Investor & analyst call – Edited transcript

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Company participants

- Fernando Mata Verdejo, MAPFRE SA, Chief Financial Officer
- José Luis Jiménez Guajardo-Fajardo, MAPFRE SA, Chief Investment Officer
- Felipe Navarro López de Chicheri, MAPFRE SA, Head of Capital Markets & Investor Relations and Treasurer

Presentation

Felipe Navarro López de Chicheri

Good evening everyone, and welcome to MAPFRE Results Presentation for the First Quarter 2022. This is Felipe Navarro, Head of Investor Relations and Capital Markets as well as Corporate Treasurer. It is a pleasure to have here with us Fernando Mata, our CFO, who as usual will walk us through the main financial trends on the quarter. José Luis Jiménez, Chief Investment Officer, will also be with us today to walk us through the investment portfolios.

At the end of the presentation, we will open up the Q&A session. We invite you to send us your questions using the ask a question link on the bottom of your screen. We will try to answer all of them as time allows. All of the IR team will be available to answer any pending questions as from tomorrow morning.

Before I turn the call over to Fernando, let me express all of MAPFRE's deepest sympathy to the Ukrainian people, those remaining in the country and those refugees that have fled the area. There is no reason to justify the massive loss of human lives and destruction. It will take a lot of time to heal from this suffering and aftermath. We truly hope that a peaceful resolution to this terrible conflict is found as soon as possible.

And now, Fernando, the floor is yours.

Fernando Mata Verdejo

Thank you, Felipe and good afternoon, everybody. Despite an extremely challenging start to the year, MAPFRE has closed the quarter with satisfactory results and a resilient balance sheet, supported by a very diversified business profile and strong financial position.

The pandemic situation is improving, but still needs to fully normalize, mainly in Latin America. In addition, we are now facing the difficulties resulting from the geopolitical situation surrounding the invasion of Ukraine, which is aggravating already growing inflation, rising interest rates, and is weakening the global growth outlook.

Growth has been exceptional across the business with tailwinds from currencies. We maintain a disciplined approach and are growing in profitable lines, such as General P&C and Life Protection. Total premiums are up around 11% and the insurance business has grown by 12%. In Spain, the business is growing, despite the loss of the Bankia agreement last year, and MAPFRE RE has recorded a 17% increase and premiums in Brazil were up 35%, over 15% in local currency.

Profitability has been resilient overall, reaching a net result of EUR155 million, with an ROE of over 9% with very different trends across business lines. Profit contribution was strong from core operations and renewals were outstanding at MAPFRE RE. There has been a reduction in

COVID-related losses, especially in Life Protection in LATAM, and this positive trend should continue to consolidate. On the other hand, Motor business profitability has been hindered by higher mobility levels and claims costs. The performance at IBERIA and MAPFRE RE has been pretty stable, with combined ratios of around 95% and 94%.

Thanks to MAPFRE's highly diversified business profile, we are well prepared to handle this volatile and challenging environment. We are benefiting from positive diversification at different levels. Geographically, MAPFRE's presence in Latin America is an asset right now, as the region's economic outlook should be less impacted by current geopolitical turmoil. Furthermore, MAPFRE has negligible exposure to Russia and Ukraine.

Our business mix is allowing pressure in Motor and Health segments to be offset by improving trends in General P&C and Life Protection lines. We have always boasted a multi-channel approach, which is allowing us to compensate the loss of Bankia. We will continue to focus on core markets and exiting non-strategic businesses. During this quarter, we formalized the sale of business in Indonesia as well as completing the sale of InsureandGo in Australia.

Regarding our financial profile, financial markets were extremely volatile. Interest rates have gone up sharply while currency appreciation partially mitigated this effect. Our solvency at year-end reached 206 percent and our sensitivities have improved. The issuance of the EUR500 million carried out in April will strengthen our solvency position. Lastly, the final dividend of EUR0.085 will be paid on May 31st.

Now, I will comment on some of the figures from the first quarter of the year. Premiums are up around 11% in euros. At constant exchange rates, growth was 7.5%, with strong trends in Non-Life. The average exchange rate for the US dollar was up around 7% and the Brazilian real was up over 17%. The combined ratio was around 98% with a 4-point increase in the loss ratio, driven by the pressure in Motor as well as some impact from the drought in Brazil in the agricultural segment. The half-point reduction in the expense ratio is noteworthy, reaching an excellent level of 27.5%. The attributable result reached nearly EUR155 million with an ROE over 9%, 8.4% excluding the impacts of Bankia and other extraordinary charges booked at the end of 2021.

Shareholders' equity is down 5.5% on the year, mainly due to the reduction of unrealized capital gains due to the rising interest rates, which was partially offset by currency appreciation. The market consistent embedded value at the end of 2021 is down 8.6%, mainly due to the carve out of Bankia operations. Excluding this impact, embedded value would have been up 0.6% and, as you can see, the amount attributable to the parent company remains fairly stable.

