It was only made for Caixa, and we haven't published any estimation for other side. What I mean is that the -- this amount wasn't agreed before being published. It was only Caixa's side, and we haven't published any. And we have to wait and also see the different -- or it is very well disclosed in the bancassurance agreement, the different steps and different procedures that have to be taken. And one is the, obviously, the final valuation. We have to wait, but we are not in a position to say how accurate is this value. I mean this question should be taken to just the other side to Caixa and Bankia. Next, please, the second?

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

Yes. The second question is also regarding Bankia. What are your plans for the uses of the proceeds from the Bankia JV? Why do retain a significant amount for business development? Would you consider paying a special dividend once the transaction involved in the Bankia bancassurance JV is completed? Now you say that might take it into account for the -- now do you say that -- yes. Okay. This is the question.

**Antonio Huertas Mejias**  
*Chairman & CEO*

Okay. It's about the potential increase of our dividends if we have the netting coming from the sale of Bankia business. So as I said before, any potential capital gain will be included in the attributable result. It's obvious, and therefore, can be a source of dividends, but it needs the approval of the Board. In any case, we want to continue investing in new business but not in the short [plate]. So we will retain a part of this income for business development, but we know that we can increase our dividend and recover the situation before the pandemic if we have the help of this.

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

Okay. Thank you, Antonio. Next question is, what potential partners in Spain do you consider to replace the Bankia JV, taking into account that most of the Spanish banks already have assurance agreements? And what could be the time line for new bancassurance distribution agreements?

**Antonio Huertas Mejias**  
*Chairman & CEO*

As you know, we have already other partnerships in Spain with other banks, BANKINTER, CCM and recently, Banco Santander. All of us are very successful agreements. We are happy with them, and we obviously have always planned to increase our sales through the network. Nevertheless, we know that the lot of Bankia is hit because we are losing -- not in terms of premium because it's small due to the size of MAPFRE revenues, but it's important in terms of profits. So we would like to increase our relationship with the current partners of MAPFRE. We think we have room for growth with them, and we are preparing new plans to develop more businesses. The partnership with Banco Santander is still in the first phase but has been very fruitful in the first year. So there are good deals coming from this alliance in the years to come.

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

Thank you very much. We have another question. It comes from Sofia. She will also like to have an update on the agreement with Liberbank.

**Antonio Huertas Mejias**  
*Chairman & CEO*

Yes. We are happy with our alliance with Liberbank through CCM. As you know, it's an old civic banking in the central region in Spain. We have been -- we have had a very productive alliance with Liberbank, and Liberbank has been a very loyal partner. We haven't received any notice about a possible cancellation. We know that Liberbank is going to be absorbed by Unicaja, which integrated in a new bank. So if they want, we can continue with this alliance because it's not -- it doesn't compete with other part of this bank. In this area, in this original area, all the CCM has branches. So it's an isolated area, and it has been very, very successful working together, MAPFRE and Liberbank.

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

Thank you very much. Now we have some questions regarding dividend and strategy. Paco Riquel at Alantra has a following question regarding strategy and target. Can you update on your strategy in the U.S., the exit strategy in some states and the profitability outlook in this region? And also, can you update on your 12% ROE target in Brazil?

**Antonio Huertas Mejias**  
*Chairman & CEO*

Okay. We can start with our strategy. Paco, we have deployed a strategy, trying to reduce our footprint in the U.S. The first stage in this, each country 10 years ago or more, we decided to spread out our presence. But after some years work in that, seeing the size of each state and the complexity of this market, we decided to reduce our presence in some states. Now we are concentrated mainly in New England states with the leadership in Massachusetts. Massachusetts represents 90% of our current presence in the U.S. and the other states close to this one are relevant also. But with 3, 4, more, it's enough. We are finalizing our process of exit in some states. And probably, we -- not probably, we are sure that we can improve our results with a new strategy, having less presence in a number of states. Fernando?

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

And yes, if may I add something, Paco, regarding assistance, probably you didn't answer about our business, but the way we got rid of the roadside assistance business in the U.S. as well and with a small profit. Regarding Brazil, we're pretty close, nearly 12%. We're 11.3%, if I'm not wrong, in our ROE. Probably you're right saying that it was due to the depreciation of the currency and also smaller net equity, but we're quite happy with Brazil. I mean, we exceeded this magic amount of EUR 100 million, and it was one of the targets. And the only thing we have to fix is automobile, as you know, but our premiums practically is half last year. And -- but now we have a more prudent, let's say, probably the portfolio we wanted to have. And the economy in Brazil is pretty dynamic and hopefully, I mean, we will keep on with this improvement trend next year.

