



Investor &
analyst call –
Edited
transcript

3M
2021

April 29th, 2021

Company participants

- Fernando Mata Verdejo, MAPFRE SA, Chief Financial Officer and Member of the Board
- Felipe Navarro López de Chicheri, MAPFRE SA, Head of Capital Markets & Investor Relations and Treasurer

Presentation

Felipe Navarro López de Chicheri

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

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

Additional information can be found on our website, including the MD&A, the 2020 Embedded Value Presentation, as well as the usual spreadsheets. At the end of the presentation, we will open up the Q&A session. You can submit questions using the Ask a Question link on the bottom of your screen. We'll try to answer all your 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 you an update regarding MAPFRE's response to the pandemic. We have maintained our focus on the three main priorities. First, the health of our employees and collaborators. Second, business continuity, guaranteeing the commitment to our clients and shareholders. Third, our solvency and capital strength. As the vaccination process continues, we have initiated a return to the office, always keeping in mind the highest health standards. Currently, around 89% of our employees in Spain and 39% in the United States are working on the premises. In Brazil, due to the negative development of the pandemic, 100% of the workforce are currently working remotely. We will continue adapting to the changes in conditions in every country.

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

Fernando Mata Verdejo

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

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

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

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

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

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

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

Assets under management are up around 0.2%, with the investment portfolios slightly down, but compensated by growth in pension and mutual funds. Lastly, Embedded Value was down 0.5% to over EUR7.8 billion, mainly due to the impact from currency depreciation in Latin America during the year. You can see the full disclosure of our Embedded Value at our website.

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

EUR20 million net impact for the Group.

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

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

The attributable result is up 5%, contributing over a EUR108 million with excellent technical performance reflected in a combined ratio of around 93%.

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

In Eurasia, premiums are down due to the non-renewal of the dealership channel in Italy, as well as the depreciation of the Turkish lira. All countries have contributed positively to results except Italy, where expenses have to be adapted to the new business model.

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

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

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

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

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

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

Please turn to the next slide. Shareholders' equity stood at a EUR8.3 billion, down around 3% during the year. The most relevant changes are a decrease in net unrealized gains on the available for sale portfolio, with a EUR271 million negative impact due to rising rates, which especially impacted the Spanish Non-Life business with a EUR96 million impact, EUR53 million in North America - U.S. and Puerto Rico - and around EUR42 million in both Brazil and LATAM South. On the other hand, the impact in the Spanish Life portfolio was very limited - EUR13 million - due to the high share of immunized portfolios.

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

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

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

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

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

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

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

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

Underwriting results are robust in the United States, especially in the Northeast region, and we continue making progress in the restructuring process.

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

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

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

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

Q&A

Felipe Navarro López de Chicheri

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

And from Ivan Bokhmat from Barclays, "The COVID impact of EUR109 million remains substantial in the first quarter 2021, with most of it coming through the Life and Health business. Can you explain how long may that impact persist and what are the key indicators you monitor in that respect?"

There's also another question related to this topic from Paco Riquel from Alantra. "Can you

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

Finally, Jonathan Denham from Morgan Stanley is asking, “What in LATAM offset the Life Protection COVID losses, and do you expect these positives to continue in the second quarter?”

So, there's a lot of interest on the situation in Latin America for the COVID-related losses. Fernando?

Fernando Mata Verdejo

Thank you very much; that's a quite comprehensive series of questions. First of all, we haven't disclosed the information of COVID losses by region; we have only included in the financial report by line of business. But in the text for each region, we have disclosed some information. We'll probably increase information at June, but the reason for this lack of disclosure is that some of the impacts are happening in countries in which we hold business with minority interests, particularly in Brazil. And since BB Seguridade (Bank of Brasil Seguridade) is a listed company and they haven't published results yet, it wouldn't be fair to disclose this information that affects their accounts as well. In the Financial Report, for Brazil, the information is on page 24, and the impact of COVID-19 for this region, mainly it's Health and Life, but particularly Life, is EUR33.6 million. And that's for both the bancassurance channel and the MAPFRE channel.

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

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

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

On the other hand, in other business lines, particularly P&C, but Automobile as well, we should expect a moderate increase in combined ratio and lower profitability. But I will reaffirm moderate, since lockdown measures are being lifted. And also there is an increase in mobility.

In the long run for Non-Life, I will say that, regarding the 95% combined ratio that was given by our Chairman at the AGM in March - we feel comfortable with this guidance. Now it's a little bit lower, but there is a seasonal impact as well, a seasonal reason for this situation, particularly in Automobile. We believe that we will finish this year, if there are no significant changes in the pandemic, below this 95%. And in the rest of regions, Spain, compared to Latin America, looks more promising. The pace of vaccination is increasing day by day, and hopefully we will have a high percentage of the population fully vaccinated by summer.

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

Are there any question we haven't answered?

