

Q1 2018 Earnings Call

Company Participants

- Fernando Mata Verdejo, Director & Chief Financial Officer
- Natalia Núñez Arana, Director-Capital Markets & Head-Investor Relations
- Ramón Carrasco, Chief Risk Officer

MANAGEMENT DISCUSSION SECTION

Natalia Núñez Arana {BIO 19480994 <GO>}

Good morning everyone, and welcome to MAPFRE's Results Presentation for the First Quarter of 2018. I am Natalia Núñez, Head of Investor Relation and here with me is Fernando Mata, our CFO, a member of the board. He, as usual, will take us through the main trends of the period.

Today it's also a pleasure to have here with us Mr. Ramón Carrasco, MAPFRE's, Chief Risk Officer. He will run through the solvency figures for the full year 2017, and at the end of the presentation, he will also participate in the Q&A session.

Just as a reminder, during the Q&A, we will answer all questions received at the specified email address. The Investor Relations team will be available to answer any further questions you may have after that.

With no further ado, let me hand the call over to Fernando.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Natalia and good morning, everyone. It's a pleasure to be here with you for our first earnings call of 2018. We'll begin in on slide 2, where you can see the main figure for the quarter, and then I will go over the main highlights in the following slides.

The result have stood at over €187 million, with the underlying result slightly under €174 million, not only 0.3% year-on-year with an annualized 9% ROE, excluding the impact of 2017 catastrophes. Annualized means that the base for calculation is the current quarter and the last three quarters of last year. This is why we're excluding the cat effect. The quarter has been a mix of different trends, the measure we are implementing to improve profitability have been overshadowed by currency movements and low interest rates.

Please turn to page 3. On this page, you can see the main highlights for the period. Profit and loss account was hit by negative ForEx effects for all main currencies. So U.S. dollar is down 15%; Brazilian real and Turkish lira 16% each; the Mexican and Chilean peso 6% each; the Argentinian peso, 32% down and the remaining are down between 10% and 20%. The

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Non-Life business fuelled by Spain and MAPFRE showed healthy performance. Despite the decrease in euros, Non-Life premiums grew over 2%, at constant exchange rates, reflecting positive trends in several markets, which we will discuss in more detail later on. The combined ratio improved by 1 percentage point to 96.5%, with 2.5 percentage point reduction in the loss ratio and an uptick in the expense ratio mainly from acquisition expenses, but is still in line with the 28% target.

In addition, the low interest rate environment in Europe and lower rates in LATAM, especially Brazil are affecting both the sale of Life products as well as financial income. There was a 9.6% fall in the Life premiums at constant euro as a result of challenging market conditions in Spain where we're seeing lower sales in unit linked products and in general in Life savings. Finally, I'd like to highlight our excellent solvency position which closed last year at over 200%.

Please turn to slides 4. As you know, there are several units that are now benefiting from their successful implementation of MAPFRE'S profitable growth strategy. First, we continue to see solid results in IBERIA and MAPFRE RE. Second, LATAM NORTH & SOUTH continue improving with combined ratio below 97%. Third, losses have been significantly reduced at MAPFRE ASISTENCIA and in Italy, but the latter, Italy continues being affected by the highly competitive Italian market, particularly direct business. Fourth, it's also worth mentioning the return on profitability of GLOBAL RISKS after a very complicated 2017 as you remember in terms of claims experience.

In Turkey, the USA and Brazil measures are being taken. However, regarding the (00:05:21), results will now be completely seen until restructuring plans have been fully implemented. In USA the exit plan is on track. We however resolved the renewals rights for Tennessee, Kentucky and Indiana and we expect New York and New Jersey exits to be complete by the second quarter as well as the sale of the Life business.

On the other hand, winter conditions were difficult, but somehow manageable. The results continue showing the challenging market situation particularly in retail Motor. In Brazil, the combined ratio has proven resilient, thanks to the performance of Agri insurance, while Motor is still far from the turning point. Finally, in Turkey, as we expected, we are feeling the full annualized impact of a compulsory rate discounts introduced in MTPL in April last year. We continued diversifying into other lines of business to mitigate the impact and focusing on underwriting discipline.

On the slide 5, you can see the breakdown of premiums and results by region and business unit. On the right, we have the evolution of results by business unit, which we will discuss in more detail in the following slides. Regarding attributable result IBERIA stands out with €118 million, by far the largest contributor and continues benefiting from the economic recovery in the Spain which is more important the profitable growth strategy. Excluding last year's extraordinary benefit from the cancellation of our customer's provision, attributable result would have grown by 17%. MAPFRE RE continues being a strong driver of profit for the group, no doubt. Results grew over 22% in a quarter free of relevant cat events. The attributable result in North America has fallen due to a higher level of winter-related claims approximately €11 million as well as the still complicated market situation.

