



Investor &  
analyst call –  
Edited  
transcript

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**2020**

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February 11th, 2021

Company participants

- Antonio Huertas Mejías, MAPFRE SA, Chairman and CEO
- Fernando Mata Verdejo, MAPFRE SA, Chief Financial Officer and Member of the Board
- Eduardo Pérez de Lema, MAPFRE RE, CEO
- Natalia Núñez Arana, MAPFRE SA, former Investor Relations & Capital Markets Director
- Felipe Navarro López de Chicheri, MAPFRE SA, Investor Relations & Capital Markets Director

## Presentation

### **Natalia Núñez Arana**

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 is 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 is 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 with us here today, Felipe Navarro, taking on my current role, as I will be taking on new responsibilities at MAPFRE ASSET MANAGEMENT. 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 Relations email address during the Q&A. The IR team will be available afterwards to answer any pending questions you might have regarding this disclosure.

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

### **Antonio Huertas Mejías**

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

Ok, so let's get started. Everybody says, and I would like to highlight, that no one was able to predict the magnitude of what happened in 2020 and, therefore, no company 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 their 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 operations up and running again within a couple of days, while also ensuring that all of our branches were providing services to our clients. In just two 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 had been a stress test, MAPFRE would have passed it with an excellent score. In response to the pandemic MAPFRE focused on three main lines of actions: 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, etc.). 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 direct donations through our Foundation and premium discounts for clients, as well as extra financing and aid for agents and service providers. In addition, we put 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 EUR100 million in all countries and business units, in order to compensate for the unprecedented drop in business. This involved postponing certain strategic initiatives, calling off many non-strategic projects and reducing general expenses. These savings have exceeded by far the non-budgeted expenses related to 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 would like to point out that it was a good quarter, with a Group profit of EUR208 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 EUR790 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 US, Mexico and other Latin American markets, as well as 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 is 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 lower frequency in Motor across all markets. The

cost of COVID related claims at MAPFRE RE had an EUR80 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 two relevant sales, which helped us to offset provisions for undeveloped land in Spain.

We booked EUR132 million in intangible write-offs, which was mainly goodwill, at operations in Turkey, Indonesia and Verti Italy. We also booked EUR26 million in write-downs for software at MAPFRE USA, related to the implementation of a new operating system in the second half of the year.

Concerning large events, we had various earthquakes in Puerto Rico during the first half of the year, with a EUR68 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 would like to comment on the Board's decision regarding dividends. As you know, in order to allow investors to share in MAPFRE'S profits, 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 7.5-euro cents, therefore, the total dividend against 2020 results will amount to 12.5-euro cents, 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 EUR416 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 the floor over to Fernando, to go into the details of the results.

### **Fernando Mata Verdejo**

Thank you, Antonio and good morning, everybody. On this slide, the chart on the left includes the full year figures, while on the right you can see the H2 standalone figures, which have been quite stable in terms of premiums and recurring results. Premiums are down around 11%, equivalent to EUR2.5 billion on the year affected by, first, currency depreciation, with a EUR1.6 billion impact; second, Life Savings premiums are down over EUR750 million in Iberia. And finally as a reminder, last year there was a two-year policy issued in Mexico for PEMEX for around EUR450 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 EUR527 million impacted by the already mentioned goodwill write-off. And excluding this, the net result was nearly EUR660 million, down a little 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 Bankia-related assets and liabilities to the lines held for sale.

Assets under management are down around EUR8 billion to EUR55 billion, of which EUR7.4 billion is Bankia's investment portfolio. Shareholders' equity is down 3.6% due to currency depreciation, but recovering nearly EUR700 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 operations, we have not considered this in the adjusted result, as the final effect should be almost neutral. Also mid-sized storms in Spain have not been considered extraordinary, because they are recurring in 2019, 2020 and this year again 2021, we had Filomena storm.

Regarding large claims events during the year, earthquakes in Puerto Rico had an impact of EUR68 million, only slightly up versus September by EUR2 million. And regarding COVID losses, the impact at MAPFRE RE has increased on the quarter by EUR23 million following a prudent approach based on information from cedents. Last year we booked a write-off of goodwill at ASISTENCIA for EUR65.6 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 EUR132 million.