Even though this quarter we have not had any major extraordinary events, in order to be consistent, we have included adjusted disclosure. There were no large NatCat claims during the quarter. Last year, we had a minor event, Filomena, and this year, we had the drought in the Paraná river with a negative impact of approximately EUR37 million, EUR21 million in direct insurance and the remaining EUR16 million in MAPFRE RE.

Regarding Asistencia restructuring, the sale of InsureandGo in Australia had a EUR4 million positive impact, which offset the EUR3 million provision that was made for further reorganization and booked in the quarter. Capital gains in the actively managed portfolio amounted to EUR21 million mainly coming from IBERIA. A full disclosure of the different components of these items are included in the annex.

During the first quarter, insurance operations contributed over EUR5.5 billion in premiums and nearly EUR147 million in results. The result is down 19% in the quarter, mainly due to the lack of contribution from the Motor segment, as well as weather-related events in Brazil. I would like to highlight the positive performance in IBERIA; premiums are up over 2% with excellent growth in General P&C, Health and Life Savings. Premiums are slightly down in Motor, while the market is up 1.6%. The combined ratio is still a strong 95% and the net result was EUR102 million, down only EUR6 million after the Bankia exit.

In Brazil, premiums were significantly up with healthy growth trends in Agro, Motor, and Life Protection. The attributable result was over EUR11 million. We saw a strong improvement in Life Protection, but it was not able to offset the lackluster performance of the Motor business and the EUR21 million impact of the already mentioned droughts. As a consequence, the combined ratio was over 104%. Currency and interest rates are both significantly up, helping offset these negative effects.

Premiums in LATAM North and South grew over 25% in euros. Local currency growth was solid in most segments and it's worth mentioning Mexico, up 18%; Peru, up over 39%; Dominican Republic, up 17%; and Chile up 23%. Overall, in both regions, the strong improvement in Life Protection profitability was offset by the pressure in Motor.

Performance in North America continues to be affected by strong competition, growing mobility trends and increased severity. Premiums are up nearly 19%, of which 12 points was contributed by the Century business that was transferred to MAPFRE U.S.A. from MAPFRE Asistencia in the fourth quarter of 2021.

In Eurasia, premiums are down due to the non- renewal of an important dealership distributor in Italy. And in Turkey, the strong fall in average exchange rates is still a drag on both business volumes and also results. The inflationary environment obviously has also been a challenge.

In Italy, the staff restructuring plan that we booked a provision for last year is underway, but it will take some time to be fully implemented.

And MAPFRE RE premium growth is supported by positive pricing trends. The combined ratio is 94% and the net result was over EUR36 million with strong trends in both the reinsurance business and global risks. In Asistencia, the streamlining effort is evident with volumes down over 59% and recording a modest profit in the quarter.

On this slide, I would like to comment on the Life business at the insurance units. In IBERIA, premium performance ex-Bankia would have been up over 9%, thanks again to our captive agent network. In Brazil, local currency growth has been healthy, continuing with the trends showed last year, underpinned by positive tailwinds in the currency. The Life result has significantly improved, more than doubling, with a general improvement in LATAM and supported by the positive trends in IBERIA, fueled by capital gains.

The negative result in LATAM South mainly corresponds to Colombia run-off portfolios. They're annuity run off portfolios, due to the update of actuarial assumptions for the full year. We should expect this negative trend to level out during the year with an increased financial income from the inflation-linked portfolio. On the right side, you can see the total COVID impact in LATAM in the quarter was just EUR10 million, the lowest figure over the last five quarters. We should expect a better outlook in the region going forward.

I would like to comment on some Non-Life trends that have come up during this first quarter. We've seen a high level of volatility in combined ratios in both directions, two lines of business have been negatively impacted – Auto and Health & Accident. Inflation rates were already present in Health in 2021, we already mentioned that, and this has accelerated significantly and spread to other lines as a result of the conflict in Ukraine. Additionally, a global economic slowdown will cause recovery from the pandemic to take longer than initially expected. General P&C is performing very well overall. The combined ratio in IBERIA is below 89%, down 10 percentage points, due to the excellent performance of personal and commercial lines. In Brazil, the impact of the drought has put some pressure on the combined ratio, but excluding this effect it would stand at between 70% and 80%. In Motor, we're seeing similar trends across the whole market. The average premium is still reflecting the impact of the phase-out of the rebates from the pandemic. Additionally, covers are also being reduced as a result of the aging car fleet due to the lack of a new car sales.

Regarding mobility, we're seeing similar mileage as pre-pandemic with an increase in average speed and higher use of cars during the weekend, which is leading to higher severity. Cost of claims has also been affected by supply chain disruptions and inflation in spare parts, longer repair times and also a spike in second hand car prices. By market, in Spain, the fleet is stable in the first quarter based on disciplined underwriting. There is a very slight fall in the average premium affected by reductions in coverage. In the United States, the increase in premiums mainly comes from the Century transfer. Tariff increases of 3% have already been introduced – they were approved last year – and further increases have been requested. In Brazil, the increase in the combined ratio is primarily caused by relevant increases in theft. Tariff increases have been introduced since the end of last year with double-digit increases.

