



Investor &
analyst call –
Edited
transcript

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Company participants

- Fernando Mata Verdejo, MAPFRE SA, Chief Financial Officer
- Felipe Navarro López de Chicheri, MAPFRE SA, Corporate Director of Capital Markets and Treasurer
- Leandra Elizabeth Clark, MAPFRE SA, Deputy Head of Investor Relations

Presentation

Leandra Clark

Good afternoon, and welcome to MAPFRE's activity update for the first quarter of 2023. This is Leandra Clark, Deputy Head of Investor Relations. As usual, we have here with us Fernando Mata, the Group CFO, who will walk us through the main financial trends, as well as Felipe Navarro, Corporate Director of Capital Markets and Treasury. As a reminder, you can use the Ask a Question link at any point during the call, and we will open up the question-and-answer session at the end of the presentation.

Let me turn the call over to Felipe, who will make some opening remarks.

Felipe Navarro López de Chicheri

Thank you, Leandra. Good afternoon, everybody. Before handing the floor to Fernando, I would like to comment on the new reporting format. As of January 1st, the IFRS 9 and 17 accounting standards are in force and, as you may be aware, are applicable to MAPFRE as a listed insurance group on a consolidated basis. In order to comply with the new regulation, MAPFRE will report both half and full year consolidated financial statements under these new standards within the legally stipulated calendar. MAPFRE subsidiaries will continue complying with the local requirements under local GAAPs applicable in every jurisdiction. Therefore, for group management purposes, business performance analysis will be carried out under both standards.

The activity update we released this morning has been prepared under local standards, adjusted for comparability and consistency purposes. It is a reduced set of financial information, which also includes the financial supplement with the detailed profit and loss by business unit and region, adapted to a new regional structure. This will be reported quarterly to help understand the most relevant business trends and events that could affect the Group and its subsidiaries. This allows us to continue providing figures on a quarterly basis, very much in line with historical data. The main adjustments are outlined in the Annex to the press release.

This information should provide sufficient granularity, while at the same time streamlining our communication. The activity update and the financial supplement are available in the Financial Documentation Center on our website.

Regarding IFRS 17&9, this morning we also released some transition balance sheet figures as

well as the main IFRS 9 impacts for the first quarter. We will go into these figures in more detail during the call.

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

Fernando Mata Verdejo

Thank you, Leandra and Felipe, and thank you all for joining us.

Let's take a look at the key highlights for the quarter. Premiums grew 19% and reached nearly EUR7.8 billion in the first quarter. Revenue is also up 21% and stands at over EUR9.1 billion. The net result reached EUR128 million, down 17%, due to the impact of the earthquake in Turkey, with an estimated net cost of EUR77 million, as well as the complex Auto environment.

IBERIA grew above the market, both in Non-Life and Life with 31% premium growth, supported by the Life Savings business, and continues to be the region with the highest volume within the Group. LATAM is the main contributor to earnings with the net result taking off to EUR94 million. The reinsurance unit grew 7% and global risks 11%.

Moving to the main lines of business. We would like to highlight the improved Life net result, which is up 95%, amounting to EUR88 million. This amount comprises both direct insurance and reinsurance, and benefits from both good technical performance as well as strong financial income, especially coming from LATAM.

The Non-Life financial result is up 20% to EUR150 million in a better market context.

We are also happy to announce that MAPFRE will pay the final dividend against 2022 results on May 24th.

Now, I would like to go into some more detail regarding these main trends. The over 20% increase in revenue consolidated the trends from recent quarters and reflects both a relevant increase in business volume as well as an improvement in financial income.

Premiums grew 19%, with no relevant impact from exchange rates. In fact, at constant rates, premiums are up 18%. This growth reflects a general improvement in business with a 10.3% increase in Non-Life and almost 60% increase in Life, mainly due to the outstanding performance in both Spain and Brazil.

Group combined ratio stands at 98.5%, up 0.4 percentage points, and the volatility and dispersion from previous quarters marked by the economic scenario still remain. I will go over this in more detail later in the presentation.