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Gross losses for the cat events amount to approximately \$60 million, €50 million demonstrating the highly effective reinsurance protections we implemented after the 2015 losses. As we mentioned, I mean, in 2015 which is the peak I mean in this process, and thanks to the reinsurance protection, we are able to manage, I mean, this winter exposure we have in the northeast of the U.S. The decline in Eurasia reflects the situation in Turkey that I already discussed. Finally, the results in Brazil are facing strong headwinds from the currency and interest rate environment.

Please turn to slide 6. Revenue was down around 1% at constant exchange rates reflecting a fall in premiums as well as lower investment deals in LATAM, especially Brazil. Non-Life premiums are down 0.4% at constant exchange rate, reflecting the following underlying trends, nearly 5% growth in IBERIA with positive developments in main Non-Life business lines. Slight decline in local currency in Brazil as a result of a 3% fall in General P&C and flat premiums in Motor. Local currency growth is strong across LATAM NORTH with double digit growth in Mexico and the Dominican Republic.

In LATAM SOUTH there are also positive trends in main geographies except Chile. We've continued with the cancellation of unprofitable business in non-Motor lines. Life premiums were down over 9% at constant exchange rates. As I mentioned the decline was mainly driven by Spain due to the absence of sales campaigns in a very volatile financial market scenario. On the other hand, the recovery of lending activity in Brazil has led to a 6% growth in local currency.

Let's move on to next page please. In slide 7, I would like to take a look at the extraordinary impacts that have affected MAPFRE's net result. The quarter result were affected by multiple, but not severe snowstorms in the Northeast, USA with €11 million net losses compared to a €19 million net loss from the coastal El Niño that affected last year mainly Peru, Colombia, and MAPFRE RE; 2017 figures also reflect €27 million net gain from the reversal of our provision for continue liabilities in bancassurance.

And finally realized gains are relatively stable year-on-year. We're proud of the numbers we got from equity markets in these financial difficulties. Excluding this extraordinary impact the underlying net result has proven stable at around €174 million.

On the right side, you can see the improvement in the Non-Life underlying result amounting to €16 million. This figure is before tax and minorities. It was driven mainly by IBERIA and MAPFRE RE as well as the better claims experience at global risks. The result of the Life business is down €66 million also before taxes and minorities. And this was mainly due to lower financial income and increasing acquisition expenses in Brazil as well as currency effects. Obviously the impact is less on the bottom line due to the share of non-controlling interest in this business and also the high tax rate that we have in Brazil.

On slide 8, you can see the breakdown of key non-life figures by region and unit. I would like to emphasize the following positive trends in combined ratio. The improvements in IBERIA, which I will cover in more detail later, the resilient combined ratio in Brazil, which has still improved despite the challenging market situation in Motor, thanks to the Agricultural business.

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LATAM NORTH and SOUTH show improvements across the board and the combined ratio, global risk has improved over 17 percentage points to 92% due to the absence of large claims. The uptick in EURASIA is due to the situation in Turkey that I have already mentioned and the increase in North America is to a large extent driven by the snowstorms.

On slide 9, I would like to take a quick look of the evolution, the runoff with 2017 in not-cat events during the quarter by unit and country. Good news, there are insignificant variations in the runoff by geography and the total net loss is €157 million. Obviously this is an evidence of our insurance protection effectiveness.

On slide 10, we disclose the main Non-Life turns. I would like to highlight the excellent performance of the business in IBERIA. First of all we are growing and gaining market share in all our main lines of business with exceptional profitability levels.

Performance in Motor has been excellent with retail premiums up 3.4% in Spain and the combined ratio down by 1.7 percentage points, up around 90%. We are also seeing positive growth and combined ratio trends in other main lines of business thanks to the profitable growth strategy and more benign weather.

Please move on to slide 12; we're going to skip the 11. As we mentioned, the first quarter was challenging for the Life business, premiums are down due to the adverse and volatile market conditions for sales campaigns as well as lower sales for unit-linked products in Spain.

It is also worth remembering that 2017 premiums included approximately €17 million from UNIÓN DUERO VIDA, a former subsidiary was sold last year. The total market decrease in savings premiums for the first quarter is 17% with some competitors down by over 30%.