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

Okay. Thank you, Fernando. Next question, Alex Evans at Credit Suisse also had a question at the dividend. How should we think about the dividend going forward? Is EUR 0.125 a new base? And Jonathan Denham at Morgan Stanley would also like to know, you weren't able to grow the prior dividend for a number of years. Do you expect to be able to grow the dividend from this lower base?

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

Yes, thank you, Alex and Jonathan. For MAPFRE, as I mentioned as well at the press presentation, dividend is key and also for you as investors and analysts. If you look back, I mean, it has been a quite stable trend in dividends. And we mentioned in previous presentation as well, there were 3 years in a row with EUR 0.145 and the year before was EUR 0.14. So probably, it was the most stable in terms of dividend period for MAPFRE. I note that many, many years ago and due to the previous crisis, it was a significant drop in dividends. And it was, I guess, EUR 0.11 per share. But what we want is just to avoid this volatility. We note that this is a period of uncertainties, and what we did is just to increase the payout ratio more similar to last year and considering as well that the goodwill impairment is a noncash transaction, so it doesn't have effect -- doesn't have any impact on our cash position or in our cash generation.

Base, we will see in the future, and there is uncertainties regarding the pandemic and also the recovery in LATAM, which I guess, for me, I mean, is the -- by far, the largest uncertainty. I mean, Spain is performing very well, the U.S. as well. And reinsurance has to see a different year after 3 years in a row with suffering a lot of cat losses. Probably, it's difficult to go back out to see those years in which we're reporting over EUR 200 million of net profit. But probably in a range close to EUR 150 million, I mean, it will be better.

So let's say that our intention is to go to this trend, to go back to this pattern, but the basis is net income. If there is an increase in net income, it will be higher dividends, for sure. Our expectations are good, more positive. But we have to see how 2021 performs, particularly in the first quarter.

I have -- we have included in the presentation, as you probably have realized, I mean, the H2 main numbers. And if you have a look to this, I mean, combined ratio is 92% for these 2 last quarters of the year. We note that this combined ratio probably is not sustainable in the long run. But if there is no changes in 2021, it will be, we guess, similar to this previous trend of the third and fourth quarter.

So we don't close the door to future increases of dividends, but they will be based in an increase of net income as well. MAPFRE has a strong position. We've got a lot of cash. And the proceeds, say, from Bankia, as the Chairman said, we have to devote a part -- a significant part to future development. It won't affect our dividend policy significantly, but just giving you more color regarding Bankia.

I mean we studied, as the Chairman said, 20 years ago, this business with Bankia, I mean, it grew not artificially. It was the -- a successful process made by 2 partners. I look back at the numbers and 10 years ago, I mean, the profit was -- the net income was just half of the current, which is approximately EUR 500 million -- the net equity, sorry. And net profit, which amounts now to EUR 125 million; 10 years ago, it was EUR 50 million. It means that any new business, and we have to replace Bankia because it's relevant, takes time. So we're going to do is organic and inorganic, it depends on the opportunity that we will see in the market. We have to replace this business.

Obviously and I had to say and quite clear, we're going to apply, I mean, the strictest capital discipline in this situation. I mean everybody knows that there are different potential opportunities in the market, but we're not going to take the first to see. And so the capital discipline for MAPFRE, as it was in the past, it will be in the future, a key for our strategy.

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

Thank you very much, Fernando. We have another question from Marina Massuti at JB Capital Markets. She would like to know if there is -- if there could be additional goodwill write-downs from other regions.

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

Well, we mentioned in the presentation, first of all, Marina, and as I stated in previous presentation, at the end of the third quarter, we have no evidence of any potential goodwill impairment applied -- I mean the standard assumptions that we applied last year. We mentioned that there were a couple of entities were close to borderline. It was particularly Turkey and -- because the social economic environment and also Italy because the -- I mean performance of the car dealership distribution channel wasn't working very well. What we did is we proposed to the Board is according to ESMA's recommendations, suggestions, is apply a stricter prudent assumptions to our goodwill impairment analysis.

So basically in 2 different situation. First, we lower financial projections. In the past, we used 10 years. And now we're down to 5 years. And also then we apply our perpetuity more prudent, basically equal to the inflection -- inflation rate forecast.