The earthquake in Turkey was the main relevant Nat Cat event impacting results and the estimates, which are still subject to a full damage assessment, have a net impact of approximately EUR77 million, mainly from MAPFRE RE, EUR72 million, and, to a lesser extent, the local insurance company with EUR5 million. As a reminder, the most relevant Cat claim in 2022 was the drought in Brazil with a EUR37 million net impact for the Group in the first quarter. As I mentioned, the net result reached EUR128 million, due mainly to this impact.

Regarding our investment portfolio, there was no relevant change in asset allocation during the quarter, nor were there any relevant impacts in the result or investment valuations as a consequence of the situation with certain financial institutions in the United States or Switzerland. MAPFRE realized EUR17 million in gains in the quarter after taxes and minorities compared to EUR21 million in 2022.

Regarding the available-for-sale portfolio, EUR259 million in unrealized gains, net of taxes, have been recorded in 2023, improving the capital position of the subsidiaries. The main variations come from IBERIA with a EUR92 million increase, followed by MAPFRE RE with EUR57 million and North America with EUR53 million.

Finally, there were no relevant changes in currency conversion differences in the quarter.

Regarding Non-Life, premiums are up EUR550 million in the first quarter with 12.6% in Accident & Health, 10.6% growth in General P&C and 7.1% in Auto.

In the Life business, premiums are up almost EUR700 million, driven by the Savings business in Spain. Life Savings is up 137% and Life Protection 19%.

Here, you can see our main figures and ratios by business unit and region, as well as segment. First, on the bottom of the slide, you can see the group combined ratio by line. General P&C with a combined ratio of 87.3%, down 5.3 percentage points, has compensated the high loss experience that persists in the Auto business that, by the way, has reached a combined ratio of around 106%, up 2.5 percentage points. Tariff increases and improved management in the Auto line to compensate inflation will gradually translate into improvements in the ratio. Accident & Health shows a slight improvement in the combined ratio, reaching close to 102%, down 0.4 percentage points. The Life Protection combined ratio stands at an outstanding

81.6%, down 1.3 percentage points.

Now, let me give you some color on our main business units. IBERIA is growing above the market both in Life and Non-Life. Premiums in IBERIA reached over EUR3.3 billion, up 31%. The Life business volume is 2.4 times higher, reaching almost EUR1.1 billion. Non-Life premiums grew 7.3% and reflect the positive development of the Accident & Health business, up 9%; General P&C, up 7%; and Auto up almost 5%.

In Auto, tariffs continue to be gradually adapted to the inflationary context and based on individual risk profiles. The fleet reached 6.2 million insured vehicles, with a slight decline in the fleet in the first quarter, down approximately 29,000 units. This drop is fully related to risk-selection measures, which led to a more than 5% increase in the average premium.

The Auto line had a combined ratio of 106.5%, up 6.8 percentage points, affected by the recovery of mobility to pre-pandemic levels, the high inflation scenario, and also the Baremo update. The improvement in the combined ratio expected during the year will be based on strict cost control, while tariffs on average are expected to increase significantly more than that.

The financial result continues to improve in a more favorable environment, with a EUR37.2 million gross contribution to the Non-Life result, which amounted to EUR30 million in 2022.

Business in LATAM consolidates the strong trends of recent quarters with close to EUR2.4 billion in premiums and a net result of almost EUR94 million, the largest contributor to Group earnings. Brazil, our main operation in LATAM, shows strong growth and its result increased four-fold, thanks to improvements in both the technical and financial results.

The key aspects I would like to mention are as follows. Premiums reached almost EUR1.2 billion, up 22%, backed by the favorable development of the Brazilian real, up 3%. The improvement is due, above all, to the positive development of Agro and Life Protection, which grew 44% and more than 28%, respectively.

The Auto business grew 8% and this line continues to quickly adapt tariffs to inflation. The fleet reached almost 1.3 million insured vehicles with a slight reduction, 65,000 in the quarter, related again to risk selection measures. The combined ratio dropped to 81.6%, due in part to a 15 percentage point improvement in Auto after tariff increases, where the Auto combined ratio stood at under 107%. Additionally, the Agro business improved, thanks to a benign quarter after the losses in 2022. The Life Protection business also has a solid combined ratio,

standing under 78%. And the financial result also continues to contribute very, very positively.

