



Investor &
analyst call –
Edited
transcript

6M
2021

July 26th, 2021

Company participants

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

Presentation

Felipe Navarro López de Chicheri

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

As usual, Fernando Mata, our CFO, will walk us through the main figures and highlights of the quarter. We also have the pleasure of having José Manuel Inchausti, CEO of MAPFRE Iberia, here with us. He will give us an overview on the main highlights and outlook for the Spanish business.

As a reminder, additional information can be found on our website, including the MD&A, as well as the usual spreadsheets. As requested by many of you, we have included further quarterly standalone figures in our financial supplement.

At the end of the presentation, we will open the Q&A session. You can submit your questions using the “ask a question” link on the bottom of your screen. We will try to answer all the questions as time allows. The IR team will be available to answer any pending questions after the call.

Before we start the presentation, I would like to give you an update regarding the pandemic situation for our markets. On the positive side, European markets, including Spain, continued to improve, thanks to the constant increase in vaccination rates. The new variants have had a strong impact, especially in the UK and the Iberian peninsula, although the increase in cases has not led to an increase in the death rates.

In Latin America, the situation is still quite complicated. Although most countries seem to have passed the peak, there is still a high level of stress on the hospital systems in some countries, including Colombia and Guatemala. We are also carefully monitoring the pandemic and socio-political situation in Peru and taking adequate mitigating measures.

As vaccination rates accelerate, we continue to implement a gradual return to the office, always keeping in mind the highest health standards. Currently around 94 percent of the employees in Spain are working on the premises with rotations, and 54 percent of employees in the United States are back in the office. In Brazil, the pandemic situation is still complicated and 99 percent of the workers are currently working remotely. We will continue adapting to the changes in conditions in every country.

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

Fernando Mata Verdejo

Thank you, Felipe, and thank you everyone for being here with us today. Before I go into the details, let me start by saying that we are very satisfied with our second quarter results. We

showed that we are on track to meet the guidance announced at our AGM, underpinned by improving trends and successful restructuring measures. We have successfully adapted our operations to the new market context with COVID. Regarding P&L impacts, direct claims at insurance units, mainly in Life Protection and Health in Latin America, should be offset by lower Auto frequency across regions, although there may be some volatility from one quarter to another.

The pandemic situation in Latin America remains challenging, especially impacting MAPFRE in our largest operations, like in Brazil, Mexico, Peru, Colombia and the Dominican Republic, with April being the peak. On the other hand, the outlook seems more positive for markets more advanced in the vaccination process.

Top-line performance is strong and premiums have reached a turning point, returning to growth in the second quarter, which is outstanding, considering the impact of the pandemic and the drag from currency movements. While vaccination rates are advancing quickly in mature countries, there is some lag in emerging countries, leading to an asymmetrical economic recovery. In any case, we should see further consolidation of recovery trends and we should expect more premium growth in the second half of the year.

In Iberia, we continue to outperform the market in key Non-Life segments with a return to growth in Life, while maintaining strong underlying technical margins. Reinsurance and Global Risks are also consolidating positive trends on the back of tariff increases, with limited impact from large events. In the United States, underwriting results are strong, especially in the Northeast, thanks to the streamlining process over the last few years, and Brazil is also well positioned to bear the fruits of the restructuring process.

Finally, I would like to highlight our strong capital position, with the Solvency II ratio over 200 percent at the end of March, and our equity base stable in 2021 at around EUR8.5 billion. Furthermore, Standard & Poor's recently affirmed our financial strength rating at A+ .

Now, I will take you through the main figures of the first half of the year. Before we discuss the top line, I should mention that we renewed the large multi-year PEMEX policy in Mexico for \$563 million, equivalent to EUR469 million. Currency movements were still a drag compared to last year, although to a lesser extent than in the first quarter. In Euros, premiums are up over 6 percent. At constant exchange rates, premiums are up over 11 percent, 7 percent excluding this large policy. Non-Life premiums continued to consolidate the strong trends, and Life premiums are up nearly 10 percent, with good performance in local currency in Spain and Brazil.

The Group combined ratio of 95 percent is in line with our guidance, and with a similar result at insurance units. There was a provision for early retirement in Iberia booked in the second quarter, and excluding this the combined ratio would have been around 94 percent, and the expense ratio would have improved proportionately. José Manuel will comment on this in more detail later in the presentation.

MAPFRE's net result is EUR364 million, up over 34 percent and in line with our guidance for 2021. The ROE excluding goodwill write-downs is close to 9 percent, and assets under management are up over 1 percent with the investment portfolio slightly down, compensated by the strong growth in pension and mutual funds, nearly 9 percent in total.

On this slide, I will take you through the breakdown of the adjusted attributable result. As many of you have requested, we have included quarterly standalone figures as well. As a reminder, in line with previous quarters and due to the offsetting nature of the different COVID impacts at insurance operations, we have not considered this in the adjusted result, as the final effect should be roughly neutral, although there could be some volatility from one quarter to the next. Regarding other NatCat claims, it has been a quiet quarter with nothing relevant to report. As a reminder, last year there was a 61 million net impact from the earthquake in Puerto Rico.

And regarding COVID claims, at MAPFRE RE there was a EUR14 million impact, mainly related to claims occurring in 2021. There have been two large impacts in Iberia during the quarter. There was a EUR56 million negative impact from an early retirement provision and a EUR22 million gain from the release of an earn-out provision.

Financial gains and losses are relatively stable on the year. Finally, other impacts include a net gain of EUR25.2 million due to the market valuation of a building transfer to a new joint investment vehicle with Swiss Life. There were also realized gains from several asset sales including Rastreator, Preminen and Industrial RE, for a little under EUR17 million.