Regarding the reorganization of operations, last year, there was a positive EUR13 million impact in the US, the positive tax impact in Spain for EUR13 million, as well as a provision at MAPFRE ASISTENCIA for another EUR10 million. This year, there had been several restructuring expenses in the Assistance business, the US 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 EUR90 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, a non-strategic business, and there were also realized gains in the Life business. Excluding all these impacts, the adjusted net result reached EUR763 million, up EUR110 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 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 are 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 EUR1.4 billion of remaining goodwill in our balance sheet, of which the largest is from MAPFRE USA, with a little under EUR600 million. A full disclosure of assumptions and values are available in our annual accounts.

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 are reporting better performance based on technical measures implemented in previous years, mainly in Brazil and USA, and improved profitability is coinciding with lower frequency from the pandemic effect. Iberia continues to perform very well. The attributable result is down due to 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 EUR750 million due to a difficult environment for these products. In the other regions, currency movements continued to have a strong impact both on premiums and results.

In LATAM, results are up EUR15 million and all three regions are reporting excellent ROEs with LATAM North 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 EUR14 million. There were several large impacts in North America, the real estate gain, the capital gain in the US and earthquakes in Puerto Rico, both in the first quarter, as well as the EUR26 million software writedown 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 attritional-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 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, performance in Iberia was strong, thanks to improved Life Protection technical ratios and also resilient growth, together with -- it is very important to mention as well - together with capital

gains booked in Bankia MAPFRE VIDA, which didn't completely offset the extraordinary positive tax impacts booked in 2019. The pre-tax result at 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. In relation to the Iberia Life business at this point, I would like to comment on Bankia's 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 CAJAMURCIA, the two acquisitions made a couple of years ago, which were merged with Bankia MAPFRE VIDA at the end of 2020. We also included the pro forma 2019 figures for comparison reasons.

The Non-Life business is included within the MAPFRE ESPAÑA unit. It's run as an independent distribution channel, so therefore, the figures are not publicly disclosed. Bankia's total premiums were EUR392 million at 2020 year end, of which EUR179 million is Life and EUR213 is Non-Life, this is equivalent to 1.9 [percent] 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 at a little under EUR13 billion, and Italian debt around EUR2.4 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 EUR14 billion to EUR13 billion, mainly as a result of the already mentioned reclassification of Bankia-related assets as held 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 EUR79 million, down nearly EUR100 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 EUR8.5 billion, down around 4% during the year. The most relevant changes are first, a EUR676 million decrease from currency conversion 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 US dollar, our largest exposure, with an 8% fall. Negative currency conversion differences increased by only EUR26 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 EUR275 million positive impact during the year improving by over EUR240 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 EUR416 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 as held for sale and now represents around two-thirds of MAPFRE's total available for sale portfolio.

Please turn to next page. In the chart on the left, you can see the breakdown of the capital structure, which amounted to EUR12.8 billion. Very few changes compared to the 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 in the quarter was the effect of the interim dividend paid in December.

In the same chart are the updated pro forma impacts from potential regulatory developments, written 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 point 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 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



is 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 three agencies. And last of all, dividends paid were down 7%, optimizing shareholder return without compromising our balance sheet strength. All in all, we are seeing very slight variation in our capital position and solvency ratios. 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 quarters, 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 Mejías**

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 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 three-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 the revenues from 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 current headwinds, MAPFRE is thriving with a net result of EUR208 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 over EUR790 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 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 US, 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 result, 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 three-year strategic plan, we are outperforming the 96% to 97% range for combined ratio and the average ROE is near the 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 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 regain some 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 hand the floor to Natalia to begin the Q&A session. Please, Natalia.

## **Q&A**

### **Natalia Núñez Arana**

Thank you very much, Antonio. So yes, we are going to start the Q&A session. The first question is regarding Bankia. Almost all our analysts have sent us questions on the

bancassurance 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 EUR500 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 to start with that...

### **Antonio Huertas Mejías**

Let me start, Fernando, with the process. As you know, one thing is the execution of the bank integration and another is 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 this is 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 a process. The first phase is going to have an end in a few weeks and the authorization from regulators for final insurance integration will be probably in the second part of the year. Fernando?

### **Fernando Mata Verdejo**

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 people. This EURO.5 billion assessment was a one sided estimation. It was only made by Caixa and we haven't published any estimation from our side. What I mean is that this amount wasn't agreed before being published. It was only Caixa's side, and we haven't published anything. And we have to wait and also see -- it is very well disclosed in the bancassurance agreement -- the different steps, different procedures that have to be taken. And one is obviously the final valuation. We have to wait, but we are not in a position to say how accurate this value is. This question should be taken to the other side, to Caixa and Bankia. Next, please the second.