The fall in results in IBERIA is due to the cancellation of our provision for bancassurance contingent payments in 2017, you know it very well, which had a €29 million impact. This is before taxes again.

In Brazil, currency depreciation is still hurting premiums despite the 6% increase in reals and thanks to the recovery of lending activity. Results here are still impacted by higher acquisition expenses (00:16:00), especially in the bancassurance channel as well as the falling financial income approximately around €30 million due to the lower returns on floating rate and inflation-linked bond.

Just a remark, the SELIC rate was 6.5% at the close of March compared to 12.3% a year ago, practically half, and inflation was around 2.8% compared to around 4.5% last year. Obviously we're very happy with this inflation reduction that will help us our operation and also the country, but obviously it's hurting our financial income.

Moving on to slide 13, you can see the breakdown of shareholders' equity and its evolution during the first quarter, which has fallen by over €145 million from December to

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March to around €8.5 billion. The decline was largely driven by the depreciation of our main currencies during the period and lower retained earnings. On the other hand, the recent improvement of the Spanish sovereign rating had a double effect. On one side, we had a positive impact on financial assets available for sale. And on the other, this increase in financial assets is offset by a negative impact on chartered accounting as a relevant volume of disinvestment portfolio corresponds to Life portfolios with profit sharing.

As you can see on the right side of the slide, net unrealized capital gains grew by €31 million and stood at a comfortable €651 million, providing MAPFRE with a flexible capital buffer.

Please turn to slide 14. On the left, you can see the assets under management continued to grow steadily driven by the good performance of the Spanish fixed income portfolio, on the back of improvement in the sovereign rating.

Nevertheless, this positive impact has been offset by the weak performance of equity markets after January, which is reflected in the 0.9% decrease of the mutual and pension fund businesses. Part of the decrease has been recovered in the April with the wonderful performance of the market.

On the right, you can see the breakdown of the investment portfolio. Our investment strategy has been stable throughout the year with a slight increase in fixed income assets. Realized gains in Non-Life were around €32 million, similar to last year. During the quarter, we were able to take advantage of market volatility and a narrowing of the Spanish RISKS premium to realize gains in both equity and fixed income portfolio.

Realized gains in equity were made basically in January and fixed income in February and March. I would like to point out that despite the fall in the equity market in March, the unrealized gains in our equity and mutual fund portfolios around €50 million remain at very comfortable levels. And performance in equity markets in April has been quite good, returning to similar levels as at the beginning of the year. It will continue to give us leverage to take advantage of future opportunities. Finally, it's worth pointing out, the high accounting yields in our portfolios, 2.4% in Non-Life and nearly 5% in Life, well above market yields.

On page 16 on the left side, you can see the breakdown of the capital structure at the close of March, which amounted to €12.7 billion. There are no significant changes compared to last year, so we're going to move on to Solvency II. And on the next few slides, we will take a closer look at these figures for the full-year 2017 with Ramón Carrasco, our CRO, which is with us. Ramón, the floor is yours.

Ramón Carrasco

Thank you, Fernando. Solvency II figures as at 31st December 2017 confirm MAPFRE's strong solvency position, 200.2% Solvency II ratio is based on the high quality capital structure of €8.9 billion in the eligible own funds of which 93% is on restricted Tier 1 capital and the remaining 7% is Tier 2 subordinated debt. On the right side, you can see our

sensitivity analysis. As you can see the impact on the solvency position from the various events is limited. The greatest impact occurs when an increase of 15 basis points is considering the corporate and government bond spreads, in which case the ratio will stand at 190%.

Please turn to the next slide. On this slide, you can see the main drivers of the change in Solvency II ratio during 2017. This position is explained in large by the impact of the currency movements affecting both eligible own funds as well as the SCR. Regarding eligible own funds, the IFRS equity decreases, largely driven by currency movements.

This impact is reduced by the following Solvency II adjustments that are lower reductions in intangible assets following the write-down of goodwill and VOBA in Brazil, the sale of UNIÓN DUERO business, as well as currency movements; ABDA is excluded from the Solvency II perimeter, and therefore it is valued at zero; the impact of the phase out of the transitional measures, which includes the elimination of the transitional from UNIÓN DUERO. The fall in the capital requirements is driven by lower capital requirements for the entities under equivalence, mainly as a result of the depreciation of the U.S. dollar and Brazilian real. In the next two slides, you can have more information regarding solvency.