In 2020 other items included a provision for restructuring. Excluding this impact, the adjusted net result was EUR352 million, down around 9.8 percent mainly as a result of lower financial income and absence of EUR11 million profit contribution from Bankia in the second quarter. The adjusted result is up over EUR19 million compared to the first quarter due to seasonality.

On this slide, we show the main trends this quarter. The drivers are continuous improvements in technical management as well as still lower mobility levels affecting mainly Motor. I would like to highlight the positive performance in Iberia, which José Manuel will discuss in more detail later. In Brazil, currency headwinds are still relevant, with average Real exchange rates down 14 percent, but much less than in the first quarter. Premiums are up over 15 percent in local currency, with strong growth in Agro and improving Motor issuance. The attributable result of EUR36 million is down, mainly due to COVID-related Life Protection claims and currency movements. The combined ratio remains strong at 86 percent, down nearly three points, with improvements in General P&C. The economic outlook has slightly improved, with SELIC rates up and the currency improving, but with high volatility.

Premiums in LATAM South grew 4 percent in euros, offsetting currency effects. In addition, premiums in LATAM North are up over 50 percent, driven by the large multi-year policy in Mexico as well as a strong trends in most segments. Excluding this policy, premiums in the region would have been slightly down due to currency depreciation. Local currency growth was also remarkable in Colombia, up 33 percent, and Peru, up over 14 percent.

Combined ratio in both regions remained at good levels, with a slight deterioration in LATAM North, but still under 94 percent, due to COVID-related claims. Performance in North America has been affected by currency depreciation, with average dollar exchange rates down around 7 percent.

The combined ratio has improved year-on-year at 97 percent, mainly due to the earthquake in Puerto Rico last year. The region shows remarkable stability with recurring profits after restructuring, with the combined ratio in the US Northeast at 96.5 percent.

In the US, new business is still being hurt by a lack of economic activity, but both the economy and mobility are starting to recover, and this trend should accelerate in the second half of the year. In Eurasia, premiums are down due to the non-renewal of the dealership channel in Italy as well as the depreciation of the Turkish lira. All countries have contributed positively to results except Italy, where expenses, as we mentioned as of March, still need to be adapted to the new business model.

At MAPFRE RE, premiums are also up, supported by positive pricing trends. The combined ratio was below 95 percent with excellent performance both in Reinsurance and Global Risks. It was a quiet quarter for large losses. In the Assistance business, results are up over EUR11 million, as last year was strongly affected by travel cancellation claims. Volumes are down 27 percent and we continue with our streamlining process. Regarding results, we're close to the breakeven point and it's remarkable, finally, that we have reported a small profit in the second quarter.

On this slide, I would like to comment on the Life business at insurance units. In Iberia, premium performance has been outstanding, thanks to successful sales campaigns and rollover of product maturities. I will leave the numbers for José Manuel's presentation. In Brazil, premiums have been affected by currency depreciation. There has been a return to local currency growth, up 4 percent in the bancassurance channel with improved trends in the second quarter and sales campaigns.

In other markets, premiums are up in Malta, offsetting a small decline in Mexico. The Life attributable result is down by EUR22 million, mainly due to a strong impact from COVID-related claims in LATAM, where the Life Protection attributable result is down by EUR50 million.

Average cases and number of death figures are beginning to come down, and we seem to have passed the peak, with April being the hardest month. This was mitigated by improving results in Iberia that José Manuel will comment on now. José Manuel, the floor is yours.

José Manuel Inchausti Pérez

Thank you very much, Fernando. Good morning, everyone. I will start by saying that premiums are up 6.9 percent year-on-year, thanks to a strong performance both in Life and Non-Life. I

would like to highlight the growth in Health at 10 percent and in Commercial lines, where premiums are up nearly 9 percent.

Motor is growing 2.7 percent. The strong performance in both Verti and Santander businesses is worth mentioning. Life premiums are up nearly 13 percent with strong trends in retail lines both in Life Protection, up 6 percent, and in Savings, up 34 percent.

The net result is EUR206 million, down 7 percent on the year explained by an increase in claims experience in Motor, Health and Homeowners due to a pickup in economic activity. It also reflects a provision for our voluntary early retirement scheme for EUR75 million, which was compensated with other positive one-offs for an overall neutral impact.

The combined ratio is 96.3 percent, 2.4 points higher than June 2020, reflecting the impact of the voluntary early retirement scheme - the ratio would be three points lower excluding this – and an increase in Motor claims due to higher vehicle use during the quarter. The ratio in General Property & Casualty has improved six points, with lower average claim cost in the Burial segment compared to 2020. This was partially offset by Homeowners and Condominiums where claims continue at high levels due to an increase in frequency from people spending more time at home as a result of the COVID crisis, affecting water, glass and handyman covers.

The data for the Spanish market as of June 2021 was recently published and is proof of MAPFRE's outstanding performance. MAPFRE is growing two percentage points above the total market, outperforming in most key business lines. Life and Health are worth highlighting, which are growing six points more than the market. Also Commercial lines are growing five points more than the market.

MAPFRE places clients at the center of our strategy, designing products covering new needs with excellent service quality and digital capabilities, giving clients the power to act whenever and wherever they want. Our differential value proposition has been designed for our main clients, based on these pillars, in order to foster long-term loyalty. These strategies have helped build the best insurance loyalty program in Spain with more than three million members.

MAPFRE is also designing tools to improve retention from the moment the policy is sold, and increasing the net promoter score from our clients year after year, which is now the best in the market, higher than 38. Iberia now has more than 7.1 million clients who are even more loyal, with record- low churn rates.

MAPFRE recognizes the importance of families. So we have become the reference insurer for Spanish households with more than 400,000 families, allowing us to offer personalized products and value propositions.

Our strategy is focused on growing the number of policies and MAPFRE is now giving Health insurance coverage to more than one million people, and has over 6.1 million vehicles insured.