### **Natalia Núñez Arana**

Yeah. The second question is also regarding Bankia. “What are your plans for the uses of the proceeds from the Bankia JV? Why retain a significant amount for business development? Would you consider paying a special dividend once the transaction involved with the Bankia bancassurance JV is completed?”

**Antonio Huertas Mejías**

Okay. It's about the potential increase of our dividends, if we have the net gain 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 one specific place. So we'll 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 sale.

**Natalia Núñez Arana**

Okay. Thank you, Antonio. The 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 bancassurance agreements, and what could be the timeline for new bancassurance distribution agreements?

**Antonio Huertas Mejías**

As you know, we already have other partnerships in Spain with other banks. Bankinter, CCM, and recently Banco Santander. All of these are very successful agreements. We are happy with them. And we obviously always have a plan to increase our sales through their network. Nevertheless, we know that the loss of Bankia is a hit, because we are losing, not in terms of premiums, because it's small in relation 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 it has been very fruitful in the first year. So there is good news coming from this alliance in the years to come.

**Natalia Núñez Arana**

Thank you very much. We have another question coming from Sofía [Barallat at Caixa BPI]. She would also like to have an update on the agreement with Liberbank.

**Antonio Huertas Mejías**

Yeah, we are happy with our alliance with Liberbank through CCM. You know it's an old

Savings bank in the central region in Spain. We have had a very productive alliance with Liberbank. And Liberbank has been a very loyal partner. We haven't received any notice about possible cancellation. We know that Liberbank is going to be absorbed by Unicaja, integrated in a new bank. So if they want, we can continue with this alliance, because it doesn't compete with other parts of this bank in this regional area. All CCM branches are in an isolated area. And it has been very, very successful working together MAPFRE and Liberbank.

#### **Natalia Núñez Arana**

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

#### **Antonio Huertas Mejías**

Okay, can I start with our strategy. You know, Paco, we have deployed a strategy, trying to reduce our footprint in the US. The first stage in this huge country, 10 years ago or more, we decided to spread out our presence, but after some years working on 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 US, and the other states close to this one are relevant also. But with three or four more, it's enough. We are finalizing the exit process in some of states. And we are sure that we can improve our results with the new strategy having less presence in number of states. Fernando?

#### **Fernando Mata Verdejo**

Yeah, if I may add something, Paco, regarding Assistance, probably you didn't ask about our business, but we got rid of the roadside assistance business in the US as well, and with a small profit. Regarding Brazil, we're pretty close, nearly 12%, what 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. We exceeded this magic amount of EUR100 million and it was one of the targets. And the only thing we have to fix is Automobile, as you know, but our premiums are practically half last year's. But now we have a more prudent portfolio - probably the portfolio we wanted to have. And the economy in Brazil is pretty dynamic and hopefully we will keep on with this improvement trend next year.

**Natalia Núñez Arana**

Okay. Thank you, Fernando. Next question. Alex Evans at Credit Suisse also had a question on the dividend. "How should we think about the dividend going forward? Is EUR0.125 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**

Yeah, 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, it has been a quite stable trend in dividends. And we mentioned this in previous presentations as well - there were three years in a row with EUR0.145. And the year before was EUR0.13, so probably it was the most stable period for MAPFRE, in terms of dividend. I know that many, many years ago and due to the previous crisis there was a significant drop in dividends. And it was, I guess, EUR0.11 per share. What we want is just to avoid this volatility. We know that this is a period of uncertainties and what we did was just to increase the payout ratio, similar to last year. And considering as well that the goodwill impairment is a non-cash transaction, so it doesn't have any impact on our cash position or in our cash generation. Regarding the base, we will see in the future. And there are uncertainties regarding the pandemic, and also the recovery in LATAM, which is I guess, for me, by far the largest uncertainty. Spain is performing very well, the US as well, and reinsurance has to see a different year, after three years in a row suffering a lot of CAT losses. Probably, it is difficult to go back to see at those years in which we were reporting over EUR200 million on net profit. But probably in a range to close to EUR150 million, it will be better.