And also regarding discount rates, we were waiting in order to see -- in order to -- the Damodaran, which is a public information, everybody knows everybody uses to be public at the year-end. And so we apply discount rates with this new premium risk. And also, we were even more conservative regarding Turkey. An increase, I guess -- I don't remember very well, I guess, it was like a 200 basis points, I mean the increase premium in Turkey because, at a point, we assess additional country risks due to the current uncertainty regarding the regulatory motor situation. So we'll be prudent in both things: discount rates and also business projections.

We mentioned that there is not any goodwill near the borderline currently, and the largest by far is the U.S. And it was close to the borderline 3 years ago due to the different discount rates. Currently, with the situation in the U.S., we're pretty comfortable. And then Bankia's agreements, I mean it will be out of the balance sheet due to the transaction. BANKINTER is performing very well. MAPFRE VIDA, which comes from the delisting like 15 years ago -- and I mean in MAPFRE VIDA, there is no doubt of the good performance. And the remaining -- and they're pretty, I mean, safe. I mean so we -- practically, I mean -- I know this is hard to say after 3 years in a row with a goodwill impairment, but now we're pretty comfortable. What we left in the balance sheet, they're pretty safe.

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

Thank you very much, Fernando. Now we have a set of questions regarding MAPFRE RE and the business in MAPFRE RE. Sofia Barallat at Caixa BPI and Paco Riquel at Alantra would like to have an update on the business interruption losses at MAPFRE RE and what is left for 2021. How much has been already provisioned or booked?

Also, Alex Evans at Credit Suisse asks, "There was an increase in accepted reinsurance in the quarter. Is that related to new business interruption claims coming in? Or is that a reassessment of previous claims? Should we forecast this increase to continue as lockdowns and restriction persists?"

**Antonio Huertas Mejias**  
*Chairman & CEO*

If you allow me, Natalia, we got Eduardo Perez de Lema, MAPFRE RE's CEO, in the backstage of this presentation. I guess there is no one better than Eduardo at MAPFRE Group, I guess, to answer. So please, Eduardo, the mic is yours.

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

Hello. Good morning, everyone, again. On this particular question and COVID and how the things evolved in the fourth quarter, we had mentioned already that there was a high degree of uncertainty on COVID claims, and there is still a high degree of uncertainty on what is going on, on that side.

I would separate the answer in 2 parts as do we expect to have new claims on the Non-Life side in 2021 related to COVID? I would say the possibility is very limited because already since March last year, we have been, across the industry, trying to clarify the scope of coverage. And of course, these renewals as well. So now in most of the countries where we had the claims in the past, it's very clear that we are not providing coverage for pandemics in the Non-Life sector pretty much everywhere.

Concerning our reserve evolution, we have been reviewing the information. And, of course, during the [ treaty ] months, we got a lot of information from our clients and going into much more detail than before. What we have decided is to go -- to be more conservative and try to reduce uncertainty for 2021 and being very conservative in what we reserve. So we have decided to increase reserves in some instances. That still are unclear what the outcome will be both on the

insurance side and on the reinsurance side. And we now close that the best estimate of what the outcome will be. There is potential of evolution in that upside and downside, but we think we are in a comfortable figure to not have meaningful impacts or additional impacts in 2021, specifically on the Non-Life portfolio.

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

Okay. Thank you, Eduardo. Also Sofia Barallat at Caixa BPI wanted to know, "Have you booked any impact related to the Hurricanes Eta and Iota in the Caribbean in the quarter?"

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

Well, we have, of course, the -- both hurricanes were significant in Central America, and we have booked the claims that we are aware of, mostly, in our case, concentrated in group companies. The figure, we haven't disclosed, but it's relatively modest. I have the figure here before tax. It's -- for Eta, it's EUR 11.4 million in MAPFRE RE plus a small additional on the local company. And in terms of Iota, it was EUR 2.8 million. So manageable claims that are within the normal frequency. Of course, it didn't help in the last quarter, but nothing to be with real worried about.

**Antonio Huertas Mejias**  
*Chairman & CEO*

If I may add, yes, including LatAm North and LatAm South that they were affected as well. And after taxes net income, I mean, the net effect will be the same, EUR 11 million. So an important hurricane, but you know, something affordable, of course.

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

Thank you very much. Now we move to Iberia. Ivan Bokhmat and Andrew Sinclair at Barclays and Bank of America, respectively, asked about the Spanish Life business. "Spanish Life business continues to generate very attractive margins despite the negative top line impact of the pandemic. Does the 4Q result include any one-offs that may not be recurring?"