In the Health segment, in general, there has been an increase in average claims costs from a higher number of tests and general inflation. Also, we are noting that policyholders are increasing the frequency of medical consultations in the current context. By market, in IBERIA, the existing portfolios were renewed at the beginning of the year, so we will not have any rate increase until year end, and we will focus on reducing expenses. In the Dominican Republic, for Health, the reduction in the combined ratio was driven by higher rates and lower claims. Overall, we are monitoring the situation and we'll continue adopting measures to the changing the scenario, including further pricing actions and active provider management.

I'm going to hand the floor over to José Luis Jiménez to discuss assets under management.

José Luis Jiménez

Thank you, Fernando. On the next slide, you can see assets under management for the Group balance sheet have decreased by 2% during the first quarter as a result of market volatility due to a more uncertain geopolitical context as well as rate increases in most of the markets. Inflation finally is becoming an issue for financial markets. Spanish sovereign debt continues to be the largest exposure in our portfolio with EUR11 billion. It is followed by Italian debt with EUR2.8 billion. Please note that a large share of these positions are allocated to immunized portfolios.

The investment portfolio is slightly down, mainly due to the increase in yields, which have negatively affected sovereign debt market value. Both the Spanish and Italian reference bonds are up over 85 basis points during the quarter, where the US bond is also up over 80 basis points. Equity markets are also down on the quarter due to the volatility experience as a consequence of the war in Ukraine.

It is also worth mentioning that around 30% of equity and mutual funds are in actively managed portfolios. The remainder is in portfolios where the investment risk is borne by third parties. Pension funds are slightly down while mutual funds have gone up, up to 3% due to positive net subscriptions, thanks to our wealth management business in Spain, as well as the mutual fund business in Brazil.

In the next slide, we comment on the investment portfolios on the fixed income side and on the top are the details of our euro area actively managed fixed income portfolios. The market value of these portfolios is around EUR12 billion. The largest moves on the quarter were related to the investment of over EUR280 million in inflation-linked bonds in IBERIA and MAPFRE RE. As a consequence, we also have a reduction in the accounting yield due to the accounting figures of this investment, and for this reason, we're presenting figures carving out this part of the portfolio. There is an extra line on the table. As you can see, excluding these bonds, the accounting yield is slightly down, mainly due to reduction in durations that we have carried out during the last quarters.

As a reminder, the long duration in IBERIA Non-Life is due to the Burial portfolio. On the bottom, you can see the details of the fixed income portfolios in other markets, with duration slightly down and portfolio yields up in all markets and regions. We tend to believe this trend will continue in the coming quarters as long as central banks put more emphasis on taming inflation threats. In terms of the investment strategy, uncertainty will continue high in financial markets in the medium term due, first, to inflation, which is becoming structural in many economies, second, to interest rates moving upwards, and third, to a lesser extent, to the economic slowdown.

During the first quarter of this year, we have run portfolios with a lower duration compared to benchmark. This is in-line with Group investment strategy for 2022, in order to embrace a higher interest rate environment. This is around 20% less than last year in the Iberia Non-Life portfolio. We have increased our core and semi-core exposure to sovereign bonds, while we have reduced our periphery exposure.

We have increased as well our exposure to linkers in order to protect the portfolio against inflation. During the quarter, we have reduced equity exposures and credit exposure as well and we have sold all positions that could be potentially affected by the consequences of the Ukrainian conflict. As Fernando said before, we have no exposure to Russia or Ukraine, but we thought of possible collateral effects.

I would like to comment on our approach to Forex risk and inflation in some countries where inflation is higher than others. In the case of Argentina, more than 55 percent of the balance sheet is in hard currency and linkers. Meanwhile, 45 percent is in the short-term fixed income assets in order to protect it. In Venezuela, close to 70% is invested in U.S treasuries. In Turkey, hard currency and Turkish lira deposits with FX protection represent today more than 65% of our investment portfolio. So in conclusion, looking forward, if the situation doesn't deteriorate further, we tend to believe in a more benign scenario in terms of interest rates and FX in which we could be profitting.

Fernando Mata Verdejo

Thank you, José Luis. That was very comprehensive. Shareholders equity stood at EUR8 billion, down on the quarter over 5%, around EUR460 million. Net unrealized gains on the available for sale portfolio were down EUR626 million, mainly due to the increase in interest rates in the Euro area and the United States. The largest impact was in IBERIA with EUR335 million, followed by MAPFRE RE with a EUR109 million fall, and North America is down EUR104 million.

Currency conversion differences are up EUR264 million on the back of notable appreciation of the Brazilian real as well as the U.S. dollar. On the right, you have the breakdown of currency conversion differences, annual movements and also the standard sensitivity analysis.

On the chart on the left, you can see the breakdown of the capital structure, which is slightly down in the quarter amounting to over EUR12 billion. As usual, equity is the largest component, representing over three quarters.

