Investor & analyst call – Edited transcript

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Company participants

- Antonio Huertas Mejías, MAPFRE SA, Chief Executive Officer
- 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 afternoon, everyone, and welcome to MAPFRE Results Presentation for the full year 2021. This is Felipe Navarro, Head of Investor Relations and Capital Markets as well as Corporate Treasurer. It's a pleasure to have the opportunity to see you again in person.

We want to welcome especially those who have come today to Fundacion MAPFRE's auditorium to attend this event. Hopefully, we can return to normality in the coming months and be able to gradually resume personal contact with all of you. For safety reasons, all the people in this room have been tested before being admitted.

On this special occasion, it is a pleasure to have with us Mr. Antonio Huertas, our CEO. He will give us an overview of the key highlights for the year, as well as some reflections on performance in the strategic plan that has just finished. For more details about the new strategic plan, you will have to wait for our next AGM that will be held on March 11. On our website, you can find more details about the AGM agenda, together with the full-year disclosure and Annual Report. It is also a pleasure to introduce Fernando Mata, our CFO, who will walk us through the main financial trends.

Before we start, let me explain some organizational details. This time, you will have access to interpretation services, both here and at home. So, please feel free to choose the language that better suits you, either English or Spanish. As usual, at the end of the presentation we will open the Q&A session. Questions can be asked either in English or Spanish. For those of you who are here with us today, you will have the opportunity to ask your questions in person. And for those of you connected online, you can participate with 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.

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

Antonio Huertas Mejías

Thank you, Felipe. I hope you are staying healthy. It's my pleasure to be here with you today, in this event, that, as Felipe said, is once again taking place in person. The first thing I would like to say, is that we are very, very happy with our results. Our development over the last year has been very, very positive. But let me now say a few words about the fourth quarter, before I move on to an analysis of the whole year and the development of our last 3-year strategic plan.

First, during the last quarter, we saw a significantly lower impact from COVID in the Life Protection and Health claims in LATAM. In Brazil and Mexico, we expect the improving trends to consolidate, but we will have to see how Omicron develops in the Americas during the upcoming months. Thanks to the growing vaccination rates, we expect a similar pattern as in Europe, with high infection rates, but putting less stress on healthcare systems and lower mortality rates.

Also, here has been an increase in the motor combined ratio across geographies, driven by the economic recovery and increased mobility. The pressure on average premiums during the last 2 years as a result of premium discounts and other rebates implemented during the pandemic to protect our portfolio also put pressure on the ratio. These discounts will continue to be phased out and we will closely monitor inflation.

Improving trends in Homeowners helped mitigate the increase in Motor claims. And general topline performance was outstanding. In Iberia, there was strong growth in Non-Life, especially Commercial and Condominiums, but also in Motor, where we beat all the markets in the largest line where we operate. The Life Savings business had a good quarter on the back of large group Life policies. MAPFRE RE was also growing in double digits, supported by tariff increases. January renewals have taken place in positive terms.

Finally, in Brazil, premiums were up with a strong bancassurance performance. Results were also strong, especially in Iberia and Brazil, despite normalization of Motor trends, while reinsurance benefited from the absence of relevant NatCat losses. We actively managed our portfolio, which allowed us to continue opportunistically realizing gains during the fourth quarter, especially in equity, reaching over EUR50 million. This is evidence of a well-diversified portfolio and successful investment management.

Furthermore, we still have over EUR100 million of unrealized gains left in our actively managed Non-Life portfolios in the euro-area and North America. We have also reached a turning point in our fixed income portfolio. After year-on-year declines on yields, we have seen stability in Europe and even increases in some Latin American markets. We have also taken the opportunity to reduce duration. Finally, as you know, we closed our agreements with BANKIA, with the proceeds helping us to reinforce efficiency processes. Excluding the impacts of restructuring, we finished the year with an expense ratio under 28%. In conclusion, the fourth quarter results give us reasons to be very positive with our outlook for 2022.

Let me continue now by giving you an overview of the key highlights of 2021. We have returned to growth in our main markets, gaining market share, but with a disciplined approach. We are also benefiting from a more stable evolution of currencies. Our revenue performance was outstanding, reaching over EUR27 billion. Total premiums are up over 8% and the insurance business has grown by 9% with outstanding performance in Spain. MAPFRE RE has recorded a 10% increase and premiums in Brazil were up by 15% in local currency.

Profitability has also been strong, meeting important metrics of our 2021 guidance. We can boast a EUR765 million net result, up by 45%. The ROE was up nearly 3 percentage points reaching 9%. Performance at insurance units was also outstanding, supported by active management of our investment portfolio and the extraordinary income from the BANKIA resolution, offsetting the losses from COVID claims, especially in Life premiums in LATAM, as well as NatCat events. We are also quite satisfied with the performance at MAPFRE RE, which has returned to robust profitability.

Transformation is also one of our main priorities. We are streamlining our business model and structure while leveraging the benefits of diversification. We continue prioritizing expense reduction. In December, we announced additional restructuring in Spain and Italy, provisioning over EUR200 million throughout the year.

In Spain, we are adapting our operational model to changes in our clients, channels and the context of the market. This new model is the result of advances in digitalization as well as the need to centralize several functions, including underwriting and claims management. New technologies will allow us to work with more efficient structures and centralized management.

In Italy, as you know, the dealership channel was considered non-strategic and we are adapting our structure while investing in a plan to move towards pure digital operations, replicating the business model currently used in Spain and Germany. There have been also smaller restructuring plans executed in the Assistance business as well as in Latin America, with a more limited impact on results. We are also focused on our footprint; we are selling operations in non-strategic countries in the Asistencia business, with the recent announcement of the sale of InsureandGo business in Australia. We are also realigning our reinsurance position in Asia.