North America business volumes are also up with relevant improvements in the Auto combined ratio compared to the previous quarter. Premiums reached EUR584 million, growing 8%, 4% in US dollars. The Auto business grew 8%, same percentage, and the fleet reached 1.4 million insured vehicles with a slight reduction in 2023, approximately 17,000.

The Non-Life combined ratio stands at 107.7% affected by weather-related events in Massachusetts, where the Arctic Freeze, a cold wave in February, brought the lowest temperatures in 80 years, almost minus 25 degrees Celsius, which caused higher losses in the Homeowners line, with a net cost of EUR13 million. Tariffs in Homeowners will increase around 15% in May to match rate increases for catastrophic reinsurance coverage in primary rates.

The Auto combined ratio stands at 105%, a significant improvement compared to the fourth quarter of 2022, 118%, supported by already implemented tariff increases. An additional 6.5% increase will start in May. All in all, we have now put through over 20% in tariff increases over the last 18 months.

Finally, MAPFRE RE continues growing and contributing to Group earnings. MAPFRE RE premiums grew 8%, reaching over EUR2 billion. On a risk-adjusted basis, the catastrophic business rates are growing well above 20%. Please note that there is a change in treaties, moving from proportional treaties to XL treaties.

As I already mentioned, the largest impact for MAPFRE RE was the earthquake in Turkey amounting to a gross amount of EUR102 million, with a net impact for the group of EUR72 million.

The financial result also grew with a EUR21 million gross contribution to the Non-Life result, up over EUR10 million.

Now, I will hand the floor to Felipe to discuss the IFRS impact.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. Regarding the impacts of the new IFRS standards, in the first quarter of 2023, there have been no changes in methodology nor criteria with respect to the information published in our 2022 annual accounts, which you can consult on our website.

Regarding the transition balance sheet, MAPFRE's shareholders' equity as of January 1, 2022, under the new principles reached EUR8.3 billion compared to the EUR8.5 billion reported under the previous principles. The difference is primarily due to the negative impact from the non-financial risk adjustment, it's minus EUR0.3 billion, which is partially offset by the discounting of reserves at present value, it's a positive impact of EUR0.2 billion. Additionally, the CSM, Contractual Service Margin, has been estimated at EUR2.2 billion as of January 1, 2022.

Regarding IFRS 9, the most important differences compared to the figures published in the document are: net realized gains in the equity portfolio for the amount of EUR22 million and which are included in the result of the period, in line with the local GAAP, will be presented under IFRS standards in the heading Other Comprehensive Income, OCI. The increase in unrealized gains in the mutual funds portfolio for the amount of EUR30 million after taxes and which is included under local GAAP in OCI will be recorded as a result for the period under the new IFRS standard. Other valuation adjustments would have a positive impact on the IFRS result for the amount of EUR3 million. The remaining information related to IFRS 17 will be published according to the legally established calendar.

Fernando will now make some closing remarks before we move on to the Q&A.

Fernando Mata Verdejo

Thank you, Felipe. As you have already seen with the figures released this morning, once again, the high level of diversification of our business mix has allowed us to report a sustainable result, while facing extraordinary challenges from inflation and Nat Cat events during the quarter.

Thank you again, very much, for your attention. I will now hand the floor over to Leandra to begin the Q&A.

Q&A

Leandra Clark

Thank you, Fernando. As most of you are familiar with the process, just let me quickly remind you to use the Q&A tool on the bottom of your screen to submit your questions, although we have already received a few questions, and we will try to answer them all as time allows. So the first question is coming from Paz Ojeda with regards to the earthquake. She asks: EUR102 million for the earthquake is around 30% of your Nat Cat budget, which seems high considering the nine months left in the year, do you plan to increase your Protection?