Leverage at the end of the quarter is stable at 24% and within our risk appetite. On the right, you can see Solvency II ratio of over 206% at December last year, which increased as a result of the Bankia transaction. In April, we successfully closed the issuance of a Tier 3 subordinated debt with the aim of further optimizing our debt position, taking advantage of favorable market conditions. We issued EUR500 million with a 2.875% fixed coupon and it should not have an impact on leverage as we have reduced our syndicated credit facility by a similar amount. This issuance, as you know, is considered as capital for Solvency II purposes and should have a positive contribution of at least 10 points to our ratio.

Regarding sensitivities, on the bottom right, you can see that they are relatively stable and the largest sensitivities are 50 basis point corporate and sovereign spread widening that would result in a nearly 10 percentage point reduction in the ratio, although much lower compared to the 14% sensitivity last year.

Now, I would like to comment on the newest strategic targets for the current three-year period announced at the AGM. As we mentioned, these figures could be affected by the current conflict in Ukraine as well as changes in the macro environment. Before commenting on this, I'll like to take a moment to express MAPFRE's solidarity and compassion with all the victims of the conflict, those that have been forced to leave their homes, and those that are suffering from the terrible consequences of this war, and we mourn the terrible loss of lives. This invasion has brought enormous uncertainty to the current context, but be sure that we are acting quickly to protect the business and adapt our strategic plan where necessary, as we already did during the COVID crisis. So far, most of the indicators of the strategic plan are moving in the right path with the exception of the combined ratio, which is affected by the current uptick in inflation. We'll keep you updated with further information regularly.

To sum up, in this first quarter, MAPFRE continues to show strong growth and resilient results even in the current difficult context. MAPFRE's geographical and business diversification continues to be one of our main strengths and allows us to mitigate negative trends in the Motor and Health lines. IBERIA and MAPFRE RE have once again shown a solid start to the year, strongly contributing to group results. IBERIA has benefited from business diversification and MAPFRE RE's good performance has been supported by the positive pricing environment and low impact from NatCat events. LATAM premium volumes are noteworthy, growing in local currency with positive currency trends. Both USA and Brazil should improve their contribution to results, supported by the measures taken to return to technical profitability in the Motor segment. The financial strength of our balance sheet is robust, shareholders' equity remains above EUR8 billion and the recent debt issuance provides us with greater financial flexibility, while strenghtening our Solvency ratio.

We continue committed to our transformation process, optimizing capital allocation and clearly focused on our core markets and channels. MAPFRE is strongly committed to implementing the new strategic plan, which is based on a business model that continues to prove resilient and allows us to adapt to the changing context. However, we are aware that there is a lot of uncertainty in the current geopolitical and market context and we will monitor and act to mitigate any potential impact on our business.

Thank you very much for your attention and now I will hand the floor over to Felipe to the begin the Q&A session.

Q&A

Felipe Navarro López de Chicheri

Thank you very much, Fernando. Please let me remind you very briefly, the details of this Q&A session. You can use the Q&A widget on the bottom of your screen to send your questions, and we will answer all your doubts as time allows. Given the timing of this quarter's call, please try to submit your questions during the Q&A. The IR team will be pleased to answer any pending questions as of tomorrow morning. And now let's start the Q&A. The first question is from Farquhar Murray from Autonomous, together with Carlos Peixoto from Caixa. They are interested in the same topic and it is related with Motor, and ask if you could please outline the main pressure points that you are seeing in Motor. And in Spain, do you see an easing in pricing pressure?

Fernando Mata Verdejo

Thank you, Farquhar and Carlos. I already knew that this was going to be the first question; this is the main topic of today's presentation. Let me give a bit of a longer explanation regarding our current situation. Well, rather than our, let's say that the worldwide situation of Automobile. We're not living in the best time for this sort of insurance. Fortunately, MAPFRE has reduced exposure in critical countries. We started in Brazil many, many years ago, also in USA exiting different states, as well as Turkey and quite recently Italy.

We started, a couple of years ago, introducing different discounts for policyholders due to the pandemic, in line with the market and across the geographies. When we compare ourselves to Spain, we did not do that bad; we were quite close to what the total industry did, when the market for the two years and the average premium for Automobile dropped 7 percentage points for the total industry, and for MAPFRE it was a little higher – approximately between 7 and 8, depending on coverage.

Lastly, we started the phase-out of the discounts, the reflection of which is still currently underway as it will take some months to be fully implemented in the standard income recognition.

Let me say as well, as we discussed at the full year presentation, general inflation and expected inflation for the year was well managed. We had a quite wide range of the collective bargaining agreements with different providers, tow trucks, preferred garages, and also with a labor agreement with our unions.

So let's say that in general inflation was included or somehow was accounted for in the premium increases for 2022. And some of these collective bargaining agreements that were set for 2022 have special agreements, because at that point, at the beginning of the year, though it was a low inflation scenario, the change was already predicted at that point. And there are some protective clauses for the providers and the agreements that could be updated if certain extraordinary situation arise. There is a pretty high threshold, but in case of an extraordinarily high inflation or increase in gas prices, the bargaining agreements should be renegotiated again, and this probably could happen during the second part of the year.