Furthermore, in the US in the fourth quarter, we continued moving ahead in our exit from the state of Florida. We have also signed an exclusive agreement with AAA in Washington and Northern Idaho for homeowner and car insurance distribution, in line with our support to this alliance with this important motor club in the US. As for the BANKIA transaction, we have now closed that chapter and, now more than ever, we will be focused on new business opportunities and growing profitably.

Finally, we are committed to creating sustainable value for our shareholders. The Board has proposed a final dividend of EUR0.085 to be approved at the AGM in March. Together with the EUR0.06 that we paid in November, this brings the total dividend paid against the 2021 fiscal year to pre-COVID levels at EUR0.145, which is what we had promised to deliver.

We can't emphasize enough the strength of our commitment to our shareholders. Just as a reference, for the last 5 years our dividend yield has outperformed the Ibex by over 2 points and has not gone below 4.5% in the last 10 years.

Now I will give you a brief overview about our development during the last 3 years. The 3-year strategic plan was strongly affected by changes in the economic and market context as a result of the pandemic, obviously. We provided annual guidance for 2021 to give a clearer view of how MAPFRE could evolve in this new context, based on our outlook at the beginning of the year. On the revenue side, we outperformed guidance, reaching over EUR27 billion, when we had expected flat performance during the year.

Growth has been excellent, underpinned by strong commercial activity, the economic recovery, as well as supportive reinsurance pricing. We had guided to 3% growth in insurance units and we finished the year at 9% despite challenging market conditions, which is proof of our successful commercial strategy and the trust of our clients. Additionally, we finished the year with an adjusted result in excess of our EUR700 million target excluding the net impact from BANKIA.

Most importantly, we have continued to reiterate our strong commitment to shareholders, returning to pre-COVID dividend levels with a payout above 50%. We have achieved this while maintaining an excellent solvency and liquidity position. We have consistently made our 50% minimum payout commitment since 2012, even in the worst moment of the COVID-related crisis. This has been possible thanks to our strong solvency and financial flexibility and continuous dividend upstreaming from the business units.

We had guided to an adjusted ROE of 8.5% excluding the impacts from BANKIA. We closed the year slightly lower, at 8.3%, due to the pandemic impact in LATAM together with continuous restructuring and rapid normalization of motor mobility. The combined ratio closed 2021 at 97.5%. Adjusting for restructuring costs, the ratio was 96%, one point above guidance, mainly due to the fast change in trend in Motor and NatCat losses.

All in all, we are quite happy with the results this year and throughout the entire 3-year plan, given the challenges faced and the constantly changing environment. Thank you, and I will now hand the floor over to Fernando.

Fernando Mata Verdejo

Thank you very much, Antonio. Good afternoon, everybody, and good morning to those in the Americas. Now, I will comment on some of the full-year figures. Premiums are up over 8% in euros. There is a slight difference from the advanced figures released in January due to minor accounting adjustments that affected mainly North America -- we published a 7.9% growth in premiums and the final number is 8.2%. At constant exchange rates, growth was 10.7%, with strong trends in both Non-Life and Life. So, currency movements reduced growth by approximately 3 percentage points, with the average exchange rates for the US dollar down around 3% and the Brazilian real down around 6% on the year.

On the right hand, you can see that the renewal of the multi-year policy in Mexico added over 2 points to growth. The combined ratio was affected by the return to pre-COVID mobility levels as well as the provision booked for restructuring in Spain and Italy throughout the year, of which EUR173 million were allocated to Non-Life and another EUR28 million were allocated to Life. Excluding this provision, the Non-Life combined ratio would be 96.1% for the Group and 95.6% at insurance units.

Regarding the attributable result and ROE, both metrics were already commented on by

Antonio. And finally, shareholders' equity was slightly down on the year, mainly due to the reduction of unrealized capital gains due to the rising interest rates.

The pandemic and the economic scenario is bringing more complexity to our operations and producing a wider range of individual extraordinary items. We know that this can make it difficult to follow the underlying trends. In order to provide more clarity, we have classified these extraordinary impacts into two different categories.

The first comprises large non-operating transactions which are usually non-recurring. These include, for 2020, a goodwill write-off following recommendations for prudence from ESMA, and for 2021, an extraordinary gain from the termination of the BANKIA agreement and the related restructuring costs.

Adjusting for these impacts, the attributable result would have reached EUR703 million in 2021, up almost 7%. Please bear in mind the additional 10% compensation from the termination of the BANKIA agreement, which will amount to EUR52 million before taxes and minorities, is still pending arbitration.

The second category of extraordinary items refers to those linked to the ongoing business management, such as individual significant losses like NatCat claims and COVID losses in both the reinsurance and the Life business in LATAM. This category also comprises capital gains realized on the equity portfolio in Iberia, in MAPFRE RE and the USA. We took advantage of favorable equity markets throughout the year to compensate the abovementioned large losses. Gains in actively managed portfolios reached around EUR140 million, significantly up on the year. And even so, at the end of December, there were still over a EUR100 million pre-tax of unrealized gains in equity in our actively managed Non-Life portfolio in the euro area, mainly, and North America.

Full disclosure of the different components of these items are included in the Annex, and we have also included a full disclosure of the BANKIA gain and the related restructuring costs, with a comparison with the preliminary figures that we presented in December.

During 2021, insurance operations contributed over EUR18 billion in premiums and over EUR700 million in results to the Group, with an adjusted combined ratio of 95.6%. There have been two main trends related to the pandemic; first in Latin America, the Life Protection and Health businesses were still heavily impacted by COVID claims. And secondly, as the CEO said, motor mobility and related frequency has almost converged to pre-pandemic levels across all geographies.