One of our main targets is to continue fostering and accelerating our digital transformation in Spain. To reach this goal, we have created a Client Digital Experience Area and a Digital Transformation Office to foster digitalization and leverage synergies within the Group. The most relevant KPIs for the digital business reflect the success of this strategy.

The online transaction ratio has improved continuously over the last two years, five points and nine points for MAPFRE and Verti, respectively. New policies captured through digital channels have grown 21 percent as of June. Verti continuous outperforming the market with policies up over 11 percent, reaching a total of 338,000 policies. And lastly, after lockdown, there was higher demand for health services offered by Savia, which are complementary to our insurance products.

Going to the next slide, our priorities for 2021 are gaining market share across key lines of businesses, defending our portfolio and cost containment. Trends are improving both in Non-Life and Life. Frequency trends will depend on mobility and economic recovery. However, we are already very close to normalized levels.

New vehicle sales will remain at low levels due to the economic situation and a lack of government subsidies, but with an improving outlook. And as long as rates remain low, the Life Savings environment will continue to be challenging. The Non-Life combined ratio is expected to be around 95 percent, with Motor between 91 percent and 93 percent for 2021.

We will continue managing the low interest rate environment and continue to implement our alternative investment plan. Lastly, Iberia continues to boast extremely strong solvency levels while providing a recurring high level of dividends to the Group.

MAPFRE Iberia has carried out a careful analysis to adapt our operating model to changes in our clients, channels and the market context. This new model is the result of advances in digitalization and automation across the company as well as the need to centralize several operations. Taking advantage of new technology, this will allow us to work with more efficient structures and centralized management that can be accessed from everywhere in Spain. These developments have also helped streamline processes and require new strategic employee profiles. The end of the agreement with Bankia has also accelerated this process. In order to implement these necessary changes, we have set aside a EUR75 million provision for the voluntary early retirement for employees from different business areas in 2021.

MAPFRE is not only focused on digital transformation, but we are also carrying out an important operational transformation plan geared to increasing operating efficiency, with more than 12 million transactions optimized with a total cost savings of more than EUR7 million this year-to-date. The main pillars of this plan are digitalization, process automation, using technologies like robotics and artificial intelligence, and the change in the operating model that I already mentioned.

Improving technical management is also a priority for MAPFRE Iberia. The main initiatives include market pricing, which is focused on adapting the final price to each customer. This is

currently being used in Auto, Homeowners and Multirisk and advances have been made in other segments.

Progress has been made in the use of artificial intelligence with digital verification for our clients and distributors. In the case of Motor, this allows for automatic underwriting and loss adjustment and allowing for a policy to be taken out even with a smartphone.

During the pandemic this helped streamline the loss adjustment process for Homeowners and Condominium claims. Another important challenge has been the use of data for decision making and the possibility of creating new products and services using advanced analytics. The main actions have been optimization of sales activity and process automation.

In Iberia, we are also expanding our product offering, adapting it to our clients' changing needs with a focus on electric and personal mobility vehicles, as well as the development of on-off Motor products. In Life Savings, we are focused on unit-linked products and successfully boosting the asset management business.

On the next slide, I would like to comment on the current status of our main bancassurance agreements. The company is making positive advances in the Bankia exit process. The independent appraiser was appointed at the beginning of July and we expect the transaction to be completed by year-end, but the final timeline will depend on the pertinent regulatory and administrative approvals.

We have also implemented portfolio retention plans in our MAPFRE network. Regarding our agreement with Santander, it has been a great success with high growth potential, while leveraging several opportunities for further collaboration, for example Portugal, Cyberinsurance and Assurbanking. MAPFRE continues to meet important milestones, reaching over 100,000 policies as of June and over EUR24 million in premiums in Spain.

In conclusion, in Iberia, we continue outperforming the market with strong underlying technical margins. Our leading position, a strong competitive advantage and leaner business model will help us come out even stronger as the economy gradually normalizes, and we will continue to leverage opportunities for growth and improve profitability.

Thank you for your time and I will now hand the call back over to Fernando.

Fernando Mata Verdejo

Thank you, José Manuel, that was a pretty comprehensive presentation and a quite clear explanation. Thank you again. Now I will move on to the balance sheet and capital. This slide includes a full disclosure of the breakdown and variation of the investment portfolio and total assets under management. Spanish sovereign debt continues to be our largest exposure with a little over EUR12 billion and Italian debt with EUR2.7 billion is the second largest. Both sovereigns are mainly allocated to immunized portfolios.

The fall in the investment portfolio is due to higher yields, with the Spanish sovereign up over 35 basis points year-to-date, and pension and mutual funds have had a strong performance both due to market movements as well as positive net contributions of EUR70 million in pension funds and EUR212 million in investment funds at the end of June.

On the top left are the details of our Euro-area actively managed fixed income portfolios. The market value of this portfolio is a little under EUR13 billion. The accounting yield is around 1.6 percent in Non-Life and 3.5 percent in Life. The fall in yields is consistent with the reduction in duration. As a reminder, Non-Life includes Burial expense business, which is a long tail business. Excluding this portfolio, Non-Life duration would be down, closer to four years.

On the bottom left, you can see the details of the fixed-income portfolios in other markets with portfolio yields significantly up in Brazil, now at 6.5 percent, and relative stability in North America. Realized gains and losses in these portfolios were around EUR14 million, down EUR14.5 million compared to the previous year.

At the end of June - and this is very important - there were EUR161 million of unrealized gains in equity and investment funds in our actively managed portfolio in Iberia and MAPFRE RE. So, it's a big cushion for MAPFRE for the second half of the year. Right now we prefer to accumulate unrealized gains in order to compensate the fall in value of fixed income portfolios.