That's all from me. Thank you for your attention. I will now hand the floor back over to Fernando Mata who will wrap up the presentation.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Ramón, for the detail and interesting information. To draw the presentation to a close, I'd like to outline some conclusions regarding MAPFRE's performance this quarter. First of all, performance has been excellent, particularly in the Non-Life business, thanks to robust fundamentals based on the solid contribution from MAPFRE IBERIA and MAPFRE RE as well as significant improvements LATAM both NORTH and SOUTH.

Secondly we're fully focused, you know very well, on completing the transformation initiatives in two relevant cities, the U.S. and Brazil, in order to improve our results. Discussions with Banco do Brasil regarding the update of the agreement are progressing without any relevant issues and we expect them to conclude in the coming weeks.

We expect an uptick as well in Life sales in a less volatile market scenario this year in Spain and a more favorable context in Brazil. I would like to say that most of the savings Life campaigns are scheduled for the three remaining quarter.

And to wrap things up, we will continue implementing our profitable growth strategy supported by our financial strength and continuous commitment to value creation for our shareholders. Thank you and now Natalia will begin with the Q&A session.

Q&A

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you, Fernando. Now please let's move into the Q&A. The first question comes from (00:24:59) from Caixa BPI. It's regarding MAPFRE ASISTENCIA. Following the improvement in MAPFRE ASISTENCIA, do you expect to rates break even this year?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Sophia (00:25:12). I mean, it's still early to say. It's just the first quarter of 2018. We are particularly happy with the results. And as you know, I mean the transformation we're making in MAPFRE ASISTENCIA is taking (00:25:28), this is the third year and we expect to see the benefits of the actions taken during the last two years in 2018.

And our balance sheet is quite solid and there are many surprise left on the asset side with a significant reduction in - we expect a significant reduction in losses in 2018. Guidance, let's say that as we mentioned in previous meetings, let's say the single-digit will be fine although this is still too soon to talk about any specific date for the breakeven. But we are happy with the first quarter result of MAPFRE ASISTENCIA.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you very much. This one comes from a Ivan Bokhmat from Barclays. It's regarding Solvency, so I guess that Ramón will take that. And the question is why was ABDA excluded from Solvency II perimeter?

A - Ramón Carrasco

Yes. Thank you, Ivan. First of all, implementing Solvency II is not easy, it involves a lot of costs by implementing new processes and requires a lot of data, and a lot of process to be included in the company. It is more difficult in those countries where we're not used to Solvency II processes and therefore we decided not to implement Solvency II in ABDA at this moment.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you very much, Ramón. Next question comes from the Rahul Parekh from JPMorgan. And it's regarding the underlying combined ratio run rate in the U.S. What is the underlying combined ratio run rate in the U.S. ex the snowstorms? And what is the trend in pricing there?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yeah. Thank you, Rahul. The underlying combined in Massachusetts, which is their main state of the Northeast, was around 100% and the remaining states it was around 117%. That's excluding the impact of the extraordinary storms. And now we are eliminating those cat events that were categorized as bad by the U.S standards.

We are not happy with the results and 100% is not acceptable combined ratio. And we're implementing additional actions in order to improve it. Regarding pricing, which is the most relevant, we have submitted rate filings in several states.

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I remember last year at the Investor Day, we said that we presented filings for 32 rates increase in 18 states. In that case, we got filings in Massachusetts, it is an approximately 5% increase and also in California with (00:28:50) - I don't remember - if I remember well, it's around 7% increase.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you. This one comes from Andrew Sinclair from Bank of America and also Niccolo Dalla Palma from BNP Paribas, Exane BNP Paribas. They had the following question. What would be the combined ratio? Oh! No, sorry, what would the combine ratio had been for the USA, excluding the states which are being sold (00:29:19)?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Well, we (00:29:24) were around 3.5% more or less, between 3% and 4% of total premiums with combined ratio of 128% more or less, but we don't have the figures excluding these states, but we can provide you this figure in further calls.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Okay. Thank you. (00:29:47) at Caixa BPI and Andrew Sinclair both have questions regarding the developments of the restructuring in the U.S. business. The questions are more or less, say, when do you expect to receive the proceeds for the sale of renewal rights plus all the U.S. disposals, can you give us any color on amount of proceeds?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yes, let's say that the, yeah, the sale of the renewal rights in Indiana, Tennessee and Kentucky, which is the only operation that has been completed (00:30:26). I mean we already have the transaction finished and we receive as an upfront payment. (00:30:34) upfront payment. There is as well a slide in commission and a variable payment or variable assessment that will be made at year-end and probably will be assessed once the calendar year is finished. But nevertheless, I mean we do not expect any significant amount out of these portfolios, they're quite small.