In Iberia, I would like to highlight the positive performance of these units. Premiums are up 8.5%, outperforming the market in both Life and many Non-Life segments. We're growing over 1% in Motor while the market is down 1%, with vehicles insured up nearly 4%. Growth is also robust in other segments, with a high single-digit growth in Health, Condominiums and Commercial lines.

The combined ratio has increased to 98%, with a 3 percentage point impact from restructuring plans. Adjusting for these, the ratio was 94.9%, up 3 points during the year. The increase is due to both higher motor mobility, especially during the fourth quarter, as well as the impact of premium discounts from the last two years on the average premium.

The net result was up significantly on the back of the BANKIA transaction. And adjusting for this, the net result is still at similar levels to 2020.

In Brazil, premiums were up over 8%, 15% in local currency, with healthy growth trends in Agro, Motor and Life Protection. The attributable result reached over EUR74 million although it was still affected by the impact of the pandemic on Life Protection.

The combined ratio remains pretty strong, well under 90%, and the economic outlook continues to improve and the SELIC rate is significantly up. The currency is relatively stable compared to last year, while we're keeping an eye on inflation trends.

Premiums in LATAM South grew over 11% in euros, and premiums in LATAM North are up over 8%, when excluding the large multi-year policy in Mexico. Local currency growth was solid in most segments and it's worth mentioning Colombia, up 31%, Peru, up over 16%, Dominican Republic, up 9%, and Panama, up 8%.

Performance in North America continues to be affected by strong competition, premium rebates and growing mobility trends. In the US, we should expect growth to catch-up as new rates phase in. In Eurasia, premiums are down due to the non-renewal of an important dealership distributor in Italy as well as the depreciation of the Turkish lira. All countries have contributed positively to results except Italy, which was affected by the restructuring cost.

At MAPFRE RE premiums are up over 10%, supported by positive pricing trends. The combined ratio is 97%, which was affected by one large NatCat event – storm Bernd that hit Germany and Central Europe in summer. The net result is up significantly both in Reinsurance, up over EUR116 million, and also in Global Risks, up EUR19 million.

In Assistance, volumes are down over 21% as we continue with the streamlining. The unit has reached breakeven and next year should be less volatile. At the end of December, some operations are held-for-sale in Europe and Asia, which are expected to be closed in the first half of 2022.

On this slide, I would like to comment on the Life business at insurance units. In Iberia, premium performance has been outstanding, thanks to the rollover of products and maturities with a focus on unit-linked. There were also several large single-premium group Savings policies issued during the second half of the year. And in Brazil, local currency growth was healthy, with improving trends throughout the year helping offset the fall in the currency. The Life result was relatively stable at EUR183 million, with an increase in Iberia offsetting the deterioration in LATAM as a result of higher Life Protection claims from Covid.

In Brazil, mortality has been steadily falling since June – good news – finally reaching a turning point in the fourth quarter. The situation in Colombia and Peru is also improving, while in Mexico claims experience was still high during Q4. In Iberia, there have been several extraordinary impacts. Adjusting for the BANKIA transaction and restructuring, the result is up over EUR30 million, mainly due to the release of an earnout provision, you probably remember, in June, from the bancassurance channel. There was also positive impact in the year from the effect of the high discount rates on provisions.

On the right, you can see the total impact from Life Protection claims in LATAM in the year was EUR107 million, of which EUR42 million were in Brazil. In the rest of Latin America, the strongest impacts were in Mexico, Colombia and Peru. However, trends improved in the fourth quarter, as I said, which makes us more optimistic about the outlook for the coming year.

I would like to say just a few words about assets under management. Spanish sovies continue to be the largest exposure in our portfolio with EUR12 billion, followed by Italian debt with EUR2.8 billion. A large share of these positions are allocated to immunized portfolios. The investment portfolio is slightly up, mainly due to the rally in equity markets, which helped to mitigate the fall in fixed income investments driven by higher yields, with the Spanish bond up over 50 basis points during the year. It is also worth mentioning that around 30% of equity and mutual funds are in actively managed portfolios and the remaining 70% is in Life portfolios where the investment risk is mainly borne by third parties.

Our cash position should be highlighted, with EUR2.9 billion, underpinned with the proceeds received from the BANKIA transaction at year-end. 2021 was a great year for the asset management business. Pension and mutual funds are growing 12% and 19% respectively, both due to market movements as well as net contributions reaching nearly, for both products, EUR600 million.

On the top are the details of our euro area actively managed fixed-income portfolios. Market value of these portfolios is around EUR12.3 billion. In the Iberia Non-Life portfolio, the yield is around 2%. After year-on-year declines, we have reached a turning point and the yield is up 6 basis points. The yield in MAPFRE RE is also up on the year.

In Non-Life, we have reduced duration significantly, over one year in Iberia and slightly under one year in MAPFRE RE. As a reminder, the long duration in Iberia Non-Life is mainly due to the Burial portfolio with over EUR1.7 billion and with duration over 19 years.

On the bottom, you can see the details of the fixed-income portfolios in other markets with portfolio yields up around 90 basis points in Brazil, now over 7%, and with relative stability in North America, while in this region, market yields are up over 60 basis points, which makes us more optimistic about reinvestment rates.

Shareholders' equity stood at a little over EUR8.4 billion, slightly up on the quarter. Currency conversion differences are up EUR139 million in the year, stemming from a notable appreciation of the US dollar together with stability in the Brazilian real with a slightly improving trend during the fourth quarter. On the negative side, there was a 40% decline in the Turkish lira which had an important impact on equity, EUR41 million.