Fernando Mata Verdejo

Thank you, Paz. This is the insurance business, you know your capacity and also your protection, but you never know the month and the time when the catastrophic event is going to hit you. Unfortunately, it happened this year at the beginning of February. As you mentioned, this is between one-third and one-fourth of our Nat Cat event budget. We're not going to buy additional protection. We believe that what we bought is the right amount of protection and let's expect that there are no other significant events, probably larger than this, in the remaining quarters. So far, we're not happy but we are within the budget for 2023.

Leandra Clark

Thank you, Fernando. Carlos Peixoto from CAIXABANK has an additional question regarding Turkey. He would like to know what is the total market loss that we were assuming in our estimates? And he would like to know if this is split between the Turkish earthquake pool and other losses? And should we expect additional losses going forward?

Fernando Mata Verdejo

Thank you, Carlos. We're not presenting disclosure neither by countries nor by operation, this is an activity report. But mainly the losses for EMEA, are coming from Turkey and from VERTI Italy as well. The main loss contribution is coming from the earthquake, which was a gross amount of over EUR5 million. The remaining loss contribution is coming mostly from Auto and hyperinflation adjustments.

Felipe Navarro López de Chicheri

If I may, going back to the point about the Turkish earthquake pool, MAPFRE is not participating in this pool. This is something that we already mentioned in the results for the end of the year where we announced this event, and what we can expect is the development of the claim. We think that we have estimated the right level of reserves, but we need to receive more information about the different losses in order to have a final estimation and a final settlement. It's going to take months and there will be an evolution during these months.

Fernando Mata Verdejo

[For the local Turkey entity, it won't be a negative development, because the loss has reached full retention.]

Leandra Clark

Thank you. The next question we've received is from Carlos Peixoto regarding the current dividend policy and outlook.

Fernando Mata Verdejo

We haven't mentioned any change in our dividend policy. Nothing has changed so far, as I said at the beginning of the presentation. This is insurance and one quarter is not just a sample of the trend for the coming quarters. And, fortunately, MAPFRE has pretty solid and robust financial operations and there is no change in the financial goals for the 2022-2024 three-year strategic plan. So, let's assume that all the financial goals are fully valid at this moment.

Felipe Navarro López de Chicheri

I would add the same thing that we mentioned at the end of last year – there is a commitment on having a sustainable and stable dividend for the shareholders. And this is going to continue happening, the next move should be to continue moving and to continue guaranteeing this 50% payout. But, at least, we think that the EURO.145 per share is still a commitment that we have and we will continue doing as much as we can in order to continue retributing the shareholders with this level.

Leandra Clark

Great. Thank you. The next set of questions are regarding the Brazil business. Paz Ojeda from Banco Sabadell would like to have some more details on the contribution of the Agro business in terms of premiums and combined ratio, and what we would consider a normalized level of combined ratio? And she has a similar question for Life Protection regarding normalized combined ratios.

Fernando Mata Verdejo

Thank you, Paz. Both combined ratios for Life Protection and Agro business, are extraordinarily low. Let's assume that both are in the next year after two catastrophic years, because for Agro business it was the drought in Brazil last year and before that, COVID impacted our Life Protection business. So, this is part of the recovery, and we should assume that in coming years we'll have a slightly higher combined ratio.

Leandra Clark

Thank you, Fernando. I think we can move on now to the next set of questions regarding the Motor business in Spain. Max from JB Capital would like to know how we are seeing our churn ratio? What was our experience of frequency for the first quarter? And what type of hikes are we taking on our portfolio?

Fernando Mata Verdejo

Well, let me elaborate more regarding Auto, particularly in two regions. First, we are not satisfied with the current performance of Auto business. It is non-profitable at the moment. We've reacted, and we need to react again in coming quarters. Having said that, there is a wonderful evolution of business in Brazil and in the US. In previous presentations, I mentioned that the US will be pretty challenging due to the regulatory restrictions, and we mentioned a couple of figures that show the contrary.

First, in Brazil, there was a significant reduction in the combined ratio, almost 15 percentage points compared to the first quarter of 2022, which means that we've done the things that we had to do – reduce the expenses and increase the tariffs.