Regarding New York and New Jersey, we are quite positive. We've been positively surprised with the noise that is currently there and the good preparation that we have in the U.S. and we've seen a lot of appetite for transaction, and we will keep you informed when we have more information. What I can say now is that the potential barrier (00:31:29) is carrying out the duty and exercise, I mean it's coming to an end at the end of this month of April. We had some good vibration (00:31:41), good expectations And but it will take some time still to see the impact on results. We haven't discussed yet any value of the transaction, not a potential consideration for this operation.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you very much. Now, we have a question coming from Andrew Sinclair, also Ivan Bokhmat, Niccolo Dalla Palma, (00:32:14). This set of questions is regarding IBERIA. The first one is, can you quantify the (00:32:22) benefit from benign weather in IBERIA during this quarter?

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A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Not really. What we can assess is the effect of the severe weather last year. And in 2017 the weather-related events resulted in approximately 60,000 claims, more or less €16 million. This loss has affected basically homeowners, condominiums, and the small and medium enterprise property insurance. More or less, I mean, let's say that the combined ratio is like 4 percentage points of General insurance in IBERIA.

I mean weather was benign in Spain in terms of strong winds and heavy rains but the - and also the (00:33:17) business performed very well. But there is still another quarter to come, and usually some of the heavy rains are spread during the first quarter, (00:33:31) in the second quarter. So we have to wait just to see the end of the first half of the year before, saying that the results in Spain are wonderful.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Okay. Thank you. And now regarding the very strong Non-Life result, especially in Motor in IBERIA with a combined ratio of 90.3% and good premium growth. The question is, how sustainable is this performance?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Well, let's say that every year is a nice surprise and because we're improving year-by-year, our loss ratio and our combined ratio. I mean, this is, we're harvesting them in the results of the profitable growth strategy. I mean, before this presentation, I was reviewing, I mean, the historical data of Spain, when I was (00:34:28) this year for this unit and from the period, from the five consecutive years between 2008 and 2013, the combined ratio was in the range between 89% and 93%. And the majority of the quarter was in the low 91%. And it was after three years of the main crisis. And so let's say that we'll repeat the same schedule. I mean this is a good moment for the automobile particularly for MAPFRE. We got our wonderful and very efficient operation. And our expectation are superb, and we would like to say that we do not expect any relevant deterioration so far of automobile unit in Spain.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Good, thank you. Now regarding Life premiums, in IBERIA Life premiums declined 19% year-on-year, a substantial drop even adjusting for UNIÓN DUERO VIDA, what drives the decline?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Okay. Let's say that then for the third quarter, I mean basically premiums are coming from two different sources. First is new products or new business and also renewals. Regarding renewals, practically there were no maturity of products sold in previous years. And regarding new business or new products, the current financial scenario was deterrent to sell new products in both, I mean fixed income and also in equities. So looking forward, I mean the coming quarters, majority of the sales campaigns are scheduled for the second and third quarters based on renewals. So if there is more stability in the financial markets, and we believe that we will be able, I mean, to increase both new products and also our renewals in the remaining quarters.

Obviously, I mean, UNIÓN DUERO VIDA was sold last year, but premiums they were not relevant. In the first quarter, there are some products like annuities and also the dividend DUERO VIDA's (00:37:15) unit linked, that investment in Spain shares, we've had dividend, I mean they performed very well. But not a lot of spending of (00:37:23) in order to have a premium growth in this quarter.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Okay, thank you. This one is regarding MAPFRE RE unit. And it comes from Ivan Bokhmat from Barclays. He asked the following question. Could you please quantify the low NatCat impact? How much the take out of the combined ratio versus normalized, result is even better than first Q 2017?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Ivan. The result of the Non-Life business improved from €63 million to almost €75 million in the third (00:38:09) quarter of this year. We've seen an improvement in the financial result as well as in the technical results, thanks to improvement in claims and growth in premiums earned compared to last year.

In addition, we should bear in mind that MAPFRE RE was affected last year by one-off losses resulting from the Niño Costero, which have not repeated this quarter. I'm not sure I'm answering the question. But you know we don't disclose underlying combined ratio for MAPFRE RE and also the no budget (00:38:43) but we're quite happy with MAPFRE RE results. The absence of NatCat events other than small mudslide in California and also the heavy - the snowstorms in New England. Those are the only to highlight in this first quarter. We're quite happy and but I mean that's all (00:39:06).