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

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

Felipe Navarro López de Chicheri

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

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

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

Fernando Mata Verdejo

Thank you for the questions, Felipe. We're quite happy with this premium growth in this first quarter. Probably in the next quarter we'll see this catch up of premiums earned. Basically it's due to the third quarter when there was a significant drop in the average premium because we started implementing discounts on an individual basis to our best drivers, in order to transfer part of this decrease in frequency to rates.

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

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

Felipe Navarro López de Chicheri

Okay. Now, we are going to move to some questions related to Bankia. Marina from JB Capital is asking, "Could you please elaborate more on the valuations you presented on the impact of the exit of the JV in Bankia?"

I don't think that we presented anything, but you will be able to answer.

And there's another one coming from Andrew Sinclair from Bank of America. He's asking, "What is the carrying value of both the Life and Non-Life entities of Bankia JV that is now set aside for the sale?"

Fernando Mata Verdejo

Yes. Marina, as Felipe said, as far as I know, and I am the one presenting numbers, there has not been any valuation published by MAPFRE regarding this potential transaction. It was just the other way - as we mentioned in previous presentations back in September and with the new merger presentation, there was some information regarding potential valuation of the

exit of the JV, but MAPFRE hasn't published any valuation from our side.

As I mentioned, the next step -- we're working with Caixa -- is just to appoint an independent appraiser, who will assess the value of the business to be transferred. And also the 20% penalty, for the change of control.

Regarding other information on the carrying value, Andrew, we do not disclose this information. In the financial report - the management discussion & analysis - on Page 5, there is a disclosure. The main metrics, for Bankia MAPFRE VIDA, in that case, those are the numbers from the statutory accounts. And from Bankia MAPFRE VIDA it's premiums, net results, and net equity, and also balance sheet metrics for the full year 2020 and the first quarter 2021. But we do not publish the carrying value of our business with Bankia.

Felipe Navarro López de Chicheri

Also linked with the same topic, Andrew Sinclair from Bank of America is asking, "Just to get the latest update on the P&C side - has distribution of MAPFRE products now ceased? And what renewal experience are you seeing so far for customers previously sourced through Bankia?"

Fernando Mata Verdejo

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

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

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

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

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

No, no negative impact. It will be positive, in any case, but in the range between 190 and 195, which I will highlight is not including this six-point uplift from Bankia.

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

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

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

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

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

There is no significant change; we assume that there are losses, there are claims that are going to remain in our balance sheet for longer than months. And there are a lot of different interpretations, and probably some litigation, and we have to wait for some rulings as well. But so far, the good thing is that there is no negative impact on either the valuation or the expectations of any negative run-off.

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

Thank you, Marina. I want to say, from my heart, that MAPFRE RE finally had a quarter free of extraordinaries. Some of you mentioned that we need a quarter without any extraordinary topic in MAPFRE RE. Finally, we had one, this first quarter of 2021.

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

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

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

Thank you, Paz. Let's say that there are different interpretations for North America. First, on top-line, on premiums, we're not satisfied. There are two effects – the first is currencies but the second is lack of new business. And the Northeast has practically been in a permanent lockdown situation. There have been no new cars sold in this territory. So premiums are hurt by this situation.

On the combined ratio, on the other hand, we're happy. It's a very good number, a very good ratio. And if you compare it with recurring combined ratios for the last quarter 2020, it's quite similar. The only unit in which there is a difference, and it's from seasonality, is Brazil, in which there is a slight increase in the combined ratio. But for the remaining units it is quite similar; the first quarter is quite similar to the fourth and the third. And we should expect a similar trend at least for the second quarter of 2021.

I mentioned as well, and Felipe said, that the first quarter 2020 should be considered as a pre-COVID quarter. So let's say the comparison is not apples to apples, when we take the 2021 numbers and compare it with the previous year.

Felipe Navarro López de Chicheri

Okay. We have a question coming from Alex Evans of Credit Suisse. "Have there been any remittances back to the Group in the quarter?"

The dividend flow coming from subsidiaries, coming back to the main company. I think that there's was no declaration of main dividends in the first quarter, but the second quarter is acting as expected. So probably the majority of the dividend that we are announcing and we're going to pay against 2020 financial year is going to be paid with dividends coming naturally from the rest of the Group.

Fernando Mata Verdejo

Also the dividend will be paid in May this year. And also it's important to mention we hedged U.S. dollar for the dividends coming from the U.S. And we booked a good profit as well. Well

let's say we offset part of the loss.

Felipe Navarro López de Chicheri

Yes -- we stabilized the profit from the U.S. and the change from the U.S. dollar to the euro. Marina from JB Capital is asking, "Could you update us on the contract with PEMEX in Mexico. How is it going? Has it been renewed?"