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

Well, thank you, Ivan, for the question. Very interesting because as you noticed that there was a big increase in profit in the fourth quarter. It was due to realized gains from Bankia and MAPFRE VIDA made at year-end, particularly -- I mean, it was like a EUR 30 million and before taxes and minorities in December. We aimed, at that point, just to have a more neutral balance sheet in order to avoid any potential problem at the transaction date, considering it could be December or perhaps first quarter of 2021. And it was both, I mean, equity and also in fixed income bonds.

Just one thing as well, and we haven't commented, we have discussed during the presentation. I'm talking about risk profile. I mean we're pretty happy, I mean, with Bankia, MAPFRE VIDA. But once we get rid of these assets, it will be somehow a derisking transaction because, as I mentioned, practically over EUR 6 million of Spanish debt, which for MAPFRE, top executives is not at risk. But for some investors and analysts, we're looking at some peripheral risk, will be out of the balance. And also like EUR 5 billion -- sorry, EUR 0.5 billion of Italian sovies will be as well off the balance. So let's say, all in all, it's likely 1/3 less peripheral risk in MAPFRE VIDA balance sheet.

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

Thank you very much. Now Paco Riquel and Sofia Barallat wanted to know about the Filomena storm. "Can you please give us an indication of the potential losses from Filomena? How does it compare to Gloria in 2020?"

**Antonio Huertas Mejias**  
*Chairman & CEO*

Yes. Antonio speaking. Today, there are a relevant number of claims based on the assessment performed. And considering region and protection, this event is expected to have an impact on MAPFRE net of taxes of between EUR 20

million and EUR 25 million. EUR 16.1 million net impact coming from Gloria in 2020 in Q1, taking into account both the impacts in the Spanish insurance and the regional units.

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

Thank you very much, Antonio. Also Paco Riquel asked about the BI ruling in Spain. "What is your view on the recent ruling in Spain regarding business interruption losses for SMEs related to the COVID lockdown without any property damage?"

**Antonio Huertas Mejias**  
*Chairman & CEO*

Eduardo, you have the floor.

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

Well, thank you. Again, I would say that our general view is unchanged. So in Spain, we don't see much exposure of having business interruption claims without material damage. The policies are clear in most of the cases, and the fact is that the coverage isn't there.

If we talk about this particular case, first of all, it's not a MAPFRE case and it's not a case where MAPFRE RE is also involved directly. We know from what we have read -- and so far, our view is that the ruling is not correct. It's a relatively small amount, but we consider that the arguments are questionable. And we don't see that it should be a broadband approach in other words because we have seen other ruling where the outcome has been the opposite. In fact, in all of the rulings that we have seen so far, the decision made by the judges were in favor of the insurance companies, providing that the business interruption coverage is linked to a material damage that doesn't exist in this case. So well, it's a ruling, but we don't expect it to be the general rule for the...

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

If I may add, Eduardo. I guess Paco, I've been in the presentation, the press presentation in the morning, but some of the team of people, they told me that UNESPA has published a public statement giving further information regarding the situation, so probably it's available for you as well.

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

Thank you, Fernando and Eduardo. Now we have questions regarding COVID impact. Ivan Bokhmat and Andrew Sinclair would like to know -- the next question, they have the next question. "Could you please try to quantify the COVID impact on the business growth and net of the frequency benefit? Specifically for the Motor business, could you provide the positive COVID impact and indicate whether you are still seeing the benefit of lower driving? Or is this now being passed on via pricing?"

**Antonio Huertas Mejias**  
*Chairman & CEO*

Yes, Antonio again. The impact of our numbers has been largely neutral with negative impacts from COVID-related claims, IBNR and premium discounts, largely offset by the improvements in frequency in Motor and Health. The impact on expenses has been neutral, as expense savings offset COVID-related expenses.

It's true that the mobility -- the lack of mobility in many countries has changed the scenario regarding frequency. We have had frequency benefits going forward. Mobility has increased in our main markets, but with asymmetric developments depending on the country. For example, in Spain or Brazil or even Mexico, we have seen higher mobility and activity levels since the beginning of the pandemic, whereas in other markets such as the U.S. and Germany, where they apply more fixed regulation in terms of mobility with a lower recovery in mobility trends.

Regarding pricing, our tariffs are always adapted to the situation, and they are reflecting the risk profile of each individual clients. So we are applying the benefits of this fall of the frequency in the current renewals to lower the prices in the current insurance policies. So it's an automatic process that we are always applying.

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

Thank you very much, Antonio. Now the next question comes from Andrew Sinclair. "Can you update us on your COVID provisions for future claims in 2021?"

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

Well, I guess that you're referring to the 2020 accident year, Andrew. As we said during the quarter presentation, we booked a significant IBNR provisions to cover this gap or delay in reporting claims.