And, in the US, we were a little bit reluctant regarding rate increases. As I mentioned, the accumulated exceeds 20% in 18 months, and it gives us a lot of hope for the coming quarters.

Back to Spain, we thought that the trend was sort of flattening for the first quarter. But there was a big bump in the first quarter and we have to assume and understand that the first quarter every year is the period in which we update agreements with providers. In this particular year, we also were impacted by the Baremo update and also the inflation that still persists. So, all in all, there was a significant increase in the combined ratio that couldn't be neutralized with the increase of rates, because it takes longer the way that we feed the P&L with this increase of premiums.

So, our view is that the coming quarters will be better, because the structural cost will be pretty stable, while the earned premiums should go up. That's the general view. Regarding the churn ratio, it is pretty stable and we will focus on portfolio protection as I mentioned, and the number of units showed a clear view that we are doing well. There is only a reduction in conversion for new business which has been provoked by MAPFRE, since we have less appetite for growth.

And regarding frequency, we've seen a slight increase in the first quarter. The mobility is a little bit lower than pre-pandemic, but, compared to the previous quarter, we've seen particularly in big cities an increase in frequency.

Regarding tariff hikes, finally, we are happy, and Felipe can elaborate on the average premium, which is good news.

Felipe Navarro López de Chicheri

I think that for the first time, we can see in the figures what we've been telling you in the last quarters. We are seeing how the increase in the volume of premiums of Motor business is on the 4 point something percent, on the high side of the 4s. We see how the new business or the new cars in the market are shy of 1%. So, what we are seeing is that, in general, I think that we can see our average premium going up around -- higher than 5%. This is what we have seen and what has been posted in the numbers until now. We are going to continue this trend and making every effort that is needed in order to stay ahead of inflation in 2023, which is our commitment and what is going to be shown in Spain.

I won't mention what is happening in other markets like the US or Brazil, because, I think that we have proven that this strategy has already born fruit and that those are good signs of the change in the trend that we may see in the coming quarters.

Fernando Mata Verdejo

And we mentioned as well in the past, the trend of lowering coverages still remains, right, Felipe. And particularly in new business, MAPFRE has no appetite to get new full cover business. Because of the crisis and the increase in prices, most of the policyholders that are shopping around, the drivers are moving to lower products with lower coverage, basic TPL and leaving full cover. In the end, this is affecting the average premium as well. So, on a risk adjusted comparison, the 5% increase should be even higher.

Felipe Navarro López de Chicheri

Yes, that's right.

Leandra Clark

Thank you, Felipe. Thank you, Fernando. Max from JB Capital is asking on the Motor combined ratio for Spain in Q1? We commented in the presentation that in IBERIA, it was 106.5%. And we also received two questions from Farquhar at Autonomous and Thomas Bateman in Berenberg regarding the impact of the retrospective element of the Baremo on the IBERIA Motor combined ratio for Q1? And what's our outlook for coming quarters?

Fernando Mata Verdejo

Generally speaking, the 2-percentage point increase in the combined ratio that we announced last year, it's fully booked during the first quarter. We have to understand that the cost increases go directly to the loss ratio, while the increases in tariffs for 2023 accident year will feed the P&L throughout the year. And regarding previous accident year, so far, we haven't seen any adverse loss development in 2023, however, there is still a significant number of open claims that have to be assessed. I believe that it's better to wait at least half of the year in order to conclude the 2022 development of loss reserves.

Felipe Navarro López de Chicheri

I think that we need to bear in mind the different impacts that are affecting the combined ratio in Motor business in Spain. First, is the Baremo that, I think, Fernando already commented and gave some detail on it. Second, is the renewed agreements with different providers, that is affecting as well. We announced the agreement with repair shops and garages, an increase on our rate of 4%. There was an increase as well on the paint, which was announced as well, and

this is at 7%. And, on average, the spare parts are increasing around 10%. So, those impacts, including the increase in the use of the car and the frequency – because we are now seeing how the use of the car is going closer to the levels of 2019 – are affecting this combined ratio. So, there are some one-off effects that we're going to see, which are related to the Baremo and probably with the first impact of this wave of increases, that will be offset at the moment that we earn the premiums that are being increased to offset those effects. So, that is going to take some quarters, but our view is more optimistic at this moment.