Shareholders' equity stood at EUR8.5 billion, up EUR217 million on the quarter. The main driver for this increase was the net profit for the quarter, with stability in conversion differences and unrealized capital gains in the available for sale portfolio. The most relevant changes during the year are a decrease in net unrealized gains on the available for sale portfolio, with a EUR281 million negative impact due to rising rates, with only a EUR10 million deterioration on the quarter. And conversion differences had a positive net impact of EUR120 million during the year, improving around EUR40 million on the quarter, mainly due to the appreciation of the US dollar and the Brazilian real. The breakdown of currency conversion differences and currency movements are shown in the table on the right, along with the current sensitivity analysis.

In the chart on the left, you can see the breakdown of the capital structure, which amounted to EUR13 billion, of which over three quarters is equity. Leverage is stable on the quarter at slightly under 24 percent. After closing the transaction with Bankia, we could reevaluate our financial needs, but for the time being, we are quite comfortable with the current debt levels.

On the right, you can see the Solvency II figures for March 2021, which were released last month. The ratio sits at over 200 percent, at the midpoint of our range. The improvement during the year is due to a lower mathematical provision due to higher risk free rates in Turkey and Latin America, especially in Colombia and Panama.

Before moving on to the Q&A session, I would like to make a few closing remarks. First of all as José Manuel has already explained quite in-depth, in Iberia, we continue to be extremely well positioned for profitable growth. Underwriting results are robust in the United States,

especially in the Northeast, and we are also beginning to see the fruits of a successful restructuring process. In Latin America, the pandemic and economic outlook remains challenging, and we have adapted our business model to the new environment and we are monitoring the situation closely. MAPFRE RE continues to consolidate normalized profitability trends, thanks to tariff increases, prudent underwriting and the absence of significant CAT losses so far.

As for Bankia, as José Manuel already mentioned, right now we're focused on completing the exit process. Regarding capital allocation, we are moving ahead with restructuring and transformation, with significant advances during this quarter. We sold Rastreator and Preminen price comparison business as well as Industrial RE.

At MAPFRE ASISTENCIA we have exited 13 countries since 2016 and have recently classified several Insurance and Assistance operations in Europe and Asia as held for sale. This includes the InsureandGo operations in Australia and the UK, which are both in final stages. We will continue to simplify the Assistance business to improve profitability with a focus on countries where MAPFRE has insurance business.

Regarding business expansion, we have a preliminary agreement to buy the minority stakes in Peru Life, which will be a 32 percent stake. This is an excellent growth opportunity with an operation that has proven successful for more than 30 years, contributing to premium growth, profit and dividends.

In conclusion, it has been another positive quarter, showing growth in premiums and results in a more positive scenario, but not without COVID-related uncertainties. We are on the right path to meet our 2021 commitments and return to a sustainable dividend path. Thank you. I will now hand the call over to Felipe to begin the Q&A session.

Q&A

Felipe Navarro López de Chicheri

Thank you very much, Fernando. Thank you very much, José Manuel. We have a number of questions coming now from the different analysts. The first ones are related with the COVID situation. Paco Riquel from Alantra asks for the impact at the net attributable profit level for the COVID losses in the Life Protection business for both Q1 and Q2. Fernando?

Fernando Mata Verdejo

Thank you, Paco, an interesting question. I don't have the proper disclosure of both effects. I will tell you, in terms of the gross value of the claims, it's approximately one-third during the first quarter and two-thirds in the second quarter. And the total in Latin America was around

50 million for both quarters, but unfortunately we can't disclose, as a significant impact has been allocated to Banco do Brasil and they haven't published their results yet, so we should be very prudent in this respect. But one-third was the first quarter and two-thirds was for the second quarter, roughly talking.

Felipe Navarro López de Chicheri

Okay, thank you very much, Fernando. The next question is coming from Ivan Bokhmat at Barclays, related with the losses that we recognized in the second quarter of 2021 related with COVID, and Paz Ojeda from Banco de Sabadell is asking a similar question: "Given the scale of the pandemic, how do you see that playing out in the second half 2021?"

Fernando Mata Verdejo

Well, I will discuss the first half of the year because what is going to happen in the second half of the year is still unknown. But that out of this two-thirds impact in the second quarter that I already commented, the peak was April, with a gross value of incurred losses of close to EUR65 million. But the curve is flattening and there has been a lower impact in claims in May, and also the outstanding amount coming down in June. I wouldn't necessarily extrapolate this flattening of the curve; we know that there is a lot of uncertainty regarding COVID in LATAM, and the outlook remains challenging, but we are quite positive. We have to be optimistic; the pace of vaccination is moving ahead, particularly in the largest countries, Mexico, Brazil, Peru and Colombia. And also our operation is very well adapted to this tough context, and even working from home we are able to provide and to deliver the best quality for our clients, and also just to try to mitigate the potential impact in our accounts.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. We have now some questions related with this early retirement scheme. Andrew Sinclair from Bank of America Merrill Lynch is asking, "For the Iberia early retirement scheme you have completed, what will be the longer term impact on the expense ratio? Should we expect a reduction?" A similar question is coming from Paco Riquel from Alantra: "Can you give us an indication of the expected payback in years of the EUR75 million restructuring program in Spain?"

José Manuel Inchausti Pérez

Yes, of course, Paco. It will be depending on the profile that we are speaking at. We could calculate between three and five years they're returning.

Felipe Navarro López de Chicheri

Okay, thank you very much. There were similar questions coming from Alex Evans, and there's another extension of the question coming from Ivan Bokhmat from Barclays. He is asking, "What is the rationale on the voluntary retirement scheme in the Non-Life? What impact should we have in the ongoing combined ratio next year?"

José Manuel Inchausti Pérez

Okay. I have talked a little about the rationale. On one side, we are streamlining our processes. I think that technology allows a different distribution of the work load, which cannot be the same as it was years ago. And last, I think centralized operations give us more flexibility, and more efficiency as a company. And the impact on the expense ratio is currently three points and in the future we expect of course a lower expense ratio, but we are calculating it in the next strategic planning.