On the right, there is a breakdown of currency conversion differences, annual movements and the standard sensitivity analysis that we produced. Net unrealized gains on the available for sale portfolio were down EUR478 million, mainly due to the increase in interest rates in the euro area and also the United States. On the other hand, unrealized capital gains in equity – this is good news – were up by over EUR60 million. The breakdown of the change by region is as follows, LATAM a fall of EUR144 million; Iberia down almost EUR200 million and MAPFRE RE and North America both down around EUR65 million.

In the chart on the left, you can see the breakdown of the capital structure, which is stable year-on-year, amounting to nearly EUR13 billion. As usual, equity is the largest component, representing over three-quarters. Leverage is around 24%, slightly higher than the previous year, but within our risk appetite.

As you know, in December we announced a tender offer targeted at bondholders of MAPFRE senior bonds. As a result, nearly a EUR143 million were bought back. This was temporarily financed with short-term bank debt, which was fully canceled at the beginning of 2022 once the proceeds from BANKIA transaction were upstreamed from Iberia to the holding. Considering this, leverage ratio would have been a little over 23%. And as always, we will continue analyzing opportunities to actively optimize our capital position.

On the right, you can see solvency ratio was a little under 194% at September, near the midpoint of our range, stable in the quarter. We will release full-year figures in March, the beginning of March, and the ratio should converge to the 200% target as a result of the BANKIA transaction.

Well, it's here, finally. I know this is quite complex, but this is the first time we are going to give you an idea about the new IFRS 17 and 9 implementation, which is on track and will be ready to go live for 2023.

We started the process 3 years ago and most major decisions at Group level were already adopted. But there will be still some fine-tuning from a local perspective, although we are not expecting major changes for business management.

What are the main changes that will be introduced? There will be a new accounting disclosure of insurance contract figures, together with changes in valuation methods. In our case, it's not that big a change because around 70% of premiums will be valued under the premium allocation approach, quite similar to the current method, and 5% on the variable fee approach, similar as well. So the remaining 25% will be valued under building-block approach, the new methodology brought by the IFRS. But we should expect a limited impact in P&L.

Other changes include the mark-to-market of liabilities, eliminating the need for shadow accounting adjustments and bringing forward potential losses in both assets and liabilities on an ongoing basis. Finally, there will be a change in the treatment of equity investment in portfolios classified as fair value through OCI. Realized capital gains and losses will be recorded directly in other comprehensive income, not in P&L as we are doing currently. Furthermore, this investment will not be subject to impairment tests.

Overall, and this is the good thing, we do not expect major implication on the strategy, business management, investment policies, or risk appetite. We know it's complex, and for the time being, current KPIs for the business management will be kept in parallel with the new IFRS KPIs when available because, so far, we are still waiting for these KPIs.

For capital management, we do not foresee any impact on dividend upstreaming, leverage or solvency. Regarding fixed income, no relevant impairments are expected and credit risk exposure, particularly in Latin America, will continue to be actively managed. We'll keep you updated through the year with any news.

Now, let me hand the floor over to Antonio for the closing remarks.

Antonio Huertas Mejías

I would like to add a couple more thoughts about our development during the last year. As a conclusion, in 2021 we experienced quite strong growth with excellent performance in our main markets. First of all, as I said at the beginning of my presentation, we are very satisfied in general but more obviously with Iberia, our largest operation, and we are well positioned for profitable growth.

We are moving ahead with our transformation and digitalization plans to have leaner and more efficient operations. Profitability is robust in the US also, especially in the Northeast, and we are benefiting from a successful restructuring process. The integration of the US Assistance operations will bring us scalability benefits and new business opportunities, while we continue strengthening our growth capacity and multi-channel approach. In Latin America, we successfully adapted our business model to the new environment. The pandemic and economic situation in this region remains challenging, but with a significantly improved outlook.

MAPFRE RE is reporting resilient results, underpinned by its investment approach and a strong contribution from Global Risks together with an improvement in pricing environment. These results have allowed us to meet our main metrics in 2021, and to get close to the other two. We are committed to creating long-term value for our shareholders. And thanks to our strong solvency and financial flexibility levels, we have been able to return to our pre-COVID dividend. Sustainable dividends going forward will be supported by positive growth momentum and profitability trends. We will be carefully monitoring the impact and post-pandemic normalization of motor across markets and implementing tariff measures to help offset this impact.

As I said earlier, we will reveal details and targets for the new strategic plan from 2022 to 2024 at our AGM on March 11th, which will be focused on growth, accelerating our transformation, continuing to streamline operations, boosting digitalization and implementing new measures to improve motor profitability.

And that's all from me. Thank you very much for your attention. We will now hand the call over to Felipe to begin the Q&A session. Thank you very much.

Q&A

Felipe Navarro López de Chicheri

Thank you very much, Antonio. Please let me remind you briefly of the details of this Q&A session. First of all, we are honored to have here with us Antonio Huertas, CEO of MAPFRE. As we understand that there will be a lot of moving parts in the numbers of this quarter as a result of the BANKIA transaction, we would appreciate it if you leave the nitty- gritty of the specific numbers for the IR team after the call. We will be at your disposal.

Those of you who are here in person can raise your hand and we'll give you the floor so that you can ask the questions. For those of you at home or at the office, you can use the platform and I will read the questions. It's possible to ask the questions either in Spanish or English at your convenience; don't forget to use interpretation service at your disposal so that you don't miss any details. Just as a reminder, for those here with us in person, please introduce yourself before asking your questions. It's quite difficult to see with the lights.

And now, let's start with the first question. Is there somebody from the floor? Yes?

Francisco Riquel, Alantra

Yes, hello. Francisco Riquel from Alantra. Thank you very much for your presentation. Thank you for giving us the chance to come in here and be in person and listen to it live once again.