So our intention is to go to go back this pattern. But the base is net income. If there is an increase in net income, there will be a higher dividend for sure. Our expectations are good, more positive, but we have to see how 2021 performs, particularly in the first quarter. We have included in the presentation as you probably have realized, the H2 main numbers. And if you have a look at this, the combined ratio is 92% for these two last quarters of the year. We know that this combined ratio probably is not sustainable in the long run. But if there are no changes in 2021, it will be, we guess, similar to this previous trend of the third and fourth quarters. So we don't close the door to future increases of dividends, but they will be based on an increase of net income as well. MAPFRE has a strong position. We've got a lot of cash and the proceeds 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, as the Chairman said, we started this business with Bankia 20 years ago. It grew - not artificially - it was a successful process made by two partners. I look back at the numbers and 10 years ago, the net equity was just the half of the current, which is approximately EUR500 million. And net profit, which amounts now to EUR125

million, 10 years ago it was EUR50 million. It means that any new business, and we have to replace Bankia because it's relevant, takes time. So what we're going to do is organic and inorganic, it depends on the opportunities that we see in the market, we have to replace this business.

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

### **Natalia Núñez Arana**

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

### **Fernando Mata Verdejo**

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

So basically in two different situations. First, we lowered financial projections. In the past, we used 10 years and now we're down to five years. And also then we applied a more prudent perpetuity, basically equal to the inflation rate forecast. And also regarding discount rates, we were waiting for the Damodaran information, which is public information that everybody knows and uses, to be public at year end. And so we applied discount rates with this new premium risk. And also we were even more conservative regarding Turkey. And the risk premium in Turkey increased, I don't remember exactly, it was like 200 basis points. Because at that point, we assessed additional country risk due to the current uncertainty regarding the regulatory Motor situation.

So we're being 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 US. And it was close to the borderline three years ago due to the different discount rates. Currently, with the situation in the US, we are pretty comfortable.

And then Bankia's agreement, 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 there is no doubt of MAPFRE VIDA's good performance. And the remaining, they're pretty safe. So practically -- I know this is hard to say after three years in a row with goodwill impairments -- but now we are pretty comfortable. What we left in the balance sheet is pretty safe.

### **Natalia Núñez Arana**

Thank you very much, Fernando. Now we have a set of questions regarding MAPFRE RE, the business in MAPFRE RE. Sofía 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 restrictions persist?"

### **Fernando Mata Verdejo**

If you allow me, Natalia, we've 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 to answer. So please, Eduardo, the mic is yours.

### **Eduardo Pérez de Lema**

Hello, good morning, everyone, again. On this particular question on COVID and how the things have 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 two parts. 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, in 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 renewals, we got a lot of information from our clients and going into much more detail than before. What we have decided is 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're now close to what the best estimate of the outcome will be. There is potential of evolution in that, upside and downside, but we think



we are at a comfortable figure to not have meaningful impacts or additional impacts in 2021, specifically on the Non-Life portfolio.

**Natalia Núñez Arana**

Okay. Thank you, Eduardo. Also, Sofía 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 Pérez de Lema**

Well, we have, of course. Both the 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 11.4 million in MAPFRE RE, plus a small additional amount at the local company. And in terms of Iota, it was 2.8 million. So, manageable claims that are within the normal frequency. Of course, they didn't help in the last quarter, but nothing to be really worried about.

**Fernando Mata Verdejo**

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

**Natalia Núñez Arana**

Thank you very much. Now, we move to Iberia. Ivan Bokhmat and Andrew Sinclair at Barclays and Bank of America, respectively, ask 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**

Thank you, Ivan, for the question. Very interesting because as you noticed, there was a big increase in profit in the fourth quarter. It was due to realized gains from Bankia MAPFRE Vida made at year end practically. It was like EUR30 million before taxes and minorities in the month of 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 the first quarter of 2021. And it was both equity and also in fixed income bonds. Just one thing that we haven't discussed during the presentation - I'm talking about risk profile.

We're pretty happy with Bankia MAPFRE VIDA. But you know once we get rid of these assets, it will be somehow a de-risking transaction. Because as I mentioned practically over EUR6 billion of Spanish debt, which for MAPFRE top executives is not a risk, but for some investors and analysts, we're looking at some peripheral risk will be out of the balance sheet, and also like EURO.5 billion of Italian sovies will be off the balance sheet as well. So, all in all, it's like one-third less peripheral risk in MAPFRE VIDA balance sheet.

**Natalia Núñez Arana**

Thank you very much. Now, Paco Riquel and Sofía 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 Mejías**

Today, there are a relevant number of claims based on the assessments performed. And considering reinsurance protection, this event is expected to have an impact on MAPFRE Group net of taxes of between EUR20 million and EUR25 million. EUR16.1 million net impact coming from Gloria in 2020 in Q1 taking into account both the impacts in the Spanish insurance and the reinsurance units.

