



Investor &
analyst call –
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Company participants

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

Presentation

Felipe Navarro López de Chicheri

Good morning everyone and welcome to MAPFRE's Results Presentation for the third quarter of 2022. This is Felipe Navarro, Head of Investor Relations and Capital Markets and Corporate Treasurer. It is a pleasure to have here with us our Group CFO, Fernando Mata. He will walk us through the trends of the quarter and discuss the main P&L drivers and the investment portfolio. And before his closing remarks, I will walk us through the capital and solvency sections.

At the end of the presentation, we will open 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 and the IR team will be available to answer any pending questions after the call. As a reminder, the replay of this webcast will be available shortly after the call.

And now, I would like to turn the conference over to Fernando.

Fernando Mata Verdejo

Thank you, Felipe. Good morning, everyone. Before going into the details, I would like to start with a few introductory remarks. Despite an extremely challenging market environment, MAPFRE is reporting satisfactory results. We continue to implement our current strategic plan, while adapting it to the current context. This is the roadmap the company needs to move forward in terms of growth and profitability. Regarding financial targets, both the aspirational targets and the reference framework are still valid. And there is currently no evidence indicating that they cannot be met. Just the combined ratio, as we already said in previous presentations, is challenging in the current context, and could be subject to revision at the end of the year.

We are confident that there are some tailwinds to help the ROE target, such as very strong premium growth, improving financial results, and positive currency trends. Growth on a like-for-like basis has been resilient in the insurance business in Spain, with strong performance across Latin America, especially Brazil. We are seeing high-double-digit growth in the reinsurance unit, on the back of a supportive pricing environment. Currency movements have also boosted these figures.

Diversification is key to our resilience, while we continue with a disciplined approach and growing in profitable lines such as General P&C and Life Protection. We're focused on organic growth, and our M&A strategy as always is extremely prudent. We are not willing to grow

organically at any price.

The market environment isn't easy, with geopolitical tensions, persistent inflation, a sharp increase in interest rates and a risk of recession in key markets. Nevertheless, profitability has been robust, reaching a net result of over EUR488 million with an ROE of over 9%, despite the impact from hyperinflationary economies this quarter.

Profit contribution was strong from core operations and better technical results in General P&C and Life Protection, mitigating ongoing pressure in Motor, with a solid contribution from financial income in many markets. Furthermore, after the sale of non-strategic assistance operations and insurance subsidiaries in Indonesia and the Philippines – this last transaction has been completed this morning – we have reached our main restructuring targets. After this multi-year process, our footprint has been streamlined, and we have a leaner organization, better positioned to leverage future growth opportunities, allocating capital to the most attractive businesses.

I would like to comment on the Motor business. This segment remains under pressure with high claims inflation, changes in driving patterns and higher mobility, with frequency converging to pre-COVID levels. We are executing profitability initiatives across all regions, focusing on the three main drivers. First, tariff increases, both on new business and renewals. Second, cost contention. We are actively managing spare parts, logistics, and minimizing repair times, thanks to our preferred garage network and tow trucks, as well as a strictly monitoring restructuring expenses. And third, even stricter underwriting measures were put in place, cancelling business and limiting covers in specific portfolio segments.

These measures, especially pricing, take time to feed through the bottom line, and it could take some quarters to converge to a sustainable Motor combined ratio. However, we are already seeing green shoots in Brazil, where portfolio repricing was very quick. In Spain, the technical measures implemented to catch up with current inflation are taking time to feed through P&L, and in the U.S. it could take some more time due to the complex regulatory environment, as we will explain later.

Finally, MAPFRE continues to have a very strong solvency position, and high level of financial flexibility. Dividend upstreaming continues to be strong at subsidiaries. Yesterday the board approved a EURO.06 interim dividend to be paid on November the 30th, reaffirming the Group's commitment to maintaining a stable dividend policy.

The Solvency II ratio, as you know, was 220% as of June 2022, significantly boosted by the Tier 3 bond we issued in April, mitigating the fall in shareholders' equity. Our net equity has proven resilient, falling less than other European insurers in a highly volatile market, thanks to diversification, high levels of liquidity, and a prudent investment approach.

I will comment on some of the key figures now. Premiums are up 12% in euros. If we eliminate – you’ve got the information on the right, in the box – the impact from currency movements, which added over 5 points to growth, a large multi-year policy issued in Mexico last year, which took away 3 points from growth, and finally, the exit of Bankia, which took away a little under 1 point, premiums will have been up 10.6%, with very strong trends in both Non-Life and Life.