Fernando Mata Verdejo

That's very important and, as we already mentioned, for Iberia business, this expense is dramatically impacting our combined ratio. As José Manuel said, the net impact on the combined ratio is a three percentage point increase. So, if you adjust the current combined ratio, eliminating this impact from the redundancy scheme it would be a little bit higher than 93 percent - an outstanding combined ratio in the current circumstances for Iberia.

Felipe Navarro López de Chicheri

Okay, thank you very much José Manuel and Fernando. There are more questions related with this scheme. The next one is from Mario Ropero from Bestinver regarding with how many people are involved in this scheme. And Paz Ojeda from Banco de Sabadell would like to know the time frame of this operation.

José Manuel Inchausti Pérez

Thank you. It will be more or less 250 people and everybody will leave the company by the end of the year.

Fernando Mata Verdejo

We will know the final number in the future because the scheme has been very well accepted

and probably the number of the employees who are eligible and interested is still growing. This is a quite generous offer for our employees. And with the numbers what we are seeing currently in July, we will probably hit this number of 250 employees that José Manuel has mentioned. We are happy. This is not the first time – although it wasn't a redundancy scheme – but for the last five years there have been early retirement plans, though not of the same size. This is important because it is affecting a big group of employees. But MAPFRE, like other large entities, are trying to give retirement opportunities, and also to reduce our payroll, particularly for those employees that have devoted a large part of their professional lives to MAPFRE. So it's nothing new, but it's the size that it is very important, as part of our commitment to transparency, MAPFRE has decided to make it public.

Felipe Navarro López de Chicheri

Thank you very much. We are going back to COVID. Paco Riquel from Alantra is asking about the impact of the losses in MAPFRE RE in the second quarter and what is left for the second half. He is interested as well in what the potential losses for the extraordinary floods in Germany and Belgium in July could be at MAPFRE RE and MAPFRE Germany. And Ashik Musaddi from JPMorgan is asking a similar question about the outlook of reinsurance business given the recent floods in Europe.

Fernando Mata Verdejo

Thank you, Paco and Ashik, for the questions. As I mentioned, it's extremely difficult to extrapolate any conclusion for the second half of the year. But the curve is flattening and also it's flattening for MAPFRE RE, because there is some accepted business from LATAM that has been in the MAPFRE RE accounts. Most of the impact was in April, and the amount, net of taxes, is EUR16 million, affecting MAPFRE RE, basically from claims occurring in 2021. Last year, approximately EUR60 million was reported. This half of the year there is a EUR16 million net impact in the result. The second half should be a smaller amount for sure, but it is difficult to foresee. Regarding Germany losses, there were extraordinary floods in Germany and in Belgium, and just last week we saw flooding in Belgium again. We are in a very early stage and we have not received any written or oral communication from the ceding entities. But for a top-down analysis for MAPFRE RE, it will probably be a mid-size NatCat event for Europe.

Felipe Navarro López de Chicheri

Okay, thank you very much, Fernando. Coming back to Spain, Alex Evans is asking about Motor. "Could you please talk about the Spanish Motor market, as vehicle growth and premium growth look strong, but you are now missing your 91-93 percent combined ratio target, with the 93.1 percent in 1H and 97.8 percent in Q2? How do you think about the

provision between the different MAPFRE Spanish business lines?” Mario Roperero from Bestinver would like an update on how you see the Motor insurance price competition for the rest of the year. And Paz Ojeda from Banco de Sabadell is asking about this 93 percent underlying combined ratio in Iberia and what can we expect on the second half 2021.

José Manual Inchausti Pérez

Regarding the first question, our combined ratio for the first half of the year is influenced by three points, as well as the general combined ratio. So the underlying combined ratio is three points less. It's very difficult to estimate a combined ratio for the second half of the year. The first half of the year would meet the target if we eliminate the early retirement program, and for the second, what we have seen is a very big increase in competition between companies in the market. Companies are reducing prices and investing more in marketing. So it is not easy to estimate how far this process will go, but we will be able to see that at the end of the year.

Fernando Mata Verdejo

If I may add something, we are pretty happy with the current underlying combined ratio for Automobile in Spain. It's like 93 percent, and if we apply proportionally this three percentage point reduction, it will be in the lower 90s. So this is a fantastic combined ratio. And the same for the Non-Life combined ratio of Iberia - it would be in the lower 93. So they're very good and in line with meeting the guidance for both MAPFRE Group and also for MAPFRE ESPAÑA. Regarding the allocation of the 75, José Manuel, have you got the numbers?

José Manual Inchausti Pérez

Yeah, it's 65 million in MAPFRE ESPAÑA and 10 million goes to MAPFRE VIDA.

Fernando Mata Verdejo

Yes. And the question from Mario Roperero, about Motor insurance prices – Mario, it's the usual. It is nothing new in this extremely competitive country. Perhaps José Manuel can give us more color, but nothing has changed in Spain. Everybody wants to get the biggest piece of the pie and MAPFRE is defending its position, and with the help of MAPFRE Santander, which is doing very well in new business, and is extremely competitive too.

José Manual Inchausti Pérez

Yes, especially in the direct business, in the digital business, we have seen an increase in

competition because we have a special sensitivity when we are competing with other companies on comparison webs. It is very difficult to be one of the top three best prices for Verti, our digital company. Nevertheless, I would like to say that Verti is increasing its premiums by 7 percent, which is much more than the market and other digital companies.

Felipe Navarro López de Chicheri

Thank you very much, José Manuel. Now we have a question related with the proceeds of the Bankia sale. Andrew Sinclair is asking, “What options would you consider?” and Ashik Musaddi from JPMorgan is asking as well, “Is there an update on the cash flows from Bankia?”.
Fernando?