Finally, we disclosed the year and the amount is like a EUR 44 million, IBNR for the right business, mainly allocated in Spain, Health and also in Latin America. Regarding RE, there is no IBNR and because we book this individual cases, case by case and according to the communications made by civil entities and applying, obviously, because the majority of them, there are doubts. So there is still discussion regarding if we apply or not, I mean, the coverage and applying a percentage of -- probability of occurrence.

Regarding 2021, there is more burial. I mean it's still to be seen so far. I mean the number of fatalities in Spain is pretty high, but not the one we had in April and -- March and April. So let's say there is a sort of contention in this line of business. And -- but we had to say, I mean, the last communications and statements made by the health authority in Spain say that the core of the third wave is coming down. So probably there was this over, but it is still -- we're still at an early stage to conclude that everything is over. But we quite -- we are -- sorry. We are quite confident that, in the end, there is a sufficiency in the burial tariffs and the burial technical provisions in order to cover any volatility in this loss ratio.

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

Thank you very much, Fernando. Now Jonathan Denham wanted to know if we can provide a quick update on how we see -- you see COVID impacting profits in LatAm in 2021.

**Antonio Huertas Mejias**  
*Chairman & CEO*

Thank you, Jonathan. I think that the impact of the COVID has been strong in Latin America in the first and the second waves. But we think that the process of vaccination is going to improve in many countries the situation. Even the process of a -- the economy during the last months in many countries has been less aggressive than in Europe. And we maintain a very positive outlook about the economy in many countries, mainly Brazil.

In terms of how we have seen the development of some products in this country, for example, I can say that in the last 2 quarters, we -- the last year, we observed big increase in like protection, up EUR 27 million on the quarter in Brazil. As well in LatAm North, the pandemic has had late developed, so it has a less impact than other markets. Future development will depend on the evolution of the pandemic, but I can say that we maintain a positive outlook in the main markets. And it's very important that Brazil and Mexico and others like Colombia and even Peru are very, very important to MAPFRE. And we are maintaining this positive application.

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

Okay. Thank you very much, Antonio. Now we are moving to talk about investments. Andrew Sinclair at Bank of America would like to have more details on the real estate portfolio. "Can you provide us an update on real estate disposals? Was there anything in the quarter? And is there anything pending we should be aware of?"

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



Practically, the only transactions made in the fourth quarter was the sale of MAQUAVIT. MAQUAVIT was a stand-alone entity, I mean, it was a shareholding for residences for elderly people across Spain. It was obviously -- it came from the former business we had with Bankia as well in the past. Obviously, it was a nonstrategic asset for MAPFRE, so we put it in the market. And also due to the COVID scenario, it wasn't the best asset to be held on -- to be hold. And so a potential buyer came across, and we agreed on the price. And we booked this EUR 10 million net profit, which was extremely satisfactory for MAPFRE.

Regarding year-end -- and yes, the 30th of December, if I don't -- if I remember well, I mean, we signed an agreement with Gestilar. It was published on the press. And the underlying investor was a German mutual and pension fund. In order -- they are acquiring, I mean, our right to buy plot of lands in the south of Madrid for an amount of EUR 106 million, which, by the way, was the book value at year-end. So probably -- I mean the most likely time line to be -- to materialize this transaction is 2021 with different date sale because there are different plot of lands, and -- with no capital gains because the transaction -- the sale price was exactly the same, the book value.

Other assets, what we've seen is that the -- well, another thing, regarding real estate, and you've seen the financial accounts. Practically, the unrealized gains, the same amount at year-end and are more or less like EUR 800 million before taxes. So there is no change in realized because, as a reminder, I mean, the real estate are stated acquisition cost in our balance sheet.

There -- with this plot of land sale, we're getting rid of 1/3 of our nonperforming assets and basically plots acquired 10 years ago when MAPFRE in -- more or less was operating in the residential business. There are a couple of units that we would like to sell as well. It's a difficult market, but we're reducing our exposure to -- in a pace, obviously. And -- but we are an active buyer as well because our position in real estate is still lower than the one we had in 2012 because there were more disposals than acquisitions.

So quite recently, the Board approved -- has to be presented as well, but we approved at the Board to increase our position in real estate with the same pattern with in the past, I mean, with co-investment with our current partners, GLL, which is a unit pertaining to Macquarie and also Swiss Life and perhaps more potential partners that they will join -- I mean, this strategy with MAPFRE.