**Natalia Núñez Arana**

Thank you very much, Antonio. Also, Paco Riquel asks 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 Mejías**

Eduardo, you have the floor.

**Eduardo Pérez de Lema**

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 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 rulings, 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 industry.

### **Fernando Mata Verdejo**

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

### **Natalia Núñez Arana**

Thank you, Fernando and Eduardo. Now we have questions regarding COVID impact. Ivan Bokhmat and Andrew Sinclair would like to know, "Could you please try to quantify the COVID impact on the business gross 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 Mejías**

The impact of our numbers has been largely neutral with negative impact 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 is true that the mobility -- the lack of mobility in many countries -- has changed the scenario regarding frequency. We have had frequency benefits. Going forward, the 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 US and Germany, they applied more strict regulation in terms of mobility with a slower recovery in mobility trends.

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

### **Natalia Núñez Arana**

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**

Well, I guess that you're referring to the 2020 accident year, Andrew. As we said during the third quarter presentation, we booked significant IBNR provisions to cover this gap or delay in reporting claims. Finally, we disclosed at year end the amount - it's like EUR44 million IBNR for direct business, mainly allocated in Spain Health and also in Latin America.

Regarding RE, there is no IBNR because what we book is individual cases, case by case, and according to the communications made by ceding entities, and applying -- obviously because in the majority of them, there are still ongoing discussions regarding whether coverage is applied or not -- and applying a percentage of probability of occurrence in the end.

Regarding 2021, if there is more Burial, it's still to be seen so far. The number of fatalities in Spain is pretty high, but not the one we had in March and April. So, there is a sort of contention in this line of business. But we have to say, the last statements made by the Health authority in Spain said that the curve of the third wave is coming down. So probably the worst is over. But we are still at an early stage to conclude that everything is over. But we are quite confident that in the end there is sufficiency in the Burial tariffs and Burial technical provisions in order to cover any volatility in this loss ratio.

### **Natalia Núñez Arana**

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

### **Antonio Huertas Mejías**

Thank you, Jonathan. I think that the impact of COVID has been strong in Latin America, in the first and second waves. But we think that the process of vaccination is going to improve the situation in many countries. Even the process of supporting the economy during the last months in many countries has been less aggressive than in Europe. And we're maintaining 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 two quarters of last year, we observed a big increase in Life Protection claims, up EUR27 million on the quarter in Brazil. As well as in LATAM North, the pandemic has had a delayed development, so it has 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. They are very important - Brazil and Mexico and others, like, Colombia, even Peru -- are very, very important to MAPFRE and we are maintaining this positive expectation.

**Natalia Núñez Arana**

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**

Practically the only transaction made in the fourth quarter was the sale of MAQUAVIT. MAQUAVIT was a standalone entity, it was a shell holding for residences for elderly people across Spain. It came from the former business we had with Bankia as well in the past. Obviously, it was a non-strategic asset for MAPFRE, so we put it on the market. And also due to the COVID scenario, it wasn't the best asset to be held. So, a potential buyer came up and we agreed on the price. And we booked this EUR10 million net profit, which was extremely satisfactory for MAPFRE.

Regarding year-end, the 30th of December, if I remember well, we signed an agreement with Gestilar - it was published in the press, and the underlying investor was a German mutual and pension fund. They are acquiring a right to buy plots of land in the south Madrid for an amount of EUR106 million, which by the way was the book value at year-end. So, probably, the most likely timeline for this transaction to materialize is 2021, with different dates, because there are different plots of land, but with no capital gains, because the transaction is exactly the same price as the book value. Other assets, regarding real estate, and it's in the financial accounts, the unrealized gains are practically the same amount at year-end - more or less like EUR800 million before taxes. So there is no change in unrealized gains, because as a reminder, real estate assets are stated at acquisition cost in our balance sheet. With the sale of this plot of land, we're getting rid of one-third of our non-performing assets - basically plots acquired 10 years ago when MAPFRE INMUEBLES was operating in the residential business.

There are a couple of units that we would like to sell as well. It is difficult market, but we are reducing our exposure to NPAs obviously, 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, it has to be presented as well, but we approved at the Board to increase our position in real estate with the same pattern we did in the past. We've got investment with our current partners, GLL which is a unit pertaining to Macquarie and also to Swiss Life, and perhaps some more potential partners that will join this strategy with MAPFRE.