Two questions, if I could. The first one is about your business in Spain and the combined ratio, that 95% or 94.9% that you have reported with those one-offs. The question is, do you think this is sustainable as a ratio, thinking about the inflationary and high cost environment that we have, particularly for the employment aspect, and thinking about property, et cetera, et cetera. Could you perhaps also expand for us on the savings that you will be making for the restructuring plan that you presented today and, as industry leaders, talk to us about tariffs? You are working on your renewals in the industry both for Motor and other lines, aren't you?

And then I have another question. Could you give us some guidance on, once the BANKIA issue is all out of the way, what is your best estimate for the surplus capital that you will have to invest by the close of that process? And what are your strategic priorities for that investment?

Antonio Huertas Mejías

I will answer the first question before passing the floor to my colleague. Yes, you're right, it's a good combined ratio, but it can always be improved on here in Spain. We are still living through very uncertain times – I'm thinking here about the impact on mobility and the new normality, which hasn't really gotten to its full point.

We haven't got back to pre-COVID frequency levels yet, but yes, there is this upward trend, definitely, in Motor insurance. We've identified this quite clearly. I'm talking about Motor all the time. But in this new context, the market tariffs will have to go up. The level of sophistication in the market pricing that each company has in Spain will allow us to do it one way or another. We are absolutely clear ourselves that we have the ability to penalize bad risks and to be able to give good rates for the good risks.

The combined ratio for Motor for the end of the year was not that good. And generally, I would say the business line has performed worse than we usually expect it to perform. But of course, it was an exceptional year, wasn't it, particularly compared to 2020, when there was hardly any vehicle mobility at all. There are other relevant impacts, which you've mentioned yourself: price increases, inflation and of course, the impact of the update on the baremo. But we do think that we can bring the combined ratio figure back to somewhere close to pre-COVID levels.

Of course, we put pressure on ourselves as we are market leaders. But we have shown everyone that we are able to keep a good level of pricing to be competitive, with a high level of technical expertise, and we can still gain market share.

Fernando Mata Verdejo

Yes, let me take that question about the baremo. We've always done this. We've always updated for the baremo, and I think EUR10 million has perhaps been the impact there, and with no impact on the tariff. The inflationary environment isn't that relevant.

Then the question about BANKIA, we will of course earmark EUR200 million for the restructuring; we have to pay our employees. And what else? We're actively looking around, of course, and we've said this many times before – we want to grow in our key markets, and of course the Spanish market is key to us right now. And we would like to also grow in those channels where we have lost our proportional weight, in the digital business and bancassurance.

Regarding Solvency and capital allocation, we don't know that yet. I think we'd expect perhaps around 200. We will be publishing this, we would probably have that figure by the time we get to the AGM and we will disclose the figure in the first week of March.

We haven't updated the savings figure yet because of Italy -- we haven't got the full figures yet for Italy; as you know, we are still negotiating. Most of that of course will be earmarked for reallocations for suppliers, et cetera, but we still need the final figures. But I would just say that in December, the net effect in 2022, when combining all of the effects of restructuring plans everywhere would be EUR24 million; in 2023, EUR41 million; in 2024, EUR46 million. That would be the savings that will carry forward, which will of course help us to offset the lack of profit from BANKIA, that Life part of the business, so EUR44 million was the total of the four quarters that we will not of course have on our books in 2022. What we will do is protect our Non-Life portfolio. I'm not sure if it has been published, but we've lost the new business. Our insurance clients are all here and we will ensure that they will continue to renew their policies and that we will cover their needs. This is exactly what we've done in the past with Barclays and BBVA, for other portfolios.

So, I think we just have to wait. When we talk about what are we going to bring in new, I think you have to look at what's happened whenever we've seen people go off in the market to competitors – it's usually because we are not keen on having them. We will continue to protect and grow the ones we have on our books now, Santander, Bankinter. We should perhaps take better advantage of the Bankinter partnership we have with P&C, which we've done very little with over the last 10 years. And we really do need to protect our position with CCM, now Unicaja. After the restructuring process, we've stayed on with that merged bank and we would hope that we still have a competitive offer in this final phase and that we might be able to do more there.

Franciso Riquel, Alantra

Thank you very much.

Felipe Navarro López de Chicheri

We have a question that has come in online, Andrew Sinclair from Bank of America is asking, “When do you expect COVID premium discounts to have fully unwound from pricing?”

Fernando Mata Verdejo

Thank you, Andrew. The discounts have already ended; what’s left impacting the combined ratio is unearned premiums. At the beginning of 2021, all those discounts were already canceled, but we still have Q4 to come in, I think, so a little bit more to be added there. But there is no more of those discounts anymore in premiums, and as we've always done, our tariff discounts are based on the risk profile of the policyholders.

Felipe Navarro López de Chicheri

Questions from the floor, please.

Jose Antonio Tamayo, GVC Gaesco

Yes, good morning, Jose Antonio Tamayo speaking. My question is about those cost savings that you've told us about today – you mentioned Italy, didn't you? What about Spain? With the announced restructuring here in Spain, what cost savings can we expect you to attain thanks to that restructuring? Would your combined ratio improve as a result? Can you give us some figures?

And then, you were talking about streamlining your geographical footprint, which I see you mentioned in the conclusions. What markets, if you can talk about the markets specifically, would MAPFRE prefer not to do business in? What about your critical mass, if maybe I could ask just the other way around – in two markets, USA and Brazil – If you look at the volume of premiums right now, what would be a reasonable profitability that we might expect to get from those two markets in a few years' time? Because I can see there's a lot of room for improvement in those countries despite you're having good results this year.