What happened during the first quarter? It wasn't unexpected, at least for MAPFRE. There has been a significant change in driving patterns. Even though the mileage is pretty similar to pre-pandemic, what we noticed with the GPS that has been set in some of our cars is that mileage is pretty similar, but the average speed is a little bit higher, and drivers are using the car more at the weekends with longer trips. During working days, I don't know if it's just that people are reluctant to take public transportation or what, but the reality is that these are changing driving patterns. This is leading to a certain increase in the loss ratio.

We've noticed as well what we call an “after-loss inflation”, which means that once the loss has been reported, MAPFRE is very well positioned to give the best quality of service at this moment, but actually what we're seeing is that there is a lack of spare parts in the area near the garages, and it’s taking more time to get the spare parts ready to be repaired. So time is extended at the garages and usually the time it takes to give the car back to the policyholders is a little bit longer.

So we are noticing a significant increase – we blame inflation and the disruption in the supply chains – and it’s also affecting gas prices and other components. My opinion is that the market in different geographies is completely disrupted. We've seen headlines for instance in the USA that second-hand cars are more expensive than new cars; we haven't seen it before. Quite recently, GEICO stopped underwriting through the call centers due to extremely high loss rates in different states; Massachusetts is one of these. And in Spain, we recently read that second-hand car sales, 15 years and older, are being sold more than new cars. So that is leading to an aging fleet, which is now 13 years old -- by far one of the oldest in Europe.

So in this context, if we analyze the different components of our combined ratio for Automobile, first of all, we haven't introduced any significant change in our reserving policy, other than updating outstanding claims to the future inflation. That means considering future payments. But there is not any release of prior years’ provisions or any change in our reserving policy. Assuming what we mentioned, that there is between a 7 and 8 percentage point reduction in our average premium, we should blame practically a four percentage point increase in the combined ratio to the reduction obviously in the income recognition, in premiums.

Regarding frequency, back to the other part of the combined ratio, it’s quite similar to pre-pandemic. What I mentioned regarding the new driving patterns, they are affecting frequency, but overall, I would say that it’s quite similar or even a little bit lower, particularly in some geographies. So let's say that the net difference between the combined ratios this year and the previous year, which is between 4 and 5 percentage points, we can blame inflation as a general component of our loss ratio just to complete this scenario. So what we're doing in order to fight and resolve this situation is that there is no other solution than to adapt our premium tariffs to the current risk profile. So we've seen a significant increase in tariffs across geographies with different ranges – in Spain, one-digit; in the US we are stopped at the 3% increase we introduced at the end of last year, but we are planning for further increases that have not been approved yet, though we should knock on the regulator's door again. Massachusetts currently is in an election period and these decisions are hard, but we should assume that in the coming months a further tariff increase could be approved.

Tariff increases in Brazil are well above 10%, close to 20%, and the same in Latin America. And also another thing, there is no single impact of this inflation – as José Luis mentioned, we have a significant portion of our portfolio in inflation-linked securities in some of the regions. So that will help us with this increase in financial income to neutralize part of the loss ratio.

Another thing I would like to comment on, as we mentioned, the average premium is slightly down, in particular in Spain this quarter. MAPFRE has no appetite for growing new business in our number of units; our units are pretty stable in Spain. The current prices are easing, particularly in Spain, since the churn ratios should be more stable than during the pandemic.

So this is basically the big picture. Sorry to give such a long explanation, but I think it is better to have the full picture before going into details. Any questions will be welcome, obviously, but this is the big picture. A combined ratio ranging from 120 in Brazil, to the lowest – the only geography we have not seen any change – is Germany which gave a very good surprise with a combined ratio that stood at a wonderful 98%, quite stable compared to other geographies.

Felipe Navarro López de Chicheri

That was a very thorough answer. Thank you very much, Fernando. I think that we can go very fast with the rest of the questions in Motor business, because I think that you gave already a very comprehensive answer for all the questions.

There's another question coming from Farquhar Murray from Autonomous and Alessia Magni from Barclays. On the key Motor business, what level of claims inflation is MAPFRE seeing and how does it compare to tariff increases that you are pushing through so far this quarter?

Fernando Mata Verdejo

Well, as I already mentioned, the tariff increases that we're pushing in our premiums, regarding the expected inflation, it's really, really hard to predict what is going to happen during the second part of the year. But let's say in those markets where we have flexibility to adapt the tariffs to the risk profile, we will do it. The United States is a completely different country and scenario and we will do our best there. That's all.

Felipe Navarro López de Chicheri

Okay. Thank you very much. There was an interesting question about frequency and gas and oil prices. Do we see any kind of linkage with reduction in frequency because of the high gas and oil prices? The question is coming from Alessia Magni from Barclays.

Fernando Mata Verdejo

Sorry, Alessia, the answer is no – not in Spain, nor in the US. Perhaps in some Latin America countries it could be, but in particular in Madrid, we have traffic jams, particularly on the weekend, and this is the surprise. But so far, the policyholders are quite happy paying a lot of money at the gas station.