Regarding the positive currency trends, the most relevant were the U.S. dollar, up around 13% and the Brazilian real, up over 18%. There were also double-digit appreciations in many other Latin American currencies. The combined ratio was 98.4% with the loss ratio up over 3 points, mainly driven by the pressure in Motor, as well as a higher frequency of NatCat events. The 27% expense ratio is noteworthy and is down 1.4 points, supported by very strict cost control in all areas.

The pressure on combined ratio was partially mitigated by the improvements in financial income, despite lower realized gains. The Non-Life financial result was up around EUR20 million and over EUR100 million when adjusting for realized gains. The attributable result reached EUR488 million with an ROE of around 9%, 8.3% excluding the impacts of Bankia and other extraordinary charges booked at the end of 2021.

Finally, shareholders' equity is down around 10%, and only slightly down on the quarter at around EUR7.6 billion, mainly due to the reduction of unrealized capital gains from rising interest rates, which was partially offset by the already mentioned currency movements.

As usual, on this slide, we explain the main extraordinary items. First of all, we would like to comment on the impact from hyperinflationary economies. We have restated the financial statements of our subsidiary in Turkey for 2022, applying the international standard for hyperinflationary economies, which had an impact of around EUR17 million. As other hyperinflation impacts were also significant, mainly in Argentina, we have also included the full impact for both entities and both periods in this line.

The other non-operating impacts include the net gains related to sales and restructuring of the assistance operations and also the insurance subsidiary in Indonesia. Regarding operating impacts during the quarter, we have set aside a provision at the Puerto Rico unit for Hurricane Fiona with a EUR22 million net impact. No relevant claims have been reported so far, but this is our current estimate for this event, with a negligible impact at MAPFRE RE.

There was also a small negative runoff from the Parana river drought claim, reaching a EUR105 million net loss for the Group, of which EUR59 million is at the reinsurance unit, EUR46 million is at insurance units, and by country EUR37 million corresponds to Brazil and the remaining EUR9 million to Paraguay. COVID losses are decreasing in 2022, reaching just under EUR30

million to September, EUR77 million less than 2021.

Financial gains and losses are down by EUR42 million. We were able to partially compensate the fall in financial investments with higher gains from real estate transactions. Finally, the line Other for 2022 includes the tax impacts in Spain and Peru already commented in previous presentations.

Full disclosure, as always, of the different components of these items is included in the Annex at the end of this presentation.

During 2022, insurance operations contributed over a EUR15.6 billion in premiums and over EUR481 million in results. Iberia's performance continued to be extremely resilient. Premiums are up 1% and excluding Bankia they would have been up over 3%. Non-Life premiums increased 3.5% with strong performance in General P&C and Health.

The combined ratio is up 1 point to 97%, due to the pressure in Motor, where the ratio continues to be slightly over 100%. Positive trends in other Non-Life segments are mitigating this impact with the ratio in General P&C under 96%, and Health now under 97%.

Portugal has an excellent combined ratio and remarkable growth figures. Iberia continues to be the main contributor to profitability with an almost EUR300 million net result. And as a reminder, last year's Bankia profit contribution accounted for around EUR30 million, which is basically the difference between the two periods.

In Brazil, premiums were significantly up, with healthy growth trends in Agro, Motor and Life Protection. Brazil was the second largest contributor to profit, with a net result reaching EUR93 million, up over EUR43 million. Strong improvements in Life Protection and high financial income have mitigated pressure in Motor and the impact from the drought. The overall combined ratio was excellent, under 90%, with very strong trends in General P&C, including the Agro segment.

There was a strong turnaround in the Motor combined ratio, which was 110% in the standalone third quarter, down 10 points, compared to the previous quarters. Currency appreciation has also been a positive driver. All in all, the outlook for Brazil is much more positive, with a EUR50 million profit contribution in this quarter.

Let's go to LATAM. Premiums in LATAM North were up around 30%, when adjusting for the multi-year policy, and LATAM South grew 29% in Euros. Local currency growth was solid in most segments, and it's worth mentioning Mexico up 17% on a like-for-like basis, Peru up over 23%, Dominican Republic up 15% and Chile up 31%. Overall, in both regions, the strong recovery in Life Protection profitability together with improved financial income and currencies offset the pressure in Motor. The net result was up in both regions.