Another thing regarding real estate, in the wake of the first wave we negotiated rents with most of the tenants, and the reduction was not significant. So it was like a 20% reduction, and also there were some agreements as well in order to delay some payments - but we are quite

positive with the strategy applied at this business and at this time. So please, Natalia, next question.

**Natalia Núñez Arana**

Thank you, Fernando. Andrew Sinclair and Ashik Musaddi of Bank of America and JPMorgan, who 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 annual drag we should expect going forward from a normalized base?

**Fernando Mata Verdejo**

It's difficult to say what's going to be our accounting yield next year, because it will depend on, obviously, the interest rate at reinvestment date. And also, there are some assets that are linked to provisions. But anyway, what we have 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, once the exit of Bankia is completed, approximately EUR20 billion of our investments are allocated to Non-Life, and another EUR20 billion to Life. And also we published as well, our accounting yield currently is like 1.70% more or less for MAPFRE RE and MAPFRE ESPAÑA [Non-Life], which by the way are the main contributors. So we should expect perhaps lower, a decline in the accounting yield perhaps between 25 and 30 basis points. We are trying to replace this with another wave of alternate investments, as I mentioned, focused on real estate investment and also alternative as well, mainly infrastructure, with Macquarie and also perhaps new partners. Our exposure in equity will remain quite similar, but a focus on more cyclical entities, and also we're pretty far from financial institutions and oil entities. But in any case, our equity portfolio is extremely prudent and will remain the same.

Regarding rated entities and our policy hasn't changed, sovereign BBB or higher, and then those that are BB is because there was a downgrade, the ones that are in our portfolio.

**Natalia Núñez Arana**

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 II ratio evolving in the fourth quarter of 2020?

**Fernando Mata Verdejo**

This was one of the questions raised by the Spanish regulator before the non-objection to our dividend. We're keeping a quite frequent dialogue with the supervisor. It should be quite similar. If you consider both things, in terms of profit contribution, more or less for the fourth

quarter it's EUR208 million, and the dividend approved is like EUR230 million, more or less. So let's say that they're both at the same level. So, it should be quite similar. We shouldn't expect a significant change in our SCR. And so the only thing we published as well in the MD&A is the sensitivity analysis in our Solvency II ratio regarding the Bankia exit. And assuming that there is no change 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 a 5-percentage point increase to our Solvency II ratio.

Regarding approval, we are in contact with the supervisor. I know that the approval has to come to MAPFRE by February in order to be applied to the 2020 calculation, we are pretty optimistic and we are in permanent contact with the Spanish supervisor. The Board so far has done everything that we had to do. So it is on the regulator's side and so, the only thing we have to do is wait. But in any case, if the approval doesn't come in February, the pro forma and the proxy, is pretty clear, because the supervisory body has told us that 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, a significant uplift to our Solvency II ratio.

#### **Natalia Núñez Arana**

Okay. You mentioned -- 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**

It's due to -- it's the combined effect on the SCR, assuming that eligible funds are flat. So that we haven't included any potential gain, because we don't know it, in our equity base. And so, just basically it's the change in SCR. As I mentioned, it's a big chunk of assets that will be off the balance in probably this year. So again, this is a derisking transaction for our balance sheet, very, very important.

#### **Natalia Núñez Arana**

Good, thank you. And 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 earnings loss from Bankia and any positives from acquisitions that are aren't yet contributing to earnings?"

#### **Fernando Mata Verdejo**

Thank you both of you. What I said is what I can say. You are analysts and what Mapfre is doing

is just to put in the financial report the information that we can make public. And there is a full disclosure of Life business. Probably it's a surprise for some of you, in terms of net equity and also the profit contribution - pretty strong. And for Non-Life, what we can say is what we wrote. It's the amount of premiums, there is a benchmark in the Spanish market for those that are interested, because there are entities with a similar risk profile as well, bancassurance entities. So it's easy to get the combined ratio if you want, but we can't publish this information. As I mentioned, for MAPFRE, this business is being run as an independent distribution channel, but it is in MAPFRE ESPAÑA books. So we can't give you the profit contribution for Non-Life business in MAPFRE ESPAÑA, sorry about that.

#### **Natalia Núñez Arana**

Good. Thank you very much. Now, we have three or four more questions. Sofia Barallat asks, "In your adjustments to attributable results, slide five of the presentation, the EUR50 million provision for restructuring booked in the second quarter of 2020 has been excluded. Was this provision released?"