Another thing regarding real estate. In this -- let's say, in this -- in the wake of the first wave, I mean we've negotiated rents with most of the tenants, and the reduction was not significant. So we are -- I mean it was like a 20% reduction. And also, it was some agreements as well in order to delay some payments. But we're quite positive with the strategy applied, I mean, at this business and at this time.

So please, Natalia, next question.

**Antonio Huertas Mejias**  
*Chairman & CEO*

Thank you, Fernando. Andrew Sinclair and Ashik Musaddi of Bank of America and JPMorgan would like to have more details of the investment income. "Can you provide any guidance on investment income in 2021? What is normalized base investment income? And what is the add-on track we should expect going forward from a normalized base?"

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

Yes, difficult to say what's going to be our accounting deal next year. And we -- because it will depend on the, obviously, the interest rate, the reinvestment date and also, I mean, there is some assets that are linked with provisions and -- also.

But anyway, we've seen in the past and we should expect a similar trend is a 30 basis point reduction every year on Non-Life fixed income portfolio. You see at our balance sheet, practically half with -- once the exit of Bankia is being completed, approximately EUR 20 billion of our investments are allocated to Non-Life, another EUR 20 billion to Life. And also, we published as well, our accounting yield currently is like 1.7%, 1.70%, more or less for MAPFRE RE and MAPFRE España, which, by the way, they are the main contributors.

So let's say that we should expect perhaps lower but a decline in the accounting year perhaps between 25 and 30 basis points. We're trying to replace with another wave of alternative investment, as I mentioned, focus on real estate investment and also alternative as well, mainly infrastructure with Macquarie and also perhaps in new markets -- sorry, new partners.

Also, in equity, will remain quite similar, but the focus on more cyclical entities. And also we're pretty far from financial institutions and also oil entities. But in any way, any case, our equity portfolio is extremely prudent and will remain the same.

Regarding rating entities, and -- our policy hasn't changed. It's in BBB or higher. And although there are BB, it's because there was a downgrade once they are in our portfolio.

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

Okay. Thank you, Fernando. Now we have some questions regarding solvency. Marina Massuti at JB Capital has the following question: "How do you see the solvency ratio evolving in the fourth quarter of 2020?"

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

Yes. I mean it was one of the questions raised by the Spanish regulator. Before the nonobjections to our dividend, we're keeping a quite frequent dialogue, conversation with supervisor. It should be quite similar. If you consider both things, I mean, in terms of profit contribution, more or less for the fourth quarter, it's EUR 208 million, and the dividend approved is like EUR 230 million more or less. So let's say that they're both at the same level. So let's say that it should be quite similar. There is no -- we shouldn't expect a significant change in our ACR.

And so -- the only thing we published as well in the financial report and in the MD&A is the sensitivity and analysis in our Solvency II ratio regarding the Bankia exit. Assuming that there is no change in the -- in our equity base, which is very unlikely because we should expect a capital gain. The exit of Bankia from our balance sheet will add 5 percentage points increase to Solvency II ratio.

Regarding approval, we are in contact with the supervisor. I note that the approval has to come to MAPFRE by February in order to be applied to the 2020 calculation. We are pretty optimistic. I mean we are in a permanent contact with the Spanish supervisor. The Board has done so far everything that we had to do. So it's on the regulator side. And so let's say that the only thing -- we have to wait. But in any case, if there is no -- the approval doesn't come in February, I mean, the pro forma and the proxy is pretty clear because the supervisory body has told us that there is no any -- they don't see any problem in order to get the approval on time or just in the second quarter. But it will be, in any case, I mean, a significant uplift, our Solvency II ratio.

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

Okay. You mentioned that because Alex Evans at Credit Suisse wanted to know if you could give more details on the 5 percentage points uplift due to the exit of Bankia, MAPFRE VIDA. Is it due to premiums or what?

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

It's due to -- it's the combined effect on the SCR, assuming that the eligible funds are flat. So let's say that we haven't included any potential gain because we don't know it in our equity base. And so just -- it's basically the change in SCR.

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

What do you think?

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

As I mentioned, I mean, it's a big amount of -- a big chunk of assets that they bill off the balance in probably this year. So it's -- again, this is a derisking transaction for our balance sheet, very, very important.

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

Good. Thank you. Now again, regarding Bankia, Paco Riquel at Alantra would like us to give an indication of the P&L contribution from Bankia JV in Non-Life.

Also Ashik Musaddi at JPMorgan asks, "What are the moving parts of earning loss from Bankia? And any positives from acquisitions that aren't yet contributing to earnings?"