Premiums in North America are up nearly 29%, supported by dollar appreciation. On a like-for-like basis and also stripping out the impact of the Century business which was transferred from Asistencia, and currency movements, premiums were relatively flat. Performance continues to be affected by rigid tariff regulation, growing mobility trends, and increased severity. There was also a EUR22 million net loss during the quarter in Puerto Rico, as I already mentioned, due to the provision set aside for Hurricane Fiona.

In Eurasia, premiums are flat due to the impact of the hyperinflation in Turkey, where premiums are now growing 16%. The net loss is mainly due to the loss in Turkey, which amounted to EUR23 million as a result of inflation. Italy, Germany and Malta are showing trends in line with previous quarters.

At MAPFRE RE premium growth is supported by positive pricing trends and U.S. dollar appreciation. The combined ratio is 97.5% with a net result of over EUR93 million, which was pretty strong, considering the impact from the Parana drought, as well as higher frequency of NatCat claims such as Hurricane Ian or various weather events in Europe. The result is down on the year mainly due to a lower level of realized gains in the financial investment portfolio.

In Asistencia, streamlining efforts are evident with volumes down almost 60%. We've come to the end of our restructuring process, with further businesses sold during the quarter with a net impact of EUR8 million on the result. Excluding this, the unit would have been at breakeven.

I would like to spend some time commenting on the Motor business. First of all, most insurers are experiencing business deterioration, some even with big losses in this segment in many markets. It is not exclusively a MAPFRE problem. This segment is currently experiencing several headwinds and it is extremely exposed to inflation and higher mobility. There are also other trends that are putting pressure on the loss ratio. Changes in driving patterns, supply chains disruption, which are affecting spare parts logistics and leading to longer repair times, and finally, regulator intervention. It's not only a matter of frequency, as I mentioned. It is more caused by insufficient premiums to cover the current level of costs.

We have quickly defined and executed profitability initiatives across all regions. These measures will take time to feed into the bottom line, especially in the case of tariff increases, and it could take some quarters to converge to a sustainable combined ratio. At MAPFRE, there is pressure in Motor across all countries with some exceptions like Peru and Puerto Rico standing out with combined ratios below 95%.

As you can see on the slide, the fleet is falling, down by almost 200,000 vehicles year-to-date, and our future growth appetite will depend on the profitability outlook for this segment, as we do not want to grow at any price. In Iberia, rate increases for new business were implemented in the fourth quarter of 2021, while increases on renewals are being gradually implemented

throughout the year to converge with current inflation. We have recently accelerated, obviously, these measures. Average premiums are now relatively stable during 2022, after several years of declines. We're still seeing a reduction in coverage and other underwriting measures are being implemented to maintain the churn ratio stable.

On the expense side, we continue with a very strict cost contention both for internal and external claims costs, including spare parts logistics and provider network agreements. We are increasing the number of preferred garages and redirecting clients to our network. As you can see on the graph, the combined ratio could be reaching its peak. However, the tariff increases will still need some time to feed through the P&L.

In Brazil, there have been multiple tariff increases. More may be needed to keep up with growing inflation, but we are already seeing green shoots, with the combined ratio falling to 116% at September. On the underwriting side, we have cancelled non-performing brokers focused on higher risk portfolios, such as a commercial trucks and buses, with vehicles insured in this segment down year-on-year.

In the U.S., we were very quick to increase tariffs, ahead of most of our competitors in Massachusetts, and have already put through two 3% increases during 2022, with an additional rate hike requested in the second half of the year, that should be expected to be implemented for 2023.

We are also implementing measures on the cost side, such as increasing adjusters on payroll, redirecting more clients to our preferred repair shops, et cetera. We are applying a stricter underwriting policy and further aligning commissions to portfolio performance. Nevertheless, in the U.S. the combination of inflation, frequency pickup, and regulators stalling on rates has driven the whole market to be underpriced and reflected in the combined ratio that deteriorated 4 points in the third quarter standalone. These measures will help bring the Motor combined ratio down to sustainable levels, although it will still take some time, while maintaining the fleet stable and best-in-class service levels for our clients.

On this slide, I would like to comment on the Life business at insurance units. In Iberia, premiums were down 6%. This reflects the exit from Bankia last year, and excluding these impacts, premiums will have been up 3%. In Brazil, the Life Protection business which is currently a strong contributor to results is showing healthy growth, up 28%, boosted by the significant real appreciation.