Fernando Mata Verdejo

Thank you, Andrew. We haven't changed our statement regarding future allocation of the consideration to be collected from Caixa. We will make a decision about this particular transaction when we finish and we get the money from Caixa. Meanwhile, we are analyzing different opportunities, but so far we haven't reached any conclusions. We'll try to allocate more capital to our strategic distribution channel, particularly bancassurance in Spain, where there is a lack of power, from, as I already mentioned, the two relevant transactions we lost because of the restructuring of financial institutions in Spain. And we'll also try to allocate to the digital business. Regarding our geographical footprint, again, Spain is key and also the United States. And in that case, perhaps in the states where we operating close to the AAA motor club. And also Brazil. We also mentioned in a couple of meetings that Mexico could join the list of strategic countries as well. But so far we haven't reached any conclusions regarding the future allocation of the consideration from Bankia.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. Mario Roper from Bestinver is interested in the same subject. “How fast do you plan to substitute your joint venture with Bankia, if you're planning to do so?”

Fernando Mata Verdejo

Mario, I know that people are gossiping, particularly with entities Spain. I'm not going to name any potential future development from MAPFRE. Names are being published in the papers, but the decision will be made when we finish what we are currently involved in, which is the exit discussions with Caixa. That's it.

José Manuel Inchausti Pérez

I would like to add that a part of the Bankia loss will be covered with other distribution channels. We have implemented a Homeowners increase program in different channels, especially. And I also want to highlight that the cooperation with Banco Santander is increasing. We have some products in our pipeline. We will be launching an important Commercial line product by the end of the year and we have other products to be launched in 2022.

Fernando Mata Verdejo

Yeah, that's very good. We usually discuss M&A growth, but then we forget the organic growth, which is very important, particularly on the digital side, as José Manuel mentioned. We put some money, and having the Bankia money in the future, into the digital business, particularly Homeowners. Homeowners will be the line of business most hurt by the Bankia exit, because it was key for Homeowners new business.

Felipe Navarro López de Chicheri

Thank you very much. Excellent answer. Mario Ropero from Bestinver is interested in the Solvency ratio. We increased the solvency ratio in the first quarter and he is asking about our expectations by the end of the year.

Fernando Mata Verdejo

Thank you, Mario. We are quite comfortable with the current position, at the midpoint of the range. And we probably will see further improvements if there is an upwards movement of the risk free curve, particularly in some Latin American countries. Because the higher the movement is, the lower the mathematical provision you have to book. So basically, it's an external factor affecting our Solvency II ratio, but it's fine -- we should keep this 200 percent Solvency II ratio as a reference. This means that we will have some additional capital organic and inorganic growth for our business. So that is a good situation.

Felipe Navarro López de Chicheri

Paco Riquel from Alantra has similar question related with the unwinding of the Bankia JV that has reduced the Solvency impact from six percentage points to four percentage points. I think that you already explained why. And there was another question, related with the capital requirements, that are lower in proportion to the rest of the Group, and how it's going to be impacting this?

Fernando Mata Verdejo

Yes, Paco, as you can see, the Bankia weight on our SCR is lower because there is a reduction of both premiums and assets compared to other units and regions, which are growing significantly. So in the end, there will be a lower impact from the exit of Bankia. That's basically our understanding on this question.

Felipe Navarro López de Chicheri

Alexander Evans from Credit Suisse is asking, "What internal dividends has the Group received year-to-date?"

I can tell you, Alexander, that we have received what was already projected and that these dividends are being booked on our accounts as they were distributed. We are quite happy with the dividend upstreaming that we have received up to now. So we don't see any kind of risks for the rest of the year; it should continue going in the same direction.

There is another question coming from Ivan Bokhmat from Barclays. "Can you help us to understand the underlying profitability of the Spanish Life business after excluding the contribution of Bankia MAPFRE VIDA. What is the run rate and how does it compare with your expectations?"

Fernando Mata Verdejo

Well, I'll give you the number and then José Manuel can probably give us more color. The amount is EUR11 million, as I disclosed. That's the profit that was booked in 2020 and that we missed this quarter, but what we're seeing is a decrease in the business in Bankia MAPFRE VIDA, probably because of the current situation and also the lower level of assets. Is that right, José Manuel?

José Manuel Inchausti Pérez

Taking out any extraordinary results from Life insurance, our Life insurance results is growing at rate of 3 percent. Bankia MAPFRE VIDA is not performing as well this year as the last year. So taking out Bankia MAPFRE VIDA, our evolution would be much better even than the evolution I have said. And on the other hand, I would like to highlight that the Life Protection combined ratio is 75 percent, which is a very good combined ratio. So we expect good profitability from the Life business.

Felipe Navarro López de Chicheri

Excellent answer, José Manuel, thank you very much. On the same topic, there is another question coming from Andrew Sinclair at Bank of America. “You have talked about returning to a sustainable dividend path, but not yet the level. Does this include a re-basing from the loss of the Bankia JV or do you think that you can get back to the historic EUR14.5 cents per share?” This is a recurring question that we are receiving, on how the dividend path is going to be in the future.

Fernando Mata Verdejo

Thank you for the question. The profit contribution of the Bankia JV is not that significant in order to force us to change our dividend policy. It's more or less between 10 and 11 million per quarter. I'm pretty sure that we said this decrease with other operations. And so you should understand, when I mentioned that we want to come back to the sustainable dividend path, we're referring to the fact that for many, many years, the dividend amount was EUR14.5 cents. And our Chairman said, and I mentioned as well in some meetings in the past, that we would like to come back to this dividend position of EUR14.5 cents as soon as possible. And the return to this dividend path won't depend on the Bankia consideration; this is a completely different business. We should come back to EUR14.5 cents with recurring profits. That's pretty clear from my side.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. We come back to MAPFRE RE, which has, I think, the biggest change on the accounts this year. Mario Roperó from Bestinver is asking about your views on the combined ratio for MAPFRE RE going forward. “How is going to perform? What could we expect from MAPFRE RE combined ratio?”