Felipe Navarro López de Chicheri

Okay. There is another question coming from Paz Ojeda from Banco Sabadell. The reasons behind this deterioration of the Motor claims ratio -- driving behavior, inflation, second car sales, new cars, lower coverage -- seem to be almost rather structural. Are you contemplating more measures, apart from tariff increases?

Fernando Mata Verdejo

Yes, I forgot to discuss cost control as well before. Operations in IBERIA are quite efficient. There is very, very little room for further enhancement, but we will try. But in the United States, we're redirecting more cars to our preferred garage network which has been extremely efficient in IBERIA and we want to copy the same structure in other geographies.

Felipe Navarro López de Chicheri

Okay. Thank you very much, Fernando. Alex Evans from Credit Suisse and Carlos Peixoto from Caixa BPI have questions about Brazilian Motor. You have been trying to return Brazilian Motor to profitability since 2016. How are you going to achieve this in what is now an arguably much more challenging market? Any concerns around the heightening of theft claims? What are your expectations?

Fernando Mata Verdejo

Yes, thank you for the question. It's quite an interesting question. It's true what you said –

year by year, we said that we are implementing different measures in order to improve our combined ratio in Brazil, but so far we haven't found the right button. And the reality is that what we've done is limiting and reducing, particularly reducing, our exposure in this country. MAPFRE used to be number 2 in the top 10 ranking in the Automobile in Brazil; currently we're, I don't know for sure, 6, 7 perhaps. And it's an extremely competitive market, there is only one entity, you know very well who, and it's making a lot of money in this business. But the remaining companies, we are all in a bunch with similar combined ratios and our main differentiation is this distribution channel that has been well controlled by corredores – independent agents. And the reality is there is a big premium leakage since the premium goes from what is determined by our actuarial techniques to the one we price in the market. And there is an important leakage at the end of the process, of the last minute discount in the distribution channel.

That's very difficult, but the reality is that in Brazil, MAPFRE is not a relevant player in Auto. We would like to come back to this position, but only when we are able to make money. Otherwise, we will be happy with the current risk portfolio, with the help of Banco do Brasil and exploring growth in other areas such as General P&C, Life Protection, and other less volatile lines of business.

Felipe Navarro López de Chicheri

Okay. Thank you very much Fernando. There is a question coming from Alex Evans from Credit Suisse. Why are we not seeing the same level of deterioration in Motor loss ratios at peers, if this is a market-based inflation?

Fernando Mata Verdejo

Well, we're seeing it in other lines like Health. Fortunately we are not seeing it in Homeowners, or in Condominiums. We usually say, it's not a joke, we say that you cannot fix a building or your house twice in one year. And the reality is that the combined ratio, particularly the loss ratio, for those two lines of business were extremely high during the pandemic; homeowners were fully devoted to fixing their houses. And actually what is happening is there is a much lower claims frequency, particularly in Homeowners. One of the good things about MAPFRE is that business line diversification, and with General P&C lower than 90%, these lines are helping us compensate other lines. Burial expense had a lower combined ratio as well, and from the high 100's during the pandemic now it's performing well.

Felipe Navarro López de Chicheri

Okay. Thank you very much, Fernando. Paz Ojeda from Banco Sabadell is asking about the churn ratios in Motor insurance in Spain.

Fernando Mata Verdejo

So far, there has been no change, Paz; it’s quite stable, and very good.

Felipe Navarro López de Chicheri

Paz Ojeda also has a question about USA. Could you please comment on the tariff increases that you have already made? Is there more to come, considering the strong competition that you are mentioning?

Fernando Mata Verdejo

We are in the process. Don’t misunderstand me, at the beginning of the year, we announced that we were asking for an additional 3% increase in rates, and I don’t want to blame the current election period in Massachusetts, but the reality is the administration in general stops when this situation happens. But I know that there is a problem and everybody in Massachusetts knows, and also in the US. Inflation for spare parts is well above 10%, close to 20, and there is an asymmetry between tariffs and claims.

So in the end, I'm sure we'll knock on the administration’s door again, as I mentioned. And I’m not 100% sure, but my view is that we will get the additional 3% that we are asking for in the coming months, because it's absolutely necessary, to just level out the current situation in Auto.

Felipe Navarro López de Chicheri

That will be very good for us and for the rest of the business.

We have another question from Paz Ojeda as well, “Could you elaborate on the reserve run off in Motor insurance? Is there any reserve hike in any of the main countries, Spain, Brazil, or the USA?”

Fernando Mata Verdejo

Well, as I mentioned, we're very prudent, and what we're doing is just updating our outstanding claims, assuming that there will be higher future payments due to the inflation and also the components of the loss ratio, but nothing relevant. And in terms of sufficiency of reserves, it has been quite stable during the quarter.

Felipe Navarro López de Chicheri

Thank you very much. Andrew Sinclair from Bank of America is asking for a clarification about the phase out of discounts that we mentioned before. On the full year call, we said that this was already fully phased out, but now it sounds like we are saying that they're going to be phased out in the coming months. Could you please clarify?