Life results have significantly improved, more than doubling due to the lower COVID impact in LATAM as well as general improving trends in the region. On the right side, you can see the total COVID impact in LATAM in the quarter was just EUR6 million, in line with last quarter's figures and more normalized claims experience.

The uncertain geopolitical and macroeconomic context has negatively affected assets. There was a fall in the value of the investment portfolio as well as pension and mutual funds, bringing assets under management down by over 9% overall. Rate increases have been significant across regions with Spanish govies up 270 basis points during the year, while Italian bonds are up over 330 and the U.S. treasuries are also up 230. Spanish sovereign debt continues to be the largest exposure in our portfolio with over EUR9 billion, followed by Italian debt with EUR2.5 billion. A large share of these positions are, as you know, allocated to immunized portfolios, reducing our exposure to future higher rates.

Now, I would like to go over the breakdown of our EUR28 billion fixed income portfolio. On the top, are the details of our euro-area actively managed fixed income portfolios, which have a market value of around EUR11 billion. On the bottom are the details of fixed income portfolios in our main markets with a total value of nearly EUR5.5 billion. The remaining EUR11.5 billion are mainly Life portfolios in Spain, with some type of ALM matching or duration immunizations, which are more neutral to changes in interest rates.

The largest move in our portfolios this year was the strong reduction in duration across portfolios, as well as the investment of around EUR370 million in inflation linked bonds in Iberia and MAPFRE RE. As a consequence, we observed a reduction in their accounting yield due to the features of those investments, and for this reason we present figures carving out this part of the portfolio. You've got it on the right side of the slide. These positions have outperformed plain vanilla bonds during the period. As you can see, excluding these bonds, the accounting yield is significantly up in MAPFRE RE -- over 45 basis points, pretty significant -- and up 10 basis points in the Iberian Non-Life portfolio.

As a reminder, the long duration in Iberia Non-Life is due to the burial portfolio, and excluding this the duration will be around 3.4 years. The portfolio in LATAM also includes approximately EUR1.9 billion of fixed income securities linked to inflation or floaters linked to Central Bank rates which represent around half of fixed income portfolios in the region.

On the bottom, you can see the details of the fixed income portfolios in other markets, with duration significantly down and portfolio yields up in all markets and regions. The increases have been noteworthy in Brazil with an increase of nearly 250 basis points, and over 150 basis points increases in LATAM North and South. These trends should continue in coming quarters as long as Central Banks put more emphasis on taming inflation threats. And as we mentioned before, we have already seen an over 100 million increase in underlying Non-Life financial income year-on-year.

Now I will hand over the call a to Felipe.

Felipe Navarro López de Chicheri

Thank you very much Fernando. Shareholders' equity stood at EUR7.6 billion which represents a 10% decrease during the period. Net unrealized gains on the available-for-sale portfolio were down EUR1.8 billion, mainly due to the increase in interest rates. The largest impact was in Iberia, down nearly EUR970 million, followed by North America and MAPFRE RE with around EUR300 million for each.

Currency conversion differences are up over EUR700 million on the back of notable appreciation of the U.S. dollar, as well as the Brazilian real and other Latin American currencies. Just to note, the EUR35 positive evolution in Turkey during the year includes EUR11 million of negative currency differences and a positive EUR47 million impact from the hyperinflation adjustment.

On the right, you have the usual breakdown of currency conversion differences, annual movements and sensitivity analysis.

On this slide, on the chart on the left, you can see the breakdown of capital structure, which is slightly down amounting to EUR11.4 billion, which is mainly equity. Leverage is at 23.6% with total debt down around EUR400 million, reaching EUR2.7 billion. We have reduced the balance of the syndicated credit facility to zero.

On the right, you can see a Solvency II ratio of nearly 220% as of June, 210% excluding transitionals. This is up over 14% compared to March, largely due to the Tier 3 debt issuance, as well as market movements and organic capital generation. The fully-loaded ratio was also strong at 210%, proof of our low dependence on the use of transitional measures.

During the first nine months, the different Group holding companies have received around EUR650 million worth of dividends from subsidiaries. The considerations received from the sale of our Indonesia and Philippines subsidiaries will contribute to the dividend payment as well. The company enjoys, at present, an excellent liquidity position consequence of ordinary cash generations together with the amounts received from different disposals, namely Bankia, CCM, Indonesia, Philippines and different Asistencia subsidiaries.