Fernando Mata Verdejo

Well, so far it has been a quiet quarter and also a quiet half of the year in terms of big NatCat events. We have already reported two NatCat events. One was the snowstorm Uri in the southern states in the US, and the other was Filomena in central Spain, and both were lower than mid-size NatCat events. And the other impact was, as I already mentioned, the COVID 2021 occurrence claims, and the impact was EUR16 million net. Regarding the second half of the year, we know that the heavy rains and flood in Germany will impact our combined ratio. We're not sure yet how big this impact will be; probably a mid-size event. But in the long run, as we already mentioned, the combined ratio from MAPFRE RE should be a little bit lower than MAPFRE Group. So this range between 94-95 in a normal, standard year should be the underlying combined ratio for MAPFRE RE. On the Global Risk line of business, we are quite

happy. There was a significant profit for the first half of the year, in absence of any significant man-made losses. And let's keep our fingers crossed. The retention has been reduced to practically 15 percent of premiums, so we had lower exposure on global risks. So the profitability level should remain unchanged for the second half of the year.

Felipe Navarro López de Chicheri

Okay. You just mentioned Filomena as a big claim and...

Fernando Mata Verdejo

But it wasn't -- it wasn't that big.

Felipe Navarro López de Chicheri

No, but how do we service this on a number of claims?

Fernando Mata Verdejo

That's correct, in terms of retention, it was lower than mid-side event. The cost was approximately EUR20 million for the Group. Most of the cost was split between MAPFRE ESPAÑA -- it was like EUR10 million before taxes -- and the rest was for MAPFRE RE. Filomena is now the second largest NatCat event ever in Spain, after Hurricane Klaus, the hurricane that entered Galicia in the north of Spain, and exited Spain in Girona, on the Mediterranean Coast. But Filomena, in terms of claims adjustments and the additional resources that were allocated to this storm, has been huge, with over 53,000 claims open. Most of them are already adjusted and paid. And in terms of the gross amount, it was 80 million. Perhaps José Manuel can give us more color, but it has been a claim with a lot of work done in order to give the best quality of service to our policyholders. Is that right, José Manuel?

José Manuel Inchausti Pérez

Yes, that's right. It has been, in terms of gross losses, the most important event that we have had in Spain, and in terms of claims declared the second one after Klaus. And it has been a huge effort in terms of logistics with providers etcetera to respond as best as possible to the number of customers that were affected by the storm. We are very happy with the results and fortunately we were able to increase our NPS - Net Promoter Score - figures during these months. So we are extremely happy with the way in which we have served our customers.

Felipe Navarro López de Chicheri

Thank you very much, José Manuel. We have another question related with MAPFRE RE and the impact of COVID losses that we booked from this event. Based on the 2021 events, what percentage of the portfolio that would have responded to COVID losses in early 2020 still offers coverage after 2021 renewals? How has the wording of these contracts changed?

Fernando Mata Verdejo

Well, as we mentioned in the past, we are not working in this particular line of business. We don't provide business interruption other than those that are linked to property damage. And the only thing we did is that we put a clearer wording in the conditions in order to draw a red line for those covers that are provided by the policy and those that are not provided. But we haven't changed our policy regarding this coverage, which is not in the risk appetite of MAPFRE RE.

Felipe Navarro López de Chicheri

Thank you very much. Philip Ross from Mediobanca is asking about MAPFRE ASISTENCIA. "Can you say more on the InsureandGo disposals. Are UK and Australia the worst performing segments?"

Fernando Mata Verdejo

Yeah, we disclosed that we are at the final stage to get the two operations sold. And the one in the UK, we are currently at the end of the information process. We filed with the FCA and also even we disclosed the name of the potential buyer. So there are just some formalities from the regulatory perspective, but the amount, the buyer and everything is correct in order to complete this transaction soon. Regarding Australia, we currently have a binding offer from a quite serious potential buyer. So, we are working on the final details in order to arrange it. First, we need to get approvals, from the supervisors as well, but everything is in order and we believe that we can finish this transaction by year-end as well. Also, we've mentioned that there are like seven assistance operations across the globe that are currently categorized in the balance sheet as held for sale. And most of them are non-strategic countries and some of them they are generating profit and others have losses, particularly InsureandGo. And I guess it's the right decision, probably at the right time as well, because that's the moment that the market reacted to these offers. And hopefully we will finish this transaction by year-end. This is a very good news for MAPFRE and also for our shareholders.

Felipe Navarro López de Chicheri

Thank you very much. Fernando. Jacques Loussert from UBS is asking about our ESG strategy. He is asking if we consider ESG a risk or as an opportunity, and in the short and medium future. So, is today going to be a risk or an opportunity? What it was going to happen in the medium term?

Fernando Mata Verdejo

Well, it's neither a risk nor an opportunity; it's a reality in MAPFRE. The first ESG statement approved by MAPFRE was back in the 1950s, many years ago, when everybody was just thinking of business. At that point the former executives of the MAPFRE Mutualidad published a statement regarding corporate finance and corporate business. So, it is a reality, it is very well-rooted, it is part of our DNA. It's not an opportunity, it's a necessity. We have to give back and give a part of our business, part of our profit and part of the quality of all the things that we've done, to society. So, it's something very well-rooted in MAPFRE.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. We reiterate this kind of commitment with the stakeholders and with the society every time that we are in public. Carlos Peixoto is asking about our 700 million net profit guidance for the full year 2021. Do we reiterate this guidance, these results?