Antonio Huertas Mejías

Let me start answering your second question first. The current situation, looking at MAPFRE and our footprint as we move forward, I think we've made this public – in insurance, we are where we want to be. That doesn't mean to say that we're happy with what's happening in all the places where we are and want to be in. But it's very, very complex to exit business as an insurance company, you know that.

And remember, in Latin America, we have a regional idea about the business which means that sometimes the profitability might not be high enough, but the contribution and value that we are making to be able to service our clients, especially corporate clients, on a regional basis is very important.

It's true though that in other regions and other units we have determined that appetite. Starting in the US in insurance, I would say that 95% of our business is now in Massachusetts where we have a huge competitive edge there to be able to continue growing. And that is a challenge that we have to face now, with acceptable levels of profitability. And they are not at that level now.

And in Brazil, we have a a major plan, following the reorganization of our partnership with Banco do Brasil, when we invested a huge amount to be able to re-acquire those P&C insurance business. But then the whole plan really was curtailed by the pandemic and we have to wait for things to go back to normality in Brazil. It hasn't happened yet in Brazil. There are still lots of ups and downs in the economic recovery there in Brazil, and mobility as well.

Nevertheless, we're sure that the plan that we are implementing, which is from before and that we had to put it on hold during the pandemic, will be reactivated and will give us the results that we want. And the bank platform that we have, there is a great commitment that we are seeing in the figures that we reported to you, there's a lot of increase there in the figures. That's why we've had excellent percentage increase in local currency.

So USA and Brazil, yes, we can improve things there. Nevertheless, they're still strategic operations for us. The challenge we have is Asistencia, the Assistance business unit, where we've exited from 15 countries over the last 3 years. We were in 40 countries before, weren't we, that's a big step forward. And we've also said that we would leave InsureandGo in Australia.

Asia is no longer a strategic priority for us, in both of our business lines – insurance and assistance. And we will also say that in Florida: this is an asset that is available for sale. And all of that would take us to a point where, over the next 3 years, we will able to maintain our geographical footprint as it is. We don't want to expand it, but we want to really build up our business in Spain, USA and Brazil. These are the three pillars, in terms of volume, of our bottom line. And in Mexico, Germany, Puerto Rico, Peru and Global Risks and Asistencia we can have the main engines for growth.

Fernando Mata Verdejo

On the cost savings, Jose Antonio, I was talking about Spain before, with those cost savings, because we're still missing the figures for Verti Italy; it was mostly the debt buyback and Spain.

Felipe Navarro López de Chicheri

We have a question from Maria Paz Ojeda from Banco Sabadell. She is asking about Brazil's combined ratio. It's at 88% right now, which seems quite a strong combined ratio. What is the key contributor? Is it sustainable? What are the expectations for 2023?

Fernando Mata Verdejo

It is a great combined ratio, I want to say that first and foremost, at 88%. The biggest contributor of course is the bank channel there in Brazil. And as Antonio said, we're still having problems in the Motor insurance line and MAPFRE channel. The Agricultural businesses is the biggest component there, but of course the weather is making it very volatile. And if the premiums are at the right level, then you've got the subsidies there from the Brazilian Government. And we think if that continues, then of course our combined ratio will hold up over time, provided, I was going to say, this, things go well. But we haven't started the year off very well. There has been torrential rain in Brazil and now there's a drought. But this is a business line that up to now has been able to give us this excellent combined ratio.

Felipe Navarro López de Chicheri

Any other questions here from the floor in Madrid? Well, let's continue with the questions that are being sent in online. Paz Ojeda is asking about Solvency II. "What is the impact of breaking off from BANKIA? And how will that ratio change?"

Fernando Mata Verdejo

Paz, we came up with the estimate that we included in the MD&A. It's in the Solvency section. We did a standalone estimate and we said that the improvement should be between 8 to 10 percentage points. There are a lot of moving parts. We always say that, don't we, when we talk about Solvency II calculations. And in the MD&A, I said that in normal circumstances we should actually reach that 200% figure, underpinned by the BANKIA transaction. So 8 to 10 percentage points is the range, maybe slightly less. But we have to first of all see everything that happens once BANKIA leaves.

Felipe Navarro López de Chicheri

Paz is also asking us about our guidance with regard to realized capital gains – EUR150 million in the year was the figure. The question is, "Are you resuming this guidance in 2022 bearing in mind your stock of unrealized gains has been replenished in 2021?"

Fernando Mata Verdejo

That's right. Yes, I think you've interpreted this correctly. We do have high exposure in equities, yes. And that does however give us that flexibility that we need to offset adverse results from one-off claims or COVID. Last year we said it was EUR100 million realized capital gains, didn't we? Well, it has gone up, it's EUR150 million this time.

You might think that capital gains is like shaking a tree and the fruit falls off. No, this is serious, active management of an investment; you have to sell it when the price is high and you have to buy when the price is low. It's as simple as that, as straightforward as that, but you have to get it right. I would even dare to say that EUR150 million is too much. We've hit EUR140 million in the bottom line and we've matched it -- I don't know whether you saw the underlying result – we've basically matched it with the COVID impact in LATAM.

If we also look at IFRS 9. Those realized capital gains won't be able to go through the P&L account. And you would expect us to have a lower figure for capital gains, and also that we have fewer adverse COVID-related or weather events.

Felipe Navarro López de Chicheri

Well, thank you very much. Any other questions from the audience? If not, we'll carry on with questions that are coming in remotely. Paz Ojeda once again from Banco Sabadell is asking us about the breakdown of the impact that we have put in related to COVID-19 – EUR27 million in Q4, higher than in Q3, with EUR22 million for MAPFRE RE. Could you take us through the breakdown by segment, and especially to give us an outlook for the next few quarters?