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you very much, Fernando. Next question comes from, it's regarding investments. We have received several questions regarding investment results. So Ivan Bokhmat at Barclays has the following questions. Considering the move in interest rates across geographies in first Q 2018, how do you think of your regular income development in 2018 and 2019? Is that a headwind for the business in general? Could you quantify how much lag on operating profits should be expected? Also I would like to continue because these questions are regarding the same topic what level of unrealized gains in MAPFRE carrying currently is MAPFRE, sorry - what level of unrealized gains is MAPFRE carrying currently? How do you think about crystallizing them?

Last one regarding on this topic, Farquhar also has a question on the investment portfolio. Farquhar from Autonomous, is more generally how do you expect Non-Life investment income to develop, in particular, how does the new money, the investment rate compared to the current portfolio yields? So the question is regarding investments, but we thought we could put them together.

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yeah. Thank you everybody. I mean, let's say that the low deal scenario and also financial income from fixed income is not a headwind this year, particularly this quarter is

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something that we are managing and we are coping with and for the last three years, four years. Fortunately, I mean, we got a privilege portfolio as we said, and particularly in Spain, so far the high deal scenario in LATAM help us to compensate part of the reduction we saw in Europe, mainly in fixed income.

If we look at this by geography we could say that in Europe we are expecting the change in trend in 2019. Furthermore we are working according to plan, we have an alternative investment program to reach €500 million by 2019. So far we have already signed commitments for approximately €300 million, more or less €100 million already paid out of this €300 million, mainly in real estate when we saw good opportunities according to our MAPFRE RE's profile.

In the U.S. we've seen an increase in the (00:42:16) in the first quarter but this trend we believe will continue in 2019. In Brazil (00:42:24) is still significant due to the lower interest rates, we got a short duration as well in majority of the countries but particularly in Brazil. When we speak about Life, we don't remember that in Brazil where we have this protection portfolio, and as you know we are trying to match the durations, assets and liabilities, it doesn't makes (00:42:50) a lot of sense to have larger durations in the assets sides in countries like Brazil. So let's say we have some exposure to volatility in yields (00:43:05) in Brazil. If you compare SELIC rates practically this year is half the one we have last year.

Regarding capital gains, during the quarter capital gains have performed really well and the financial capital gains - finance let's say investment because in real estate we were quite active but we didn't see any good operation, I mean to rotate our assets. But and let's say - on the financial side, the Spanish debt had a fantastic evolution. Overall, due to the improvement of - in the sovereign rating to A by the Standard & Poor's and other rating agencies. This means minus 40 basis points on the 10-year bond. On the other hand, equity capital gains have been reduced on the active portfolio to €50 million, but this has been recovered during the month of April.

Realized capital gains in terms of crystalize it then, I mean it was, let's say, it was a hard quarter. Let's say that we did well - or we were lucky or both. Realized capital gains were approximately one-third on equities and two-third on bonds. Equities were - realized gains were made in January. Basically, the Spanish IBEX 35 index grew 6% and therefore an 10% growth expected for the full year. So at that point we decided to realize some gains.

Realized gains on fixed income were made in February and March, taking opportunity of the movements in the yield curve. For the remaining quarters, as we discussed before, we strongly believe we will be able to repeat the €100 million realized gain amount that they were reported last year. We know that it's been challenging in the current financial scenario, some of the real estate units are in the market and we expect some realized gains as well from real estate. But let's say that realized gain has become and is a permanent source of income in our perfect and loss account. And we're relying on the ability and capacity of our CIO and MAPFRE in Brazil in order to get this number.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

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Thank you. Thank you so much. Next one is regarding the Life results. Rahul Parekh of JPMorgan would like to know if the €130 million that we have reported Life net profit is also equal to the underlying net profit in Life. Also Farquhar Murray from Autonomous has asked the following. Please could you explain the fall in the Life's technical result and also the fall in the Life investment income, how should we think about the likely future evolution of this lines over the remainder full year 2018?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yeah. Thank you. Regarding Rahul's question, you are right, there are no extraordinary in the €130 million reported live result, underlying and accounting result is the same. What I had to say that we do not consider it as an extraordinary, the effect of the currency negative differences, which obviously is part of them, they were in Life business, those coming from Brazil. I mean the total effect that we assess was like a €9 million net of losses, net of taxes and minority, but we do not consider it as an extraordinary.

