

## Q3 2017 Earnings Call

### Company Participants

- Eduardo Pérez de Lema Holweg, CEO & Management Committee Chairman-MAPFRE RE and Executive Committee Member
- Fernando Mata Verdejo, Chief Financial Officer
- Natalia Núñez Arana, Director-Capital Markets & Head-Investor Relations

### MANAGEMENT DISCUSSION SECTION

#### Natalia Núñez Arana {BIO 19480994 <GO>}

Good afternoon and welcome to MAPFRE's Results Presentation for the Third Quarter of 2017. As in previous quarters, our CFO and Member of the Board, Mr. Fernando Mata, will take you through the key highlights and main trends. On this occasion, it's a pleasure to have here with us Mr. Eduardo Pérez de Lema, MAPFRE RE's CEO. He will give us an update on the impact of the recent catastrophes on MAPFRE's business, as well as a brief overview of MAPFRE's reinsurance program.

As usual, at the end of the presentation, all questions that were sent to the specified e-mail address will be answered during the formal Q&A. The Investor Relation team will be able, if you have any further question after that. Finally, we would like to remind you that we will be holding our second Investor Day on December 1, which - it will be a live webcast. Further details and agenda will be provided at a later date. We hope you can join us.

And now, Fernando, the floor is yours.

#### Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Natalia. Good morning, everyone. It is a pleasure to be here with you for this results presentation. Before we begin with the numbers, I would like to go over the two main developments of the quarter. The first is that, on September 25, we published an estimate of the impacts from multiple large cat events in August and September, Hurricane Harvey, Irma and Maria, as well as two quakes in Mexico. We would like to reaffirm the conclusions made at that time, which are, first, the range of net losses remains between €150 million and €200 million on MAPFRE's net profit. Second, our cat reinsurance protection has been very effective in protecting MAPFRE from cat events of this size.

Third, it is still early to have an accurate figure of the gross loss of these events. And last, for third quarter reporting purposes, our best estimate is €176.4 million, which is calculated with the best estimate for each event based on our cat coverage and retention. I would like to emphasize the second development, which is that our profitable growth strategy is

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still in place and delivering results. First, MAPFRE IBERIA continues showing improvements in ratios, especially in auto insurance with a combined ratio of 91% and almost €75 million increase in gross profit versus last year.

Second, MAPFRE RE's non-cat business has performed extraordinarily well. Excluding these events, its combined ratio will stand at around 90%, over 6 points lower than last year, and its net profit will have grown by almost 40%. Other mid-sized (03:18) countries like Turkey, Peru, Colombia and Italy show outstanding improvements as of September. Throughout the presentation, we will be presenting figures both including and excluding the third quarter cat events in order to provide you with a better picture of MAPFRE's underlying trends.

Let's move to page 4, where you can see the main figures for the quarter. The column on the right shows data excluding the third quarter cat events to show the underlying evolution of our business. The result stood at almost €445 million. Excluding these five events, the result would have increased by over 8% to €621 million, and the combined ratio will have improved by nearly 1 percentage points to 96.3%. The ROE would have reached over 9%.

On page 5, let me go over the main trends of the period in more detail. As you can see, the 5% increase in premiums was the main driver of our solid revenue growth, as financial income was affected by lower reinvestment yields across LATAM and in Europe. Life business grew nearly 7% and Non-Life close to 5% despite the cancellation of more than €300 million of loss-making portfolios, in line more or less with our profitable - in line with last year, with our profitable growth strategy carried out in both years. Growth was affected by two large policies; in 2016, a large group savings policy for over €130 million, and in June this year, a multi-year policy in Mexico for €500 million.

Excluding these, premiums will have increased by over 3%, with nearly 11% growth in Life business. In addition, I would like to highlight the following. In Spain, Life business is performing extremely well with outstanding performance in the bank assurance channel. Retail Motor and Health are also growing, thanks to the new campaigns and fine-tune of some of our products. In Brazil, we have seen a slight pick-up in premiums in local currency, but the appreciation of the Brazilian real is still the main growth driver. And finally, MAPFRE RE continues contributing positively to business volumes.