Fernando Mata Verdejo

Thank you. There is no evidence of any potential risk that could jeopardize the current 700 million guidance that we published. We are pretty happy, but not only for the performance of this first and second quarter, but since June 30, 2020 we're reporting quite stable and consistent quarters. We said that MAPFRE has adapted very well to this scenario; we're not happy with the situation this planet's living, but fortunately MAPFRE's recurring, in terms of business profit and also premium growth, is quite outstanding. So nothing should be wrong; we will meet this guidance by year end.

Felipe Navarro López de Chicheri

Okay, thank you very much. We come back to Spain. Paz Ojeda from Banco de Sabadell is asking, "Apart from competition, could you elaborate on frequency and average cost? For example, is claims frequency already similar to the pre-COVID levels or can there be more to come? And on severity, is inflation pick-up impacting repair costs?"

José Manuel Inchausti Pérez

Regarding frequency, it's still lower than 2019 levels, but frequency's evolving quickly to the same level, especially since May, as far the restrictions in mobility have been lifted by the government. And regarding average cost, we haven't seen a significant increase. It is mainly because we are redirecting a bigger part of our claims to our preferential repair shops. So we haven't seen any tension coming from inflation on this average cost.

Felipe Navarro López de Chicheri

Thank you very much, José Manuel. This is very good news. Paco Riquel from Alantra is asking, "Can you comment on the financial impact of the buyout of minorities in Life business in Peru, expected net profit contribution for 2021-2022, and impact on solvency ratio?"

Fernando Mata Verdejo

Thank you Paco. We shouldn't expect a significant impact on the Solvency II ratio. As you know, for the eligible capital, we also consider minority interests for Solvency II purposes, so that the level of capital that we hold in MAPFRE Peru Life is quite similar to the minimum. So the full amount of minority interests is fully booked for the Solvency II ratio. So we shouldn't expect any impact on our Solvency II ratio. Regarding the information, in the subsequent events section of the financial report, there is a full disclosure of numbers and figures from MAPFRE Peru Vida. It has been a quite profitable entity for almost 35 years. I'll just give you one number: when we bought this operation back in 1986, we bought the current 62 percent stake for EUR16 million. So, considering the current value that we apply for the transaction, the increase in value has been a huge. And also another thing, we reviewed the dividends paid by this subsidiary, and for the last five years the average was 10 million of dividend. So the flow of dividends is pretty good.

Felipe Navarro López de Chicheri

That makes sense. Carlos Peixoto from CaixaBank BPI was asking similar questions about Peru, saying that the 20 times implied price earnings for 2020 seems demanding. "Could you elaborate on the rationale and expected return on investment, payback and its impacts on the Solvency?" Those are similar to what you already answered; maybe if you want to elaborate more?

Fernando Mata Verdejo

I forgot one thing. For IFRS accounting purposes, the way we're going to treat this transaction

is quite similar to the one in Brazil two years ago. So the excess of our equity that we paid for this transaction will be fully deducted from reserves, so there won't be any goodwill or VOBA on our balance sheet from this transaction. We paid an extra amount above net equity, but it will be deducted from reserves. So it will be neutral for Solvency II and also for IFRS net equity.

Felipe Navarro López de Chicheri

Carlos Peixoto from CaixaBank BPI is asking about the release of provisions on this quarter. Should we expect more releases in the coming quarter?

Fernando Mata Verdejo

It was a one-off definitely, Carlos, and perhaps as José Manuel can give us more color. We had some earn-out provision and other commissions to pay to our partners for business plan fulfillment. And, I'm not going to disclose any names, as you may imagine, but what we have done is just to adjust the current liabilities to the current circumstances. And due to the COVID, or whatever other circumstances, some of our partners are not going to meet the business plan. So we have adjusted the earn-outs and other contingent liabilities in that way.

Felipe Navarro López de Chicheri

Okay, thank you very much. Andrew Sinclair from Bank of America Merrill Lynch is asking about Brazil Life Protection loss. He is asking how much of this loss was provisioning for future periods, or if the increase in the losses were just related to the quarter?

Fernando Mata Verdejo

Yeah. Thank you, Andrew. We are booking an IBNR reserve in the region, in particular in the LATAM region, across the countries, based on the number of days of delay between our current day and reported day. That the range varies between 22 days and 1.5 months. So it's quite logical, this range, assuming that some of the business is coming from financial institutions, and there is usually a lag between the day that the claim is reported to the financial institution and the subsequent reporting to the insurance operations. So in conclusion, we are booking an IBNR in order to cover future reported losses based on triangles and also the loss estimate for this particular line of business.

Felipe Navarro López de Chicheri

Thank you very much. It seems that there are no more questions, so we are going to close the session now, if you want to say some final words.

Fernando Mata Verdejo

Thank you again for your presence. As I mentioned, it has been another robust quarter, quite stable. This is the good thing for MAPFRE, that for three quarters in a row, we're reporting and we're delivering what we promised at the end of June 30, 2020 - that we will adapt our operations to the current circumstances. So we are quite happy. And the second half of the year is quite promising, but not free of COVID-related uncertainties. So, thank you very much for your presence and we wish you the best for these summer holidays and above all please remain safe.

As for Iberia, it for sure will report a similar performance in the second part of the year. Their business is quite business and this region is the most relevant unit and region in terms of business and profit contribution.

Felipe Navarro López de Chicheri

Thank you both very much. Thank you very much for your presence.

Before closing the call today, just a word on logistics. I'm sure that most of you have received an invitation, but tomorrow, Tuesday the 27th, we will be hosting two group meetings. First, there will be a group in Spanish at 9:30 AM Central European Time, followed by another group in English at 2:30 PM, Central European Time as well. Both meetings should last around 45 minutes to an hour. Please get in touch with the IR team to confirm your attendance. You have the contact details in the presentation. Thank you for being here with us, and please stay safe. Thank you very much.

Disclaimer

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