This position has been increased by the Tier 3 issue. There is an excess of operating cash balances, particularly in the Life subsidiary in Spain. As a consequence, MAPFRE, at the end of September, is not using the EUR1 billion syndicate facility at all, reducing leverage to 23.6%. The excess that has not been upstreamed yet will be deployed into our profitably growing subsidiaries to finance organic growth.

I will now hand the floor back over to Fernando.

Fernando Mata Verdejo

Thank you, Felipe. All in all, MAPFRE's geographical and business diversification continues to be key for MAPFRE, allowing us to offset headwinds from the Motor line. And although the market context continues to be challenging, our growth is robust and profitability has been resilient. MAPFRE RE has strongly contributed to results, despite the NatCat activity during the quarter, and should continue to benefit from a supportive pricing environment.

LATAM premium volumes and profit contribution are worth mentioning, growing in local currency. Profitability is boosted by lower COVID losses and higher interest rates. In Motor, we are actively taking measures to restore profitability across all geographies and results are starting to be seen in some regions. We remain committed to our strategic plan, closely monitoring the current geopolitical situation and how it might affect growth and profitability. So far, the general framework is still valid. The combined ratio of 94% to 95% will be challenging in the current context and could be subject to a revision at the end of the year.

On the other hand, there are several other tailwinds that will help meet the 9% to 10% ROE target, such as very strong premium growth and improving financial results and finally the positive currency impact. Also, our transformation and ESG targets remain fully valid. And with the appointments announced today, now over 42% of the Board of Directors is comprised of women.

Our excellent solvency and capital base together with a strong cash generation are supporting the payment of a EURO0.06 interim dividend in November in line with our commitment to a sustainable dividend path. Regarding the arbitration related to the Bankia exit, we expect the resolution to be delivered early 2023, next year. We have finalized the restructuring processes in place and move forward with our transformation to better adapt to current market needs. Finally, I would like to mention that this morning, we have completed the closing of small operations in the Philippines.

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

Q&A

Felipe Navarro López de Chicheri

Thank you very much, Fernando. I'm sure that you are already familiar with the Q&A session process, just let me very quickly remind you that you can use the Q&A tool on the bottom of your screen to send your questions, and we will try to clarify all your doubts as time allows. And now let's start with the first question which comes from Michele Ballatore from KBW. He wants to know if there is anything to highlight in terms of major NatCat effects in MAPFRE RE.

Fernando Mata Verdejo

Thank you, Michelle, for your question. We explained some of the NatCat effects during the presentation. I'm going to just focus on the main ones. First, Hurricane Fiona. We mentioned in the past that we expected that most of the flooding would be covered by the national flood insurance program. We've got a small portfolio there, and we've got some flood claims in Puerto Rico, but no relevant claims have been reported so far. There are currently some 5,000 what I would call attritional claims, a significant percentage of which will not exceed the deductible, so in the end we will close those claims without any payment. Regarding relevant accounts like municipalities, they have not reported anything yet. So we have to wait. We are at a very early stage, but so far it's good.

As we don't have any final claims, provisions were booked based on our experience and estimates and also exposures in the main areas affected by the hurricane. MAPFRE RE has booked a negligible pre-tax impact from MAPFRE Dominicana; it is not important. And we shouldn't expect any relevant impact from third-party business for MAPFRE RE.

The second is Hurricane Ian, the one that impacted Florida, particularly the Fort Meyer area. It is a low exposure area for MAPFRE, very limited impact in Florida in direct insurance. There are a bunch of claims, but the Auto portfolio in this state, as you remember, is in runoff. MAPFRE RE has not had any specific coverage in this state for years and could only possibly have limited exposure from insurance programs from nationwide direct insurance companies. So at the close of September, MAPFRE RE booked a EUR20 million pre-tax reserve, based on a top-down analysis. It is a rough estimation based on modeled information and early conversations with some ceding entities. Despite being a very complex claim that will take a lot of time to be adjusted, MAPFRE RE's limited exposure leads us to believe that it will not surpass a mid-sized event in any case, meaning EUR40-50 million.

On a market level, Ian has been a catastrophic hurricane, Category 4, with an impact of more

than EUR100 billion in damages for an insurance claim of EUR60 billion in insured capital. So it's a big hurricane. So let's say that we wrote the right business in Florida, and we won't book a significant impact from Ian.