For the second question, the fall in the results of the Life business was largely driven by the fall in Brazil. Financial income still suffering from lower deals. And there also been a pick-up in acquisition expenses, especially in the bancassurance channel. Probably you remember, the third quarter and also the fourth quarter, we increased our acquisition expenses, basically commissions in order to boost commercial activity. We have seen part of this action with the 6% increase in Life premium during the first quarter in the bancassurance life channel. Also the currency impact, it has been significant in Brazil.

The other main Life business is Spain, we must keep in mind that there is a high share of Life saving products, and in this case, you must always look at the total result of the Life business, not the technical result on its own, as the increasing financial results is often offset by an increase in liabilities because of the matching of both figures. Also, the fall in IBERIA is explained by the €29 million one-off or extraordinary item of last year.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Okay, thank you so much. The next one is regarding the ROE. There are two questions regarding ROE. One is from Rahul Parekh and the other one from Michael Huttner. They want to know if what is the ROE achievable in 2018 given that the target is still 11% and first Q of 2018 was 7.4%. Regarding the same topic, Michael Huttner from JPMorgan would like to know if you can talk to us about the potential areas of improvements.

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Okay, let's me go first with the first question. The underlying ROE is 9%, and we are still working towards achieving the target initially set when we announced our three-year strategic plan. Obviously, we already said that with moderate expectation, then we said that it was very challenging. In the end, it's crystal clear that this is (00:50:40) extremely difficult to achieve. Nevertheless, I mean, we're happy because on the long run we see an improvement in the underlying ROE. Regarding any guidance with the current volatility to the market and also this is the only one quarter it is extremely difficult to estimate how our capital base is going to evolve throughout the rest of the year, which could increase the volatility on the ratio. So far looking at the currencies, probably we can expect further

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reductions in some Latin America currency that will help us to improve ROE. But as we said many, many times we would like to increase and to improve our ROE on the top line. I mean on the net income rather than we saw decreasing our capital base.

Regarding the second question from Michael Huttner, thank you, Michael, you have already seen the results in Spain. This is the first country where this strategy was applied, even before we launched the three year strategic plan. As we said the 80:20 plan in order to cancel non-profitable portfolios, started in Spain, the beginning of 2014 and when we saw the first above hundred combined ratios, particularly in third party liability and also in some segments of business in Automobile particularly fleet. Then the strategy was applied in other countries and we've seen improvements in LATAM SOUTH, LATAM NORTH, Italy, ASISTENCIA where we have completely turned the business around.

Now, we're working in the other regions especially in Brazil and the U.S. where the new plan should accelerate profitable growth and we will see the results in the upcoming quarters, but we're still too early I mean to - this is what I can say. I mean, this is still too early state in order to give you an additional guidance regarding both countries.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Okay. Thank you. Now, this block of questions is concerning the developments in Brazil, also from (00:53:26) Rahul Parekh and Ivan Bokhmat. The first one is can you provide any update on discussions with Banco do Brasil and when we should expect to hear more about that?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Well, this is still too soon to give you details on discussions and also the main aspects of the future agreement. As we said, at the AGM, there is a six-month period in order to complete the transaction and the contract, but also I said that that we expect that the contract to be completed in April. We're late, I mean, it's not going to be in this month, but May is very likely. I mean majority of the discussion are coming to an end. I mean there is very, very little discussion, very, very few open issues and everything is going well. And just to adapt a compulsory approvals and compliance for the governance of both entities and all in all, I mean May looks quite likely, the month in order to be completed. Regarding conditions aspects, as we said, we do not disclose any information. I will give you probably a full presentation with a lot of - with any disclosure once the contract and the agreement is signed.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Okay. Thank you. In terms of this agreement or this Banco do Brasil, will the upcoming change of structure in Brazil help you tackle the problems more efficiently in this way will the (00:55:37) earnings accretive in 2018 and 2019?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Well, let's say that we are optimistic with the evolution in Brazil in 2018 and 2019. What we made so far, I mean, redeployed say, we'll call it tax group or working group of more than 25 people from the actuarial and technical areas, different countries, the majority from

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Spain and they were in Brazil for over four months, they are back, yes, in Spain couple of weeks ago. During this time, they analyzed all technical processes, actions for Motor, and also they designed 23 different projects, comprising over 225 initiatives to mitigate potential weaknesses in the Motor business and also they identified a lot of areas of improvement.