Fernando Mata Verdejo

If I can add, Felipe, as we mentioned, the group is fully committed to fixing the Auto line of business and the only way is that the average premium growth has to exceed our increase in structural costs that Felipe mentioned. It means that if the structural costs are, in a range between 5% and 6%, the average premium will grow much higher than that figure. This is a commitment that MAPFRE made and this is the only way to fix Auto in Spain. We've done it in Brazil. We've done it in the US, and this is the only way ahead.

Felipe Navarro López de Chicheri

Correct.

Leandra Clark

Great. Thank you. The next questions, we're going to move away for a little bit from IBERIA onto the reinsurance business. Thomas Bateman has a question regarding Non-Life reinsurance premium growth. 10% is okay, but lower than last year. Have there been any changes in the business mix, proportional versus non-proportional? And could you comment on this or quantify it?

Fernando Mata Verdejo

Yes, as I mentioned, on a risk-adjusted basis, catastrophic rates in particular are growing well above 20%, due to the change from proportional treaties to excess of loss treaties. Both percentages of growth aren't parallel, but in terms of the risk appetite, we are growing well above 20% in premiums.

Felipe Navarro López de Chicheri

Just to add, this is what we mentioned at the meeting that we had in London for the full year results. We are seeing a change from proportional to non-proportional business. We announced that this was going to reduce the increase in premiums for MAPFRE RE and that we would have a single digit increase – probably on the high side of the single digits. We are still posting almost 8% in MAPFRE RE. So those are the figures that we should expect going forward. As we said as well, that will probably bring us a different kind of claims with a lower frequency of claims and probably with more profitability in this line of business. But we are going to see it in the following quarters.

Leandra Clark

We have another question on reinsurance from Thomas Bateman. I think one part we had already answered regarding the participation in the TCI pool, which Felipe mentioned we're not participating in. And the second question is regarding the level of uncertainty embedded in our current EUR77 million estimate, given the high inflation in Turkey?

Fernando Mata Verdejo

Back to the first question. We only cover commercial business, and only property, that's pretty clear, as we already mentioned in London. The EUR77 million is the best estimate we currently have and, as we mentioned at the AGM – because it was the right moment to announce that it was over EUR50 million – there are still a lot of things to do, particularly on site there, because we only have an overall assessment on some of the losses, and we have to wait a little bit longer in order to have a more accurate estimation of the cat losses.

What I can give you is just the split between the reported claims, which account for approximately 45% of this amount, while the remaining 55% is considered IBNR. That's basically the only thing we can say now.

Leandra Clark

Thank you, Fernando. Thomas Bateman from Berenberg has another question regarding our cash outlook for 2023, and if we're expecting any one-off items?

Fernando Mata Verdejo

We are expecting positive one-offs in 2023. First is the arbitration from CAIXA, which is expected for the second quarter. Sorry, we didn't say anything in the speech. It's a little bit delayed, but hopefully the final decision will be at the beginning of June.

Second, we're able to activate again other sources of income, and we did in the past as well, particularly capital gains. The market is quite positive now. And, also, we activated the sale of real estate – three main real estate units – and probably we'll get some capital gains in the second half of the year. We are keeping the same trend as in previous years – they are non-strategic units that are being put on the market, being opportunistic because those units are very well priced in the current situation. So, other than cat events, any other one-offs will be positive in terms of cash flow.

Felipe Navarro López de Chicheri

I think that as you already mentioned several times, MAPFRE is able to find other sources of income when needed, and will probably continue moving and feeding the profit and loss as we did in the past.

Leandra Clark

Great. Thank you. We're going to move on to the next set of questions regarding strategy and dividends. Carlos Peixoto from CAIXABANK is asking what is our guidance for ROE for 2023?