Another NatCat event was in Europe this summer; we had several hailstorms in France. It surpassed a EUR6 billion impact for the total industry. For MAPFRE RE it will be a mid-sized event, again. So far, with the information that we had at the end of the third quarter, EUR20 million pre-tax had been reserved, but for the future quarters we could expect a certain deterioration due to the complexity of this type of claim. So perhaps we could expect some negative runoff during the fourth quarter.

That's basically it. In Spain, as usual, September has been a month with a lot of winds and heavy rains, particularly in the coastal areas, but nothing relevant. This is seasonal and those NatCat events are already included in the third quarter combined ratio. So, that's basically it for the NatCat activity, which by the way, has been pretty active. But so far at least, and let's keep our fingers crossed, October has been pretty quiet. Let's hope that the rest of the hurricane season remains the same.

Felipe Navarro López de Chicheri

Yes, let's hope so. Thank you very much, Fernando, for your very comprehensive answer.

Andrew Sinclair from Bank of America and Paz Ojeda from Banco Sabadell were asking about Hurricane Ian, and if we were expecting further loss development from Hurricanes Fiona or Ian on the fourth quarter.

Fernando Mata Verdejo

Thank you. We are still at quite an early stage, but from Ian we should expect practically nothing relevant. Fiona is different, because that could have some not relevant, but negative loss development during the quarter. But we're happy. And that regarding this Cat exposure our Cat appetite practically reflects the impact of these losses.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. We are moving from reinsurance to other areas now. Michele Ballatore from KBW wants us to clarify how our restructuring process in Brazil is going, and if there's anything to highlight for third quarter 2022.

Fernando Mata Verdejo

Thank you, Michele. Regarding Auto, it has been said: portfolio reduction in loss making portfolios; significant rate increases on practically a monthly basis; a voluntary payroll reduction scheme as well in Brazil, and basically a reduction in internal costs and also price increases. That's basically the restructuring process.

In Brazil, we're happy. We saw a significant drop in the loss ratio – ten basis points is an extremely sharp drop. We're not going to see this in more mature, more stable or larger portfolio such as the U.S. and particularly Iberia, but we're quite happy with the current trend in Brazil.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. Paz Ojeda is asking about the same subject, because of the turnaround in the combined ratio in Brazil in the Motor business. She's asking if you could elaborate the reasons behind this, and if this is sustainable in the future?

Fernando Mata Verdejo

Thank you, Paz. If we compare Brazil with other geographies, particularly Europe, or Spain or the U.S., I have always said that Brazil is extremely dynamic. It's a country where everything is extremely high speed. And so the market is accepting increases in tariffs very well. It's a country where there's no hyperinflation, but they have been suffering inflation for many, many decades, with CPIs going up and down. So we should expect further decreases in combined ratio in coming quarters, though probably not at that pace. Obviously, in the medium term, the target is to hit 100%, so that's basically the target for MAPFRE.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. Faquhar Murray from Autonomous is asking why the combined ratio in Accident & Health decreased in Iberia from 103% in June to a little under 97% in September. Was there any reserve release?

Fernando Mata Verdejo

Thank you, Faquhar. The answer is no, and there is a seasonal reason as well. Summer is usually a low reporting season and, though I wouldn't like to have it and to report it, usually

wintertime is a sort of catch-up season. We are still quite confident that we will hit below 100% for the full year. But so far, it is seasonal. Cost control as well is a factor, and also the reduction in internal expenses.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. Andrew Sinclair from Bank of America would like an update on the Iberia P&C pricing versus claims inflation trends. I think it's quite a hot topic. And Max Mishyn from JB Capital is asking for our outlook on average premium in Motor in Spain for the coming year. Those are quite hot topics and our competitors are showing some figures right now.

Fernando Mata Verdejo

I expected these questions. We discussed the percentage previously, but I'll give you more color. Our churn ratio for General P&C in Iberia is pretty low, so we based our premium growth on renewals rather than new business. On the contrary, there are other peers that base their growth on new business.

For renewals, there is a yearly update of capitals and values, at year end. So this increase in values is being automatically transferred to premiums. So basically, the increase in average premium is based on this. Claims, fortunately, were pretty low, considering the current context. There is a sort of a pickup in September, but it was based on the same thing that we mentioned – it was a seasonal reason; it's the rain and winds that were not covered by the Consorcio and were retained in MAPFRE. But basically, we're pretty happy with the P&C trend and our expectation is that we'll keep the same level for coming quarters.