#### **Fernando Mata Verdejo**

Thank you for, this is very important Sofía, because I haven't mentioned this during the presentation. As a reminder, this is a general provision. It wasn't covering any particular risk at that point. But during the fourth quarter, we booked first the US software deterioration. It was covered with this provision. And also, as we mentioned, there are some restructuring expenses that we didn't consider extraordinary, part of them during this fourth quarter. Part of this is the early retirement scheme that we have practically every year in large operations, such as the US and also Spain. And also there is a downsizing in some operations, principally contact centers in the large countries, which is also due to the current COVID situation. We have to adapt our structure to the current volume and activity of these contact centers. So we reversed this provision, because those risks that, in theory, were covered, were already in the profit and loss account at the fourth quarter.

#### **Natalia Núñez Arana**

Thank you very much, Fernando. Now, we have a couple of questions regarding expectations. Marina Massuti at JB Capital Markets would like you 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 Mejías**

It's not easy in the current environment to have any clear vision about how the trends can evolve in the next months. The situation with the pandemic is still heavy, so the limitations on mobility are affecting all the economic activity, mainly Motor insurance. In terms of claims, combined ratio, we have continued consolidating strong underlying profitability trends. We have offset the increase in Burial and Life 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't sustain 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 poor development. So in normal conditions, I can say that a 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 in Motor, also in other lines.

In terms of premiums, this is also difficult because the recovery of the economy can be different depending on each country. The drop in car sales in Spain in January was huge. And we can't think about a quick recovery. But anyway, our ways of distribution are doing well and we are observing month by month, little by little, an increase in our offers, also in our sales, in all the lines, including Motor.

**Natalia Núñez Arana**

Thank you very much, Antonio. And also regarding this guidance of these expectations, Paz Ojeda asked about the combined ratio. "Fernando Mata said that the current 92% 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 a 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**

Paz, if I said the following quarters, I correct myself right now. What we've seen during the first quarter, is 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 US. On the other hand, in Latin America it's completely different mobility is practically back to normal. But, it will basically depend on our economic activities. If, hopefully, the vaccination process comes to an end satisfactorily, there will obviously be an increase of frequency and this also has to be transferred to prices. The first quarter, if nothing changed, which is what we've seen during January, we should expect a similar trend to the third and last quarters. But believe me,

we are looking at only the immediate quarter. We have to be extremely prudent on guidance and future outlook further than this current quarter.

**Natalia Núñez Arana**

Okay, thank you very much, Fernando. Paz Ojeda at Sabadell asks about the holding figures breakdown. I think this is the last question. “Could you provide more detail about holding and other line, both concerning premiums and attributable results? How much would this correspond to Iberia?” I would like to say something, but Fernando is going to help you with this, I guess, but if there is any pending doubt or anything, just give us a call because perhaps this question is more technical.

**Fernando Mata Verdejo**

Basically, holding expenses in this particular year, 2020, includes the goodwill impairment and the remaining overheads cost - the cost of the service of the debt, which amounted approximately to EUR68 million, correct me if I'm wrong. And also some operating expenses regarding the central offices at Majadahonda. But then also there are a couple of provisions as well regarding IFRS future expenses that we booked this year amounting to EUR10 million, but nothing relevant and different from previous years. But we will work on a full disclosure of a breakdown of these holding expenses and we will give you this full detail.

**Natalia Núñez Arana**

Okay, thank you very much, Fernando. There are no more questions. So, Antonio, do you want to wrap up?

**Antonio Huertas Mejías**

Yeah, it's time to close. Thank you for your time today. As I mentioned, we are satisfied with MAPFRE's performance in an extremely 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 said, but we maintain high hopes about the vaccination and a return to some degree of normality. We are convinced that the future will continue offering MAPFRE excellent 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 done an excellent job managing IR during many

years.

### **Natalia Núñez Arana**

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 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, seven of which I served as Head of IR. Over all these years, we have learned a lot 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 six 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 eight years from the initial negotiations to the acquisition and later the management of the different operations. My first five 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 father of four. Thank you very much. Now, Fernando, would you like to comment on upcoming events.

### **Fernando Mata Verdejo**

Yeah. 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 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 in-person analyst breakfast, next week on the 15th, 17th and 18th, we will 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

presentation.

And also we are 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 recent 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.

## Disclaimer



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