Fernando Mata Verdejo

Sorry to say that we are not publishing any guidance, Carlos. What I can say is that there is no evidence that any of the financial goals we already published are currently at risk, so this means it is a reaffirmation of the current financial targets. That's all.

Leandra Clark

Carlos also had some questions regarding M&A and what businesses and geographies we are looking to expand in? What criteria do we use when assessing operations? Do we use risk on invested capital? What market shares are we looking for, and potential solvency impacts? A lot of questions in one.

Fernando Mata Verdejo

The question is, there is nothing on the table, as we already said in London. And I have to say that the group is fully focused and committed to fixing Auto. And that is our main target, and there is no distraction from M&A, and there is no potential improvement in adding new business to the current Auto situation in Spain. So, we will focus on fixing our current portfolio.

Leandra Clark

Thank you. The next question is also from Carlos Peixoto from CAIXABANK. He is asking about what we should expect from the implementation of IFRS 17 and 9 regarding solvency ratios?

Felipe Navarro López de Chicheri

We cannot give you a full assessment on the solvency ratios. What we know is that there will be certain lines of business that are usually moving through the standard way, that are going to move to other ways, like the Burial business. But we don't expect that there will be any major changes in the Solvency II position with implementation of IFRS 17. The Solvency II position is not going to be affected.

Leandra Clark

Moving on to the Brazil business, Max from JB Capital has a question regarding how the churn ratio in Motor in Brazil is performing compared to our other markets?

Fernando Mata Verdejo

There is a significant reduction in the number of units, 65,000 down in this quarter. The portfolio remains stable for those policyholders that we want to stay in our portfolio. For other groups of *corredores* (brokers), particularly buses and trucks, we mentioned before that they were performing extraordinarily badly, and we got rid of them. So, we're focused on portfolio retention for the best drivers, that's all. And the churn ratio for this particular portfolio is pretty stable.

Leandra Clark

And I guess the follow-up question from Carlos on that would be, how do you see Brazil's combined ratio evolving?

Fernando Mata Verdejo

Well, this is a very dynamic economy, Carlos, and frankly I didn't expect such a significant drop in the Auto combined ratio. It shows the flexibility of our operation, and also the market's adaptation to the new tariffs. It's something that we're not going to see in Spain, where there's a slow reaction to the current inflation problem; completely different in Brazil. The future – nobody knows. We're pretty sure that we're doing what we have to do, focused on profitable growth, and particularly on the bancassurance channel, which is the most profitable business, currently, in Brazil.

Leandra Clark

Great. I think we're going to move on to North America. Andrew Sinclair from Bank of America Merrill Lynch would like to know how long we think it will take to file sufficient rate increases to get the combined ratio back to under 100%?

Fernando Mata Verdejo

Thank you, Andrew. This is a difficult question, because there are different concerns regarding the core CPI for the US. Assuming that we are able to keep a reasonable level of inflation, the current rate increases will be enough, probably, to hit a 100% combined ratio at the end of this year. It doesn't mean that the average for 2023 will be lower than 100%, or 100%, but at least to hit a 100%.

We're concerned as well with the increase of the reinsurance protection cost, and we got approval for a 15% increase for Homeowners, but in the end we should assume that the second half of the year is not going to be easy. Recently two giant entities have published significant losses in the first quarter. We guess that we're better positioned than those entities, but, in any case, it's not going to be easy. But MAPFRE is better prepared and the outlook is much better than the one I told you at the beginning of last year.

Felipe Navarro López de Chicheri

I think that the situation gives us a lot of hope, that with the tariff increase that we already passed and the level of premium increase that we already announced, it seems that we are moving in the right direction, and with the first data that we have in the first quarter, the combined ratio is heading in the right direction.

Leandra Clark

Thank you, Felipe. Thank you, Fernando. We have a few follow-up questions regarding IBERIA business, Motor in particular. Max from JB Capital would like to clarify if the 5% increase in average premium in Spain is on new production or the entire portfolio?

Felipe Navarro López de Chicheri

This is for the entire portfolio.