Let's move on to the next page. The combined ratio closed at 98.7%, 1.5 points higher than last year due to the cat losses of the quarter. Excluding these events, the underlying combined ratio stands at 96.3%, with excellent performance during the quarter. There are positive trends in several markets. In Spain, the Motor loss ratio fell by over 4 points to 91%, consistently below the market average. In Turkey, the Motor loss ratio improved by nearly 7 points, thanks to a stricter underwriting policies and tariff increases implemented last year. They are offsetting rate cuts in compulsory Motor TPL insurance.

In Brazil, in Non-Motor lines, the combined ratio improved by around 2 points, offsetting (06:59) the difficult market environment in Motor. Improvement in Motor loss ratio at MAPFRE USA of over 1 point, especially outside of Massachusetts, thanks to the

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cancellation of loss-making portfolios, despite a competitive market with increasing frequency and claim costs.

Regarding expenses, our strict cost containment initiatives have lowered our expense ratio very close to the 28% target, with noteworthy improvements in IBERIA, Mexico and Italy. Once again, I would like to point out that (07:35), our captive agent network in Spain, has proven to be an optimal sales channel taking advantage of our fixed cost base with growing business volumes.

Please turn to slide 7. Shareholders' equity decreased by nearly 4% in the period, mainly as a result of the depreciation of several of our main currencies, especially the Brazilian real, over 8%, and the U.S. dollar and the Turkish lira, over 11% each. Several other Latin America currencies have also fallen in value. In fact, the only currency is the peso Mexican that is increasing a little bit.

Assets under management continued to grow steadily supported by, first, the rallying equity markets, which was partially offset by the decrease in the fixed income portfolio due to rising rates in Europe, especially at the longer end of the curve; and second, the positive evolution of the mutual and pension fund businesses with nearly 10% growth, thanks to MAPFRE's successful strategy to grow in asset management.

Now, I will hand the floor over to Eduardo, MAPFRE RE's CEO, who will talk to you about cat loss and protections.

### **Eduardo Pérez de Lema Holweg** {BIO 19830783 <GO>}

Thank you, Fernando, and good afternoon to everyone. I would like to start on page 8, where you can see the break-down of the impact of recent events, which were exceptional in MAPFRE's results. These events, as I said, were exceptional at both in size and in frequency, with three massive hurricanes making landfall and two earthquakes happening in Mexico, all within a short period of time. Additionally, the season so far suffered three major hurricanes that didn't make landfall, making it one of the most active on record.

Hurricane Harvey hit the Southern U.S. and mainly affected MAPFRE GLOBAL RISKS. Irma hit the Virgin U.S. Island (09:47) and Florida, and Maria especially hit Puerto Rico, impacting the retail business as well as large corporate clients. The Mexican earthquake also mainly affected MAPFRE GLOBAL RISKS. All of these events had an impact on MAPFRE RE as well. However, the strict underwriting policy in the affected regions and our business mix made the impact moderate.

Due to the magnitude of claims, it is still too early to know exactly what the total gross will be, as settlement will go on for months, with some of these adjustments being very complex. To reach our loss estimate, we evaluated in MAPFRE RE's and MAPFRE GLOBAL RISKS accepted reinsurance portfolio and MAPFRE primary insurance business in the affected area. This is based on detailed analysis of the exposures by type of business,

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specific locations, experience of past events and detailed risk characteristics that include construction type, use of the premises, et cetera.

MAPFRE has implemented the necessary processes in each of the affected countries to handle and settle all claims as quickly as possible. MAPFRE risk management policy contemplates the occurrence of events of greater impact on our accounts, as well of their occurrence in the same year. It also is worth noting that MAPFRE hasn't exhausted and is far away from exhausting the limit of protection by any of these events and has additional protection in place to cover further catastrophic events that occur during the rest of 2017.