So let's say that the recovery plan or the transformation plan is done and we've got a booklet in order to put into action in Brazil as soon as we can, and I said as soon as we can because the current organizational chart is facing these managerial (00:57:14) with officials from both entities, I mean the Banco do Brasil and MAPFRE. And we can't make any change in the organizational chart nor in the functional responsibilities until the agreement has been signed.

So let's say that the plan is done. The plan currently is on the table and ready to be implemented. But we have to wait a little bit longer. Overall, until now, our actuarial, technical, commercial management function have been shared and currently they're still shared and by officials from Banco do Brasil and from MAPFRE. In the future, we're able to run Motor line business and the entities we bought 100% of the shares on our own. So we will be able to implement these initiatives. So let's say that the bulk of the improvement will be at the end of this year or probably 2019.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Okay, good. Regarding the Brazilian Life business, the significant deterioration in local currency terms, the questions are the following, is this a far run rate for 2018? How do you compare the benefits of improved lending versus the headwind of lower investment income? In this way, financial income in Brazil was €20 million in first Q, is that below normal or is this the level we should expect going forward?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yeah. Thank you. I personally and we don't think the Q1 - the first quarter 2018 Life results can be considered as a run rate for 2018. I mean it's very important to take into account the effect of the recovery of lending activity and on how it helps to improve premiums volume. Also the increasing acquisition expenses is giving fruit, but this is an expense that is variable and we can change and to adapt to current volumes of premiums. So we can see perhaps further increases, but also further reduction as well in this ratio. No doubt investment income is affected as you know by evolution of SELIC rate, where it's currently at 6.5%. We can say that current portfolio deal has basically priced in most of the rate cuts of the last 12 months. In this way the accounting deal is now only 90 bps above market deals.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Okay. Thank you. Next question comes from (01:00:20) and is regarding the capital increase in Italy. Can you give us more color on the capital increase of €120 million in Italy?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

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Yeah. Thank you, Michelle (01:00:23). The objective of the capital increase - well, first of all, let's say that the capital increase was in the budget, no doubt and the objective of the capital increase is to (01:00:50) VERTI Italy's capital position, VERTI Italy's continuous improving results is very close to breakeven and something that we have to do, and that's it. So as you know the capital increase of €120 million, €60 million were fully paid in the first quarter and there is some core capital and will be paid, if we need to - it has been considered as Tier 2, as you know well. So in the end the Solvency II ratio will improve dramatically. And this will allow us I mean somehow to manage in a better way the current subordinated debt that there are between VERTI Italy and VERTI Germany.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Okay, thank you. (01:01:49) autonomous would like to know if the exit from New York and New Jersey will entail a sale of this series or a sale of the renewal rights?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

New York is a company, so the current delay in sales is for New York company and New Jersey is a portfolio, but the current due diligence aside, comprises as well this portfolio. So we're looking at a transaction that will cover both states and both businesses. I mean the company and also the portfolio in New Jersey.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Okay, thank you so much. We are with the last question I have, I know it's regarding the reinsurance program. I don't know (01:02:43) but so far there is no more. (01:02:51) asks the following, could you please explain how the catastrophic program has worked between MAPFRE USA and MAPFRE RE? You have reported gross losses of €60 million and net of reinsurance at MAPFRE USA of €30 million. If you see the development of MAPFRE's combined ratio, it is stable at 91% and no significant impact can be seen. Could you give us more details on this?

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yeah. Thank you, (01:03:27) we have between MAPFRE USA and MAPFRE RE is few quota share, with retrospection 70%, out of this MAPFRE is retaining 30%. So let's say that the gross on net for the U.S. operation and for MAPFRE RE before expenses is the same. Regarding the figures, I mean, I guess - I think the \$60 million, €50 million for the gross loss and also the €30 million for MAPFRE USA is net of reinsurance and net of taxes as well. And so probably I mean with this information I mean you can make it up and guess the both impacts. And excluding there is no storms and general catastrophic experience has been more benign, let's say that and as an overall conclusion.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Okay. Thank you so much. There are no more questions from the analyst. So if you want to do a wrap up to close the session.

A - Fernando Mata Verdejo {BIO 19676348 <GO>}

Yeah. Thank you, Natalia, and Ramón and I want to thank everyone for joining us today, despite this being a singular first quarter, I said singularly, yes, because I didn't find any better work and our long-term outlook remains quite positive with no changes. If anything, we should speed up process implementation in the U.S. and Brazil, and also it's very important to keep MAPFRE Spain and MAPFRE RE in the current efficiency levels within the profitable growth framework.

Thank you, everybody. Have a good weekend.

A - Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you very much.

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