Fernando Mata Verdejo

This is for the entire portfolio, Max.

Leandra Clark

Exactly. And Farquhar Murray wanted to clarify if our intention is to get ahead of inflation for 2023, and if that will allow us also to catch up with inflation from 2022?

Fernando Mata Verdejo

Yes, Farquhar, that's what I said, that the increases in average premiums for the remaining part of the year will be significantly higher than our structural costs, in order to catch up with current and past inflation. And the target is to hit a 100% combined ratio in the second part of the year.

Leandra Clark

We have another question from Paz Ojeda and Banco Sabadell regarding the combined ratio for Health at 101%. That seems high, could you comment on this evolution, please?

Felipe Navarro López de Chicheri

Yeah, the combined ratio in the Health business is quite affected by the evolution during the year. Usually, the first quarter and last quarter of the year are worse on a claims basis, and the rest of the year has a better performance. So, for us, looking at 101% at the first quarter is still not concerning, and we will hope that there will be more positive development in the following

quarters.

Leandra Clark

She also asks, what measures could be taken to improve it?

Fernando Mata Verdejo

There is very little room for an additional reduction of expenses. It will depend on inflation, on the CPI for health services, which is pretty high, Paz, as you know. We had to catch up with this inflation. And if the inflation remains, we can conclude that the Health business, particularly in Spain, is a little bit underpriced, and the only way to move forward is further increases in rates. That's my view.

Leandra Clark

Thank you, Fernando. Carlos Peixoto from CAIXABANK also has a question regarding the Life business. And what's your view on the future of margins?

Fernando Mata Verdejo

As we mentioned, we see both margins, or both combined ratios – Auto and Life – converging into more sustainable rates, in order to converge as well to a sustainable 96% combined ratio for MAPFRE. Currently, Life Protection, and also General P&C, are pretty low, and they should increase. And Auto should go down. No doubt about it. We mentioned dispersion between lines of business and, last year, we said that between the best and worst combined ratio there was an 18% difference, and currently at the first quarter it is 19%. And so, it's widening rather than narrowing, but, in the future, it has to be narrowed, definitely. Right, Felipe?

Felipe Navarro López de Chicheri

Yeah. Just to mention, in Life Savings, we are, right now, issuing a lot of policies in the Life business in Spain, and we are doing it on a profit basis, so those products are profitable. They do not have the same margin as the Life Protection premiums, as you can imagine, but we are at a good level of profit margin on these products, and we hope that we will continue issuing at these levels for the rest of the year.

Leandra Clark

Thank you, Felipe. Thank you, Fernando. I think we have one question left, regarding Turkey again, and MAPFRE RE's performance. Andrew Sinclair from Bank of America comments that the MAPFRE RE result looks quite strong, even including these Turkey earthquake losses. Were there any positive one-offs in this result?

Fernando Mata Verdejo

Thank you, Andrew. There was a negligible positive release from the Fiona Hurricane from 2022, but it was a small amount. Nothing relevant to report.

Leandra Clark

Thank you. So there seem to be no more questions. Before we go, we would like to mention just a few upcoming events. We will be holding a virtual group meeting on Friday, May 12th; an invitation with details will be sent out soon. We will also be on road show in Madrid on the 10th and the 11th, and in Paris on the 17th and in Geneva the 25th. Please contact the IR team if you're interested in attending any of these events.

All the documents released today are available on our website, including the activity report, this presentation, the financial supplement, the dividend announcement, and the market consistent embedded value for 2022. We have also prepared a guide, which gives an overview of our methodology and approach to IFRS 17 and 9. You can contact the Investor Relations team if you have any further questions or need help finding this documentation.

Thank you for your time today.

Fernando Mata Verdejo

Thank you, everybody, again, for your presence. And for those that are living in Madrid, best wishes for this coming long weekend. Thank you. Felipe?

Felipe Navarro López de Chicheri

Thank you. Thank you very much for everything, and we will be in touch in the coming weeks.

Fernando Mata Verdejo

Bye-bye.

Leandra Clark

Goodbye.

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