Regarding average premiums in Motor, Spain is very complex. Let me elaborate a little bit. The first reason is the aging of the Spanish fleet – the average age is 13 years old, and as long as we're not seeing a significant increase in the new cars sold, the average premium trend will be lower year by year. And this is basically because there's a sort of transfer from full covers to TPL and also the scrap value of the cars is going down as well.

This is the main reason we're not yet seeing a significant increase. And if you compare with the last 10 years, we're not seeing a significant increase in the average Auto premium. This doesn't mean that we're not increasing the average premium for new business and renewals; but it's being offset by what we mentioned – lower coverage and also the lower value of the cars.

On a monthly basis, as we mentioned, there is a slight increase on renewals in order to keep the portfolio stable. We published the numbers of units; as you saw, we're not hungry to

increase units at any cost, and if we have to cancel non-profitable accounts, we'll do it. On the new business, increases on tariffs are even higher. But the general answer is CPI is very important in Spain and increases in rates are based not on general CPI but on our internal cost increase, so we will keep this trend in the coming months in order to achieve a sustainable combined ratio for Auto in Spain.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. There is a quite technical question coming from Paz Ojeda from Banco Sabadell. Could you please confirm if we have increased the unexpired risk reserves to tackle premium sufficiency, and if yes, the amount booked.

Fernando Mata Verdejo

I don't have the number with me, Paz, but I'm sure the only reason behind this could be VERTI, which is running losses, and every three years we update the provision for unexpired risks. We will get back to you, but my answer is it's probably VERTI.

Felipe Navarro López de Chicheri

We will back to you later. Coming from Andrew Sinclair, he wants to know when you expect the Iberia Motor combined ratio to peak?

Fernando Mata Verdejo

Thank you, Andrew. If you look at the trend on a monthly basis, the curve is flattening. There is still a slight increase, particularly in the loss ratio. There are decreases in the expense ratio as well. The trend hasn't changed yet, but we're very close to the turnaround point. And it will come in some months. As long as a higher premium average is feeding in through P&L, we will see it in the combined ratio very soon for sure. Also, let me say that the number of units, which grew during the first and second quarter, is seeing a small reduction in the third quarter, as we do not have an appetite to grow at any cost, rather we're keeping the fleet stable. And there is a sort of a trade-off in terms of increase of average premium and also the units, which is what we've seen in this third quarter.

Felipe Navarro López de Chicheri

I think the conservative approach that we are taking is very important. Thank you very much, Fernando. We have another question on Spain, related to the Baremo. What do we expect for 2023 in Spain Motor?

Fernando Mata Verdejo

Quite an interesting question. As we said in the June presentation, MAPFRE is booking, on a quarterly basis, the expected increase in the Baremo. As of June, a EUR10 million increase was already booked. We did an update at the third quarter. It has been published in the BOE -- the official government bulletin -- today, and we have to analyze it, but according to the general update, the minimum compensation should be updated on the pension increase, which means 8.5%. It's pretty high.

There are other compensations that could vary, but so far, and again, we have not analyzed the current information in detail yet. If there is an 8 to 9% increase in the Baremo, the parallel increase in the combined ratio should be two percentage points, approximately, for MAPFRE's portfolio. This means that it has to go directly to premiums; it's pretty clear. There is no potential internal expense reduction to be applied to this. It is practically in full compensation and we have to put it in the tariff.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. We are moving to North America now. Since we mentioned already that there was some comment on the new tariff increases for the first day of 2023, Paz Ojeda from Banco Sabadell is asking if we could update on remaining tariff increases.

Fernando Mata Verdejo

As we mentioned, we filed with the Commissioner of Massachusetts for a further increase. Originally, the requested increase was close to 5%. We withdrew this rate hike request and submitted a new one updated with the current persistent inflation. We mentioned two previous rate hikes for 3 and 3.2%, and the new expected increase is a little bit higher than six percent. We don't have actual updated information, but we should expect this approval to be in place for January 1.

And our expectations are that, as the previous increases were both approved, this one will also be approved. I don't know whether or not it has been published, but in a few days we should

know the final outcome of this. We're pretty confident, and the good thing is that with the three rate increases, we are in a much more positive position to offset much of the current inflation in the U.S.. Particularly in Massachusetts, we expect to hit a 100% combined ratio in the next two years; the sooner the better. It will take some quarters, probably the beginning of 2024, end of 2023, but the outlook is much more positive than the one we had at the second quarter presentation.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. So the message is that it will take time, but now we are looking at North America in a much optimistic way.