Fernando Mata Verdejo

Yes, Andrew, that's right; what is actually happening in the current context, any tariff increase has three components, which is the actual situation. One-third goes directly to price increase, another third goes to a decrease in coverages, mainly due to the ageing fleet, and the remaining one-third is what we call the last minute discount, at the end of the distribution channel. And this is the one we want to get rid off now, because it's extremely difficult to increase tariffs if there is one-third premium leakage in our distribution channel. The last minute discount has been extremely difficult to control, but we are putting a lot of effort in order to neutralize it and to come to zero; obviously this is the target.

Felipe Navarro López de Chicheri

Okay. Thank you very much. And also we were mentioning at the end of the year that this premium leakage was going to be offset, but we need to announce two months in advance to the clients that we are going to increase prices or that their premiums are going to be increased. So that is another effect that is adding to this.

Now I have a question for José Luis, coming from Andrew Sinclair. "What's your outlook for IBERIA P&C investment income?

José Luis Jiménez

Thanks. I think we have a more positive outlook looking forward. First, if we leave behind negative interest in Europe and markets are currently assuming at least two hikes from now till the end of the year, I think we should profit for the short term investment as well with our liquidity position, something that we have not seen for some years. Also, I think we are profiting as well from our alternative positions. I have to say they are performing extremely well in terms of income, and also in terms of capital gains. And in terms of credit, which is probably one of the things that could create some concerns looking forward in the market, because the spread could increase as soon as the Central Bank decreases the market intervention. As you already know, we have a low exposure to corporate credit, but those that we still hold in portfolio are quite solvent and we have no doubt regarding them. So if I had to give a short response, I think we will see more positive results in the coming quarters.

Felipe Navarro López de Chicheri

Thank you very much, José Luis. We have a question coming from Andrew Sinclair about inflation, which is a key challenge. And he says that it hadn't peaked in Q1; I think that we saw at the end of March inflation close to 10% in Spain, so I think that it already peaked. Do you expect further deterioration of the combined ratios on Q2 and Q3, because of inflation, Fernando?

Fernando Mata Verdejo

Andrew, what we're seeing is a high volatility throughout the quarter. The peak was in February, and the combined ratio was much better in March. So there is no direct relation between the reported claims every month and inflation. Probably it's because there are other components, as I mentioned, like the time that the cars are at the garage, or other considerations. We do not expect any dramatic increase in inflation in the second and third quarters, assuming that there is no deterioration of the current macro scenario.

So in my view, it’s not written in stone, but my view is that we probably reached the peak in February in this quarter, and March is performing better, has been performing better. And so far, April looks better as well. The combined ratio is not the one we expected to have, but also you have to consider that the first quarter is winter in Europe and the US and summer in Brazil. So the worst quarter of the year in terms of losses in Automobile and in other lines as well.

José Luis Jiménez

If you allow me, Fernando, to add something, I think that the view of the European Central Bank is that they tend to believe that we will see a peak in inflation this quarter and there is a much better outlook for the rest of the year. Because in the case of Europe, inflation is due to the increase in energy prices overall due to the conflict, so if the conflict tends to resolve hopefully in the coming quarters, we will see a decrease in inflation.

Felipe Navarro López de Chicheri

Thank you very much, Fernando and José Luis. Maksym Mishyn from JB Capital has the following question on the combined ratio. How much of the increase in combined ratio in Motor was driven by frequency and how much by inflation? And specifically, Andrew Sinclair from Bank of America wants to know how much of your Brazil P&C loss ratio increase was attributable to NatCat versus higher inflation?

Fernando Mata Verdejo

Well, the different components of the Automobile combined ratio were already discussed. And regarding the second question in Brazil, I think we already mentioned during the presentation, for Agricultural, I don't have the effect of the P&C individualized, but for Agricultural business, excluding NatCat, the combined ratio would have been 70%. That's what we mentioned in the speech. But we will get back to you, Andrew, after we figure out just the net effect on the total P&C line of business.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. Paz Ojeda from Banco Sabadell has a follow-up question on investments. José Luis, stocks unrealized gains are in negative territory in almost every country. Could you comment if there is a risk of profit and loss impairments due to cash flow deterioration in fixed income or a breach in equity impairment rules?

José Luis Jiménez

No, the quick answer is no. Well, I think we have some margin of maneuver. We have not reached a level that concerns us, and we tend to believe that all the stocks that we have in our portfolio are very good companies, with good results in the coming quarter.

With the crisis and with Russia, you never know, but I would like to believe that the worst is over and probably we will see -- we have started the results season and we expect the good results in most of the companies will give some support to the market. But obviously, the answer to your question is no, we don't see any risks in the short term.

Fernando Mata Verdejo

If you allow me, José Luis, as well, I don't remember if you mentioned in the presentation, but it's important to say that in the EUR21 million net capital gain that we disclosed at the presentation, it includes EUR10 million before taxes of realized losses from fixed income portfolios that we got rid of, because they were securities indirectly related to the Russia scenario. So let's say that any deterioration on this fixed income, we got rid of during the first quarter.

José Luis Jiménez

That's true, we prefer to be on the prudent side. We could have made more capital gains during the quarter, but we preferred to clean up some bonds so that, although I can’t guarantee it, but if there is any kind of risk in the future, we prefer to have, as always, a quite solvent and robust balance sheet just in case.