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

Yes. Thank you, both of you. What I said is what I can say. And you're analysts, and what we -- MAPFRE is doing is just to put on the financial during the financial reporting the information that we can make public. And there is a full disclose of business Life. Probably, it's a surprise for some of you, I mean, in terms of net equity and also the profit contribution, pretty strong.

And for Non-Life, what we can say is what we wrote. I mean it's the amount of premiums. They're benchmarking the Spanish mark for -- they're interesting because they are entities with a similar risk profile as well as bancassurance entities. So it's easy to get the combined ratio, if you want. But we can't publicly say, and this information is, as I mentioned, is from MAPFRE. This business is being run as an independent distribution channel but is in MAPFRE España books. And so we can't give you the profit contribution for Non-Life business in MAPFRE España. Sorry about that.

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

Thank you very much. Now we have, I think, 3 or 5 more questions. Sofia Barallat asks, "In your adjustments to attributable results, Slide 5 of the presentation, the EUR 50 million provision for restructuring booked in the second quarter of 2020 has been excluded. Was this provision released?"

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

Well, thank you for -- very important, Sofia, because I haven't mentioned it during the presentation. If -- as a reminder, I mean, this is a general provision. It wasn't covering any particular result at that point. And -- but during the fourth quarter, we booked first the U.S. software deterioration. It was covered for this provision. And also, as we mentioned, I mean, there are some restructuring expenses that we didn't consider extraordinary, part of them during this fourth quarter, part of them is the early retirement scheme that we have practically every year in large operations, such as the U.S. and also in Spain. And also, there is a downsize as well in some operations, particularly -- principally contact centers in the large countries as well. It is due to the current COVID situation. We have to adapt to -- our restructure to the current volume and activity of this contact center.

So let's say that the -- what we did is we reversed this provision because the loss -- the risk that, in theory, they will -- it was covered. They were already in the profit and loss account at the fourth quarter.

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

Thank you very much, Fernando. Now we have a couple of questions regarding expectations. Marina Massuti, JB Capital Markets, would like us to provide some guidance. "How do you see the combined ratio for 2021, particularly for Motor Insurance?" And also, Ashik Musaddi at JPMorgan would like to know our opinion regarding premium growth in 2021 and ahead following this large drop of 2020.

**Antonio Huertas Mejias**  
*Chairman & CEO*

It's not easy in the current environment to have any vision -- any clear vision about how the trends can evolve in the next months. The situation with the pandemic is still heavy, so it's -- the limitation of the mobility are affecting all the economic activity, mainly Motor Insurance.

In terms of claims, combined ratio, we have continued to consolidate some underlying profitability trends. We have offset the increase in burial, like protection with the improvement in Motor and Health and other lines. Regarding guidance about Motor, as I said before, it's complicated. In a normal situation, once the pandemic is finished, we can sustain this -- the current frequency, obviously. The claims ratio and the combined ratio have to increase. But in the last years,

MAPFRE has introduced many new techniques to control this business in some countries where we had power -- poor development.

So in normal conditions, I can say that combined ratio from 95% to 97% would be very positive in Motor, but we are not still in this situation. And in upcoming months, we can see a lower combined ratio not only Motor, also in other lines.

In terms of premium, it's also difficult because the recovery of the economy can be different depending on each countries. The drop in car sales in Spain in January was huge, and we can't think about a quicker recovery. But in any way, our ways of distribution are doing well. And we are observing month by month, little by little increase in our offers, also in our sales in all the lines, including Motor.

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

Thank you very much, Antonio. Also regarding this guidance of these expectations, Paz Ojeda asked about the combined ratio. "Fernando Mata said that 92% current combined ratio could be sustainable for the following quarters. I assume that combined ratio is still supported by lower frequency, mainly in Motor. Could you give us guidance regarding the underlying combined ratio or a normalized frequency basis? Are there any improvements in other areas, lines of business that may offset the expected pickup in frequency?"

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

Paz, if I say the following quarters, I correct myself right away. And what we're seeing is during the first quarter, particularly January, I mean, a similar trend that we had in the fourth quarter. Particularly for automobile, there is less frequency in Spain because there is less mobility as well in Germany and in the U.S. On the other hand, in Latin America, it's completely different. Particularly, I mean, mobility is back to normality.

But let's say that it will depend on basically our economic activity. I mean there is -- if fortunately, I mean, the vaccination process will come to an end satisfactory, I mean, it will be obviously an increase of frequency and also has to be transferred to prices.