There is a question coming from Natixis from Filipe Maria. "Do you intend to be more active on major risks?" This is referring to Global Risks.

I think that unit has been reconfigured in recent years. So, now Global Risks has much less retention and much lower appetite for retaining some extra risks. It's providing a good result and a good result that is consistent over time. So, we don't expect major changes in Global Risks and no major surprises on the profit and loss activity either. Global Risks is now embedded into MAPFRE RE and is benefiting from the present situation for the Group.

Fernando, I don't know if you want to add something.

Fernando Mata Verdejo

No, that was a pretty good answer. Thank you.

Felipe Navarro López de Chicheri

Paz Ojeda, related to the Baremo, as well, asks, "Do you think that it could trigger a hardening market? And if it was the case, would it be like when it was enforced in 2016?"

Fernando Mata Verdejo

Paz, I don't blame you for asking this. I wasn't aware either in the morning and Ramon Carrasco, our CRO, who is present as well in the room, told me. And I have not analyzed it in detail yet, but if they're comparable, it is like when the first Baremo increase happened five years ago. At that point it was real hit for the industry, and there were two-three years in which the average premium grew. So we should expect the same to happen in 2023 and

maybe even 2024.

Finally, if the average increase is above 8%, it will be a significant increase in costs and, as I mentioned, is like two percentage points on the combined ratio, on the loss ratio, for our portfolio. It's extremely difficult to assume that we can absorb these costs with efficiencies. It doesn't make sense at all.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. Thomas Bateman from Berenberg is asking about MAPFRE RE. He says that MAPFRE RE is benefiting from better pricing, but on a constant currency basis, he assumes that premiums are growing only a little. So, could you please give us some color on how MAPFRE RE exposures have changed over the past 12-months?

Fernando Mata Verdejo

Well, premiums are not only up a little. We're quite happy with performance and premium growth in MAPFRE RE. There is no new risk, I even mentioned that we have five operations in Asia, and the premium growth appetite is pretty clear. More retention for current risks because we know our ceding entities very well. We know the risks in the regions we are operating in. So, the only thing is being opportunistic with the current trend with the market hardening, and this put more capital, more premium growth, in these regions.

Felipe Navarro López de Chicheri

I would add that it's not only because of the currency exchanges. There's a hardening in certain markets that we've been experiencing already. We mentioned in the past that we were not happy with the pricing for Cat risks in Europe. And now, after the events in France, and with the hailstorms in Central Europe, we are experiencing some kind of hardening that was already mentioned in the Monte Carlo Rendez-Vous. We expect that those things are improving, and they will be feeding the profit & loss account and the combined ratio in the future months. So it is not only because of the currencies, but because of the hardening of the market as well.

I have another question from Thomas Bateman from Berenberg. He is asking about the expense ratio improvement. How much cost was taken out from business in the quarter and in which regions, and how much was the improvement just due to the higher premiums?

Fernando Mata Verdejo

I don't know the answer for the second part of the question. But regarding the first part, Thomas, it has been this quarter and the previous quarter as well, and across all regions. We have been applying restructuring and reducing expenses across the board. Let me remind you that last year we booked around EUR175 million just in Iberia to implement further expense reductions. And in Brazil there is a significant reduction of the payroll, and in the U.S. as well, and we're reducing our internal expenses. Across all countries and lines of business, there is cost cutting and reductions. It is not only this quarter. Obviously, the increase in earned premiums is helping to reduce the loss ratio, but the reduction in all countries is remarkable for the three quarters.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. It seems that there are no more questions. Just in case, we have received some questions through the platform that we feel that we have already been answered throughout the Q&A. If you need any further clarification, please do not hesitate to contact us later.

Before we go, we remind you that we are holding a virtual Group meeting with analysts and investors on Wednesday, November 2nd at 4:30 p.m. Central European Time. You should have already received the invitation. If you haven't signed up yet or didn't receive the details, please send an email to the IR team and we'll get the information to you. And additionally, on November 7th, we are holding a meeting in MAPFRE's offices in London with sell-side analysts. If you haven't confirmed your attendance yet, please do as soon as possible. And remember that you can contact the investor relations team anytime if you have any doubts about the results released today. Thank you very much for your attention.

Fernando Mata Verdejo

Thank you very much for your presence and enjoy the weekend. Bye.

Felipe Navarro López de Chicheri

Thank you. Bye.

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