Felipe Navarro López de Chicheri

Thank you very much, Fernando and José Luis. There is a question coming from Alessia Magni from Barclays on inflation. The agreements you signed with garages last year should protect you from inflation in IBERIA. So why do you see higher claims costs? What were the details of those agreements, and when do you renew them and in which terms?

Fernando Mata Verdejo

Well, I guess most of the question has been covered. I can't give you any details of those agreements, other than that we already commented. They're confidential and they will affect obviously our competitive position. We renewed them, most of them, on an annual basis and basically we discussed this before.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. Farquhar Murray from Autonomous has the following question on Russia. Just on a point of detail, please could you outline and frame how large MAPFRE's exposures might be to aviation insurance and whether MAPFRE has any exposure to Russian losses through that?

Fernando Mata Verdejo

Well. I don't know the exact number that MAPFRE, particularly in our Global Risks business, is holding in the aerospace pool, but we will get back to you and give you the right number. And regarding the loss from Russian aviation, I guess you are referring to – I don't know if this is reality or if this has been gossip in the insurance industry – that there is a big claim against some insurers regarding like 500 airplanes that are being grounded in Russia, and have been taken by the government. Obviously, those airplanes are owned by private entities from Western countries, and we discussed this internally and the answer is MAPFRE has no exposure to these potential claims. In my view it is a potential claim, but I don't know anything else, but if there are any, MAPFRE has no exposures to this claim filed against some insurers.

Felipe Navarro López de Chicheri

Thank you for such a clear answer. I have a question for you, José Luis, coming from Phil Ross from Mediobanca. Are you seeing any beneficial impact from higher rates in Life Savings sales?

José Luis Jiménez

Yes. Maybe it's too soon to say, because during the first quarter, we have seen increases in interest rates on the full year – which is a very good horizon for savers – around 80 basis points, as I said before. But it's going to take a few months to try to balance out in those products. What we have done during the last years has been a move, as it happened with most of the industry, from savers to investors, and I think that we have made that movement quite wisely, because our business has grown consistently during the last three years. So having higher rates is very good news for savers or for guaranteed products, but if not, we will continue with our mutual funds and pension funds, which have performed extremely well.

Felipe Navarro López de Chicheri

Thank you very much, José Luis. There's hope at the end of the tunnel there. So another question coming from Andrew Sinclair on the Health business in IBERIA, Fernando, is if the 105% combined ratio for IBERIA is a good guide for the rest of 2022, if price increases cannot be put through until next year.

Fernando Mata Verdejo

I don't think so, Andrew. As I mentioned for Auto, the first quarter is the peak in terms of losses for Health. It's winter time in Spain, and there has also been a sort of catch up for standard surgery and other medical visits during this first quarter. And so there should be a lower frequency for these medical appointments.

But we are sure, 100% sure, that there is more use of the Health policy than we used to have before the pandemic. Now with any symptoms of fever, cough, headaches, there is a huge number of tests to be carried out, visit different doctors as well, and this will remain for the rest of the year, no doubt about it. And so, it probably will be closer to 100 rather than 105.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. I will take this question myself. It's from Tiago Parente from Fidelity. Do you intend to pay down the bank debt to bring the leverage ratio back inside the 23%, 25% target by the end of Q2?

Yes, of course, this has already been done and we are just reducing our credit facility by this amount, so you are not going to see anything outside of this target.

The next question is from Farquhar Murray from Autonomous and Alessia Magni from Barclays. How confident are you that you will achieve the combined ratio target of 94%-95%

from the current 98%? What actions are you taking?

Fernando Mata Verdejo

In the short run, very little. I'm not confident enough of a dramatic change to come down from 98% to 94%. But so far we haven't changed any of our three-year strategic targets. In the long run, depending on the current macro scenario, and also the duration of the invasion, and we probably will have a clearer view at the end of the second quarter, but we guess if everything comes to normality in the short run, we will able to hit the 95% combined ratio again. That's my view.

Felipe Navarro López de Chicheri

Thank you very much. I don't see any further questions on the screen. So maybe we should finish this meeting today. Thank you very much, Fernando. Thank you very much, José Luis. And please remember that you can contact the Investor Relations team as from tomorrow if you have any doubts about the results released today. Thank you for your attention, and have a nice evening.

Fernando Mata Verdejo

Thank you very much for your presence. Felipe, perhaps we can announce that initially we thought that probably the Investor Day would be held on June 30th, but with the current context, we think that it won't be very productive in terms of giving more information. So probably we'll wait to have a clearer view and we will probably discuss scheduling again at the second quarter presentation, but so far our intention is to cancel that preliminary idea of holding the Investor Day on June 30th.

Felipe Navarro López de Chicheri

Okay, thank you very much. That's normal, as the situation is not any clearer now than it was in the past. So thank you very much, Fernando. Thank you very much, José Luis. And have a nice evening.

Fernando Mata Verdejo

Thank you very much; good-bye.

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