Let's say that the first quarter, I mean, if nothing changed, which is what we've seen during January, I mean we should expect a similar trend that the last -- third and last quarter. But believe me, we're looking at only the -- yes, the immediately quarter. I mean had to see -- extremely prudent on guidance and future outlook further than this current quarter.

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

Okay, Thank you very much, Fernando. Paz Ojeda, Sabadell, asks about holding figures breakdown.

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

Sorry. Sorry, repeat it again?

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

Holding figures breakdown. I think this is the last question. "Could you provide more detail about holding on other's line, both concerning premiums and attributable results. How much would correspond to Iberia?"

I would like to say something, Paz. Fernando is going to help you with this, I guess. But if you -- if there is any pending doubt or anything, just give us a call because perhaps it's more technical -- this question.

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

Yes. But basically, holding expenses in that particular year, 2020, includes the goodwill impairment. And the remaining overhead costs, let's say, this is the cost of the service of the debt, which amount approximately to EUR 60 million, if I'm right. And also the -- some operating expenses regarding the central offices at Majadahonda. But also, there is a couple

of provisions as well regarding IFRS future expenses that we booked this year amounting to EUR 10 million, but nothing relevant and different from previous years. But we will work on a full disclose of a breakdown of these holding expenses. We will give you this full detail.

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

Okay. Thank you very much, Fernando. There are no more questions. So Antonio, I don't know, do you want to wrap up?

**Antonio Huertas Mejias**  
*Chairman & CEO*

Yes. It's time to close. Thank you for your time today. As I mentioned, we are satisfied with MAPFRE's performance in actually a difficult year. We have weathered the storm, quickly adapting to a complex and unprecedented context. The COVID-19-related economic crisis is not over, as we have said, but we maintain high hopes about the vaccination and return to some degree of normality. We are convinced that in the future, we will continue offering MAPFRE's excellence, opportunities for profitable growth, and we are fully prepared to take advantage of them.

Now more than ever, we are committed to our stakeholders and society at large, and we'll continue to create value for our shareholders.

I would like to thank you, Natalia, for having made an excellent year of managing IR during many years. Now Natalia, you hand over the call.

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

Thank you very much, Antonio. As I announced at the beginning of the presentation, from now on, I will be taking on new responsibilities at MAPFRE Asset Management as Deputy General Manager of Strategic Development. First of all, I will -- I want to thank MAPFRE for trusting me to face this new challenge. I'm looking forward to it after more than 11 years in the Investor Relations team, 7 of which as Head of IR.

Overall, these years, we have learned a lot of -- from our investors and the analyst community, and I would like to thank you all for it. This close communication and enhanced collaboration has been very rewarding for me. Thank you, again, and I'm sure this close relationship between MAPFRE and the investment community will continue. Felipe is an excellent professional with a solid track record. He will be leading a great and committed team.

I will now hand the floor over to Felipe.

Felipe Navarro López de Chicheri

Thank you very much, Natalia. I'm really excited for this new challenge at MAPFRE Group. I would like to take this opportunity to introduce myself. I joined MAPFRE in 2002 and have had different responsibilities within the organization. The last 6 years, I've been CEO of Malta, where I had the chance to be at the helm of a company that is the absolute market leader both in Life and Non-Life in a quite unique market. Previously, I coordinated the bancassurance activity of MAPFRE VIDA for 8 years from the initial negotiations to the acquisition and later the management of the different operations. My first 5 years in MAPFRE were at the M&A department. And before joining the group, I had 10 years of experience in financial markets. I'm 54, happily married and a father of 4. Thank you very much.

Now Fernando, would you like to comment on upcoming events?

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

Yes. Thank you. Thank you. First of all, thank you, everybody, for joining this presentation. And thank you, Natalia and Felipe. Natalia, it has been a pleasure working with you all these years, and we will wish you success in your new position. Felipe, welcome to the team. I'm also convinced that you will be a positive addition.

I know that MAPFRE is very complicated, and we live in a quite complex scenario. So moving on to logistics. Instead of our traditional investment analyst breakfast next week on the 15th, 17th and 18th, we'll be arranging 15-minute one-on-

one virtual meetings for those of you that are interested. That will be hosted by myself, Felipe Navarro and also Leandra Clark. Please get in touch with Leandra or the IR team to reserve a slot. You have the contact details in the presentations.

And also, we're happy to announce that on March 16, after the AGM, we will be holding our first MAPFRE Management Insights Day, where our President and CEO and key managers will give you their insights on existing business development as well as the strategy update approved at the AGM. Further details will be announced later. We're looking forward to seeing you at these events.

Thank you for your time, and above all, stay safe. Bye-bye.

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