Fernando Mata Verdejo

Yes, thank you Paz. What we've done has been to put the MAPFRE RE COVID-impact together with Life Protection in LATAM because the underlying is the same thing there. It's a coverage there for Life Protection, for fatalities. We're slightly behind there. MAPFRE RE has a certain quota share of Life Protection there, in LATAM. And what happened in Q4 is that we had that time lag there, with the ceding entities that report to RE and then to us. But anyway, MAPFRE RE has IBNRs that will cover this. That volatility can be covered completely at the level of MAPFRE RE. It should not affect the final result.

If you look at the trend though in our direct insurace information for this operation, that fall in Q4 and particularly in frequency in December, well, it should be seen as well in MAPFRE RE, but once again with that delay in the timeline because of the way the information comes in.

Felipe Navarro López de Chicheri

Thank you very much. Andrew Sinclair from Bank of America is asking, “Have you adjusted pricing for Life Protection to allow for ongoing COVID-related claims? Or are you largely relying on vaccinations and a less deadly variant to bring claims back down to pre-COVID levels?”

Antonio Huertas Mejías

Thank you, Andrew. Of course, we have to put all of our confidence and trust in vaccines to help us. But they're not helping the insurance problems. We have to do that as a company. They are helping us out with regard to health problems and, as a company, policy by policy, we have to do some intense negotiation and that's exactly what we're doing in Latin America.

So, there is a bit of a time lag there because some of those policies aren't necessarily annual policies. They might be multi-year policies. And so, it's not easy -- it's not easy or right to put in increases there for a very short return period to be able to offset what's happened with COVID. But for months now, we've been reappraising all of our contracts there, our policies there, to ensure that we get that window for renewals and make sure that we can see the positive impacts on the tariffs.

We are reasonably optimistic because we've put this in process in motion already and of course because the mortality rate of this new variant is lower. And of course, Latin American population, they're younger than the European population we have insured and they're perhaps more resilient and more resistant to the fatality rate. It's about client and customer profile as well. But of course, we did have adverse circumstances. We don't expect any adverse impact like that this year.

Fernando Mata Verdejo

If I could -- Andrew, at the end of the year we have our supervisory college meetings attended by representatives of the supervisory bodies from all over the Americas. We had a video conference meeting this time. And the perception is very clear on all sides. The insurance companies and the financial companies, which is often the main distribution channel of the impacted product line there, and the regulators also see that there is a problem with the tariffs, the premiums. Because of course the policies and the premiums before did not contemplate a pandemic like this and the only way this insurance model can be sustainable in Latin America is to get a consensus on the part, of everybody, institutions, consumers, regulators and insurance companies, that we have to adapt the risk premium to the pandemic.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. We do have a few more questions that are coming in online. Filipe Maria from Natixis is asking about the future of a cyber risk insurance, and what the key risks are there?

Antonio Huertas Mejías

Quite obviously, we could talk at length about that, as we were ourselves hit by a cyber-attack, a major one, here in Spain. I think it was about 18 months ago, wasn't it? It's a reality, but it's a reality that still has to be developed, thinking about companies and particularly the small and medium-size companies that are our clients in MAPFRE, here in Spain and other countries.

The main concern internationally is how can we come up with solutions to this. We form part of an insurance association that is working on this. And there are other international institutions that are all trying to suggest solutions. And it's always going to be on the basis of a public-private partnership. We will never be able to do it, otherwise; we will never be able to come up with the right solutions just on our own privately.

In fact, we can and we have brought out an insurance policy against cyber attacks for small and medium-size enterprises and it's been a massive success. We've sold thousands of policies for this in a short time because there has been a lot of public discussion about these risks. And these small and medium-size companies perhaps don't seek out this product, but if there is a good product on the market at the right price they pick it up. I think it will be about perhaps adapting this to the types of businesses and the amount of money they're willing to pay for insurance. Cyber risk for a country, it's impossible to insure that as an overall amount. You have to break it down and fragment it and find partial solutions.

It's not just about insurance, though. It's about prevention. And there is so much more that has to be done in the Spanish business sector here. There is a lot of fragility and vulnerability here. So, I think we need to advocate more information in our new strategic plan that we will be presenting in March. One of the areas of opportunities that we've quite clearly identified, with a certain level of uncertainty of course, about how we are going to offer the solutions, is cyber risk. Yes, it's an opportunity.

Felipe Navarro López de Chicheri

Thank you very much, Antonio. There's a question about the release of reserves. On slide 8 of our presentation today, Fernando mentioned this release of funds. What has been the impact on the combined ratio?

Fernando Mata Verdejo

Yes, it has no effect on the combined ratio because it's Life. However, there are a number of marginal old portfolios, which are not matched, in line with Spanish regulations here. So, those flows are actually updated according to the risk free curve. There is certain amount of mismatching in income between assets and liabilities in the sense that the capital gains or losses from the ups and downs go to equity, whereas the provisions from the risk free curve go through P&L.

And if there are any sharp movements up and down there as in Q4, then you have a small amount, single-digit, it comes under the mathematical provision, it's as straightforward as that. So, that lack of matching will die out with IFRS 17 quite obviously and this is the very last year that we will see that.

Quite obviously there is a ceiling. I mean, once you get a guaranteed income, the volatility disappears and there will be no impact. But any brisk ups and downs there in the curve over a certain period of time in a quarter of course lead to some drop in the mathematical provisions.

Felipe Navarro López de Chicheri

There's another question about the impact of the release of reserves in Spain on the combined ratio that is in the adjustment for the recurring result. If I'm not wrong, I think we say EUR27 million is the figure that we're giving for the reserves release. I think this is referring to the Life operation; there was a release of reserves in bancassurance.