Fernando Mata Verdejo

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

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

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

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

Yes. There is a disclosure on the page 35. We disclose losses by region and also by coverage. As you can see, out of this EUR2 million net loss for the entire unit, EUR5.4 million are coming from travel insurance. And I can say that most of it - EUR3.7 million – it's in the chart - is

coming from the UK, France, and Belgium. We practically closed these businesses, so most of this is coming from the UK.

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

Thank you, Ivan. They are minor disposals. Regarding Industrial RE, it's a small subsidiary, practically with no activity, like EUR35 million, total assets if I remember well. So we should expect a profit, but it will be extremely small.

Regarding Rastreator and Preminen, the two subsidiaries with business with Admiral, in that case we should expect a higher gain, and we can probably get it some time soon. We've been told by Admiral that the discussions are practically coming to an end, so we'll probably see soon. It will be a little bit higher, probably in the 2-digit area.

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

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

Felipe Navarro López de Chicheri

Thank you very much Fernando. Now, we have a number of questions related with the impact of COVID on the frequency in Motor, and the Motor activities on the combined ratio. The first one is coming from Ivan from Barclays and he's asking, “Motor combined ratio across the business has improved by 2.4 percentage points in first quarter 2021 year-on-year, which appears reasonably low for the substantial drop in driving globally, including Spain and the U.S. As the world comes back from the lockdown what run rate do you expect for the remainder of the year?”

Andrew Sinclair from Bank of America is asking, “Can you provide an update on the latest trends for Motor frequency benefits? How much do you allow for in your EUR700 million net

income guidance for the year?”

Marina Massuti from JB Capital asks, “Could you please touch more on the claims ratios? Do you expect claims ratios in Non-Life to normalize? Do you expect the speed to be different across regions? How do you see the combined ratio for Motor evolving during the second half 2021?”

And Alex Evans from Credit Suisse asks, “How would you categorize the net impact you have seen from lower mobility versus COVID losses in the quarter?”

Fernando Mata Verdejo

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

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

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

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

Let's say more promising than one quarter ago. And even today, or this week, there is a nice rebound of the Brazilian real, which was the one that hit our top line, our net profit, during this first quarter.

But the most relevant, as you know, are the Mexican peso, Colombian peso, Peruvian peso, and above them the Brazilian real and the U.S. dollar. As long as the U.S. dollar remains in a range between USD1.20 and USD1.22, we're fine. It is not an emerging country, but it is the one that moves really the equity base for MAPFRE. And the real between this range of BRL6.4 and BRL6.7, we're fine as well. Other emerging countries' currencies such as the Turkish lira, don't have a significant effect because after year-by-year depreciation, the base for devaluation or depreciation is much lower.

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

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

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

Regarding Bankia, you asked about the contribution. It was smaller than last year, the net contribution, and this profit from Bankia was already included in the EUR700 million net income as a guidance.

Felipe Navarro López de Chicheri

Okay. Thank you very much, Fernando, that clarifies the situation very much. Ivan from Barclays is asking, "When looking at the gross P&C premiums which were down 2.6% year-on-year in first quarter 2021, how much of that is lower exposure, and how much is lower price? Now that the economies are recovering and some regions are seeing inflationary pressure,

how do you think about your ability to increase pricing?”

Fernando Mata Verdejo

As a general trend, because I don't have numbers for each region or for any country, Ivan, we've seen an increase for a number of reasons, as I mentioned particularly in Spain because of our brand recognition, as well as in some countries in Latin America. But on the other hand, there is a decrease in premiums and also in units in the U.S., and in Italy because we decided to leave the car dealership distribution channel. For average premium, we're seeing a reduction which is lower month-by-month in Spain, and was based on this strong effort to protect our portfolio. And in the remaining regions, particularly in the U.S., there is no change in the tariffs, so there is no change in the average premium. And in the rest of the countries, I don't remember anything relevant. So, most of the growth is coming from an increase in the number of risks.

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

Thank you for the question, Paz. Regarding Italy, we are focused on digital business. When we decided to leave the car dealerships, it was because it was a loss making channel, obviously, first of all; it was an 80-20 decision. And because we decided to focus on the digital channel.

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

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

Felipe Navarro López de Chicheri

And no disposals in Italy?

Fernando Mata Verdejo

And no disposals, absolutely.

Felipe Navarro López de Chicheri

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

Thank you very much for your time and please stay safe. Thank you.

Fernando Mata Verdejo

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

Disclaimer



MAPFRE assumes no responsibility for any errors or omissions in the content of this transcript, nor for any losses or damages resulting from the use of this transcript. This document is purely informative. Its content does not constitute, nor can it be interpreted as, an offer or an invitation to sell, exchange or buy, and it is not binding on the issuer in any way. The information about the plans of the Company, its development, its results and its dividends represents a simple forecast whose formulation does not represent a guarantee with respect to the future performance of the Company or the achievement of its targets or estimated results. MAPFRE retains all rights to this transcript.