Fernando Mata Verdejo

Well, that was a non-insurance liability linked to a contingency, the earn-out provision that we were talking about it back in July. It was effective up to December 2020 and once it was over, we just simply released that provision.

Felipe Navarro López de Chicheri

Paz Ojeda is asking about the bancassurance agreement announced with Mediolanum in Spain, for health insurance. What details can we give, and what prospects do we have for that partnership?

Antonio Huertas Mejías

Well, we are always developing our multi-channel capacities, and looking for partners to expand that. And we have this exclusive distribution agreement for our health insurance product through their financial instittions. It's nothing huge for the figures, if we're looking at just figures, but it's one way of helping our distribution in the Spanish market. It's strategic as a business line, a strategic channel, and you've probably seen that we are growing more than the market. In 2021, we've doubled the market share. I think we were growing at 10%, and the market at 5%.

Felipe Navarro López de Chicheri

Thank you very much. There's another question from Paz Ojeda about that 96.1% combined ratio in 2021 which was above the 95% target that we had set. And she asks whether we could expand more on the main reason for that.

Fernando Mata Verdejo

Paz, I think hitting the 95% target with the pandemic on our hands would have been the most difficult thing. We have had a higher than guidance ratio at MAPFRE RE. I think at insurance operations it was 95.6, adjusting for restructurings. And even in Iberia, taking out restructuring, it was below 95%. In the MD&A, we can see the three-year development of combined ratios – pre-COVID, COVID and this year – with fluctuations of 10 percentage points up or down.

It’s the same with Life Protection and with Burial; it's very, very tricky to see all of those drivers that make up the combined ratio. We haven't put it in, but we talked about this, haven't we, Antonio, in-house, the impact of the Non-Life COVID losses. We we have only been talking about Life here which is the most relevant, but it's EUR130 million in insurance operations, and we have EUR13 billion in Non-Life premiums. So, it's one percentage point, the increase in combined ratio for Non-Life COVID losses. Otherwise we'd be at 95. Well, with my hand on my heart, Antonio would say the same, that this is a bit of a surprise and this is the work we still have to do. The challenge that we have for next year is Motor insurance. We've done a lot of work there on our premiums. You've seen our average premiums. There has been an increase of 4% in vehicles and 1% in premiums. We have really protected our portfolio. We have to have a growing portfolio. That's the only way to grow, to have more and more insurance policyholders, so that we can ensure that we have policyholders so we can cover all their insurance needs.

So let’s say that with the combined ratio, we have protected the portfolio. We have hedged a bit there with the average cost. Frequency and average costs in some cases are above pre-pandemic levels, but there are some segments where we are still below pre-pandemic levels. But the biggest part is premiums; we will do more in premiums because we've taken away the discounts now. We have to update tariffs all over in all geographies. We have presented a 3% increase in Massachusetts which has been approved.

We're exiting Florida, as you've heard from Antonio; and we have made another filing, it’s a very small portfolio; 19%. And we will do increases all over Latin America, because that's the reality. We have seen premium reductions to protect our portfolio. Now, we have to adapt the risk premium to the context.

Felipe Navarro López de Chicheri

Thank you very much, Fernando. There is a question here from Philip Ross from Mediobanca. For MAPFRE RE and Global Risks, could you talk us through the January renewal campaign?

Antonio Huertas Mejías

Yes. We have double feelings there, as an insurance company on the one hand, and as a reinsurance company on the other. Of course, on the reinsurance side, any increases that are not proportional to the risks in any territory are complicated because it can mean you can be less competitive. But I understand the question for Reinsurance or Global Risks, we're doing two things, protecting large risks and direct insurance. The January renewal process has been good. We are satisfied with MAPFRE RE, with the prices that have been attained overall. Perhaps we didn't reach the right level in some territories, but overall, I would say, where there have been these NatCat events, the prices are the right ones. And given the circumstances of the market for MAPFRE RE, the whole process has been very demanding, the process of contracting its own protection against catastrophic events for the client companies. There has been a lot of work done there because you are talking about double-digit increases in the prices for renewal of those coverages more linked to NatCat.

Felipe Navarro López de Chicheri

Thank you very much, Antonio. One more question on MAPFRE RE and the business in Peru. Could that Repsol refinery and leakage entail expenses or losses for MAPFRE RE?

Antonio Huertas Mejías

Repsol is a MAPFRE RE customer. It has been a historic one for us and MAPFRE RE, and of course we are working together with them as they move into different markets. We are one of their key co-insurance companies. There will be expenses, but Repsol has a very broad protection plan for the affected geographical area. But for MAPFRE RE, or Global Risks, in this case, we do not expect any relevant impact because, I said before, there is a retrocession back to Repsol captives.

But we are collaborating with them of course. And of course, this is confidential client information so we can't disclose it. But they are doing everything they can in the region to minimize the impact. But for MAPFRE, there will not be any impact.

Felipe Navarro López de Chicheri

There are no more questions coming in remotely. As there are no more questions from anyone here in the room, let me say that we have received some questions through the platform that we feel we have already been answered during the Q&A. If any further clarification is necessary, do not hesitate to contact us later.

Before we close this event, let me remind you of some important events in this quarter's agenda. Remember that the AGM will take place on March 11 on First Call, providing there is sufficient quorum. And it is a pleasure to announce our next Investors Day on March 23rd. We will give you more color on the new strategic plan. More details about the agenda and logistics will be provided at a later date.

And please remember that you can contact the Investor Relations team at any time if you have any questions about the full-year results released today. Thank you for your attention today, and especially to those who have taken the time to come in person. Hopefully, we'll be able to see each other more often going forward. Have a nice day.

Fernando Mata Verdejo

Thank you so much for being here today.

Antonio Huertas Mejías

Thank you very much; it has been a pleasure.

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