It's also important to highlight that these catastrophes are earnings events for MAPFRE, not a capital event. Net losses only represent 2% of the eligible own funds. Finally, the Coastal El Niño affecting Peru during the first quarter has had a positive loss development during the year, as we no longer consider this an exceptional loss event. Also, at MAPFRE RE, the large loss burden, both cat and man-made, has been extremely low during the first half-year of 2017, so that the impact of the recent events could be absorbed within the large loss budget of the year.

Please turn to slide 9. On this slide, I would like to give you an overview of how we structure and design the reinsurance program for MAPFRE Group business, including insurance entities as well as MAPFRE GLOBAL RISKS and MAPFRE ASISTENCIA. At MAPFRE, our reinsurance program is structured on a consolidated basis, meaning that the group is protected for events affecting several companies under the same protection. On the left side of the slide, you'll see the basic reinsurance scheme.

Any given company of MAPFRE designs its own reinsurance program together with MAPFRE RE based on capital structure, risk appetite, regulatory needs of their portfolio, et cetera. These structures may include facultative sessions and proportional or non-proportional treaties. MAPFRE RE assumes part of the facultative business, the rest is placed directly into the market, and 100% of the reinsurance treaties. Of these parts, MAPFRE RE may retrocede part of the exposures proportionally and the rest is retained.

The aggregation of the retentions of the different companies, for example, in Puerto Rico, Dominican Republic Global Risks and MAPFRE RE for Hurricane Maria adds up to what we call MAPFRE Group retention. The retention is the one that is subsequently protected by our group protections. Our global catastrophe protection program is designed on what we call several covers (13:32) defined on a territorial specific basis. The first one that we call NARC (13:38) covers essentially the territories that could be affected by large wind events in the Atlantic.

The second one that we call MERC (13:45) is designed to cover risks in other territories not covered by NARC (13:48) and where the main peril is earthquake, but it also covers for other perils. The third one, smaller in size and with a reduced retention cover, is what we call smaller territories and those where MAPFRE GLOBAL RISKS has exposures, but we don't have a MAPFRE company. On top of these covers, we buy a so-called umbrella layer that works if any of the previous covers is exhausted in a given event and designed to work only for extremely large events.

Finally, the retention is protected by a frequency cover that reduces the impact of the group if it's affected by several events in the same year. These protections are placed with top-class reinsurance panels. More than two-thirds of the limits are placed with reinsurers that are rated AA or higher. Further, there is a separate and parallel retrocession program in place for reinsurance risks accepted by MAPFRE RE for non-group companies.

Thank you now. And now, I will give the floor to Fernando.

## **Fernando Mata Verdejo** {BIO 19676348 <GO>}

Thank you for all these details. A quite comprehensive presentation indeed, Eduardo. Finally, I would like to highlight that MAPFRE RE plays an important in the group's risk management policy. It is a powerful tool for managing and controlling cat exposure across all regions, as well as monitoring reinsurer credit risk. After these exceptional events, MAPFRE continues focusing all efforts on its profitable growth strategy. However, as we have previously unveiled, as a result of these catastrophes, it is less likely that we reached some of our three-year financial objectives. In particular, the 11% average ROE and the 96% combined ratio.

Premium growth and expense ratio targets to remain on track. The dividend payout target range of 50% to 65% is fully in place. As we mentioned, the main driver of dividends will be results, and we will implement additional measures in the fourth quarter to improve net profit.

We have launched another cost reduction program to eliminate all fringe expense and postpone any others related to non-strategic initiatives. Also, market conditions permitting, we can take advantage of our privileged investment portfolio to realize capital gains.

Finally, I would like to mention that the board of directors approved an interim dividend of €0.06 per share against current results, making the total dividend to be paid this calendar year, €0.145 per share. As you know, the final dividend will be approved at the AGM in March 2019, and will depend on the full year's net income.

Please turn to slide 11. MAPFRE has been successfully executing its strategy throughout the year with major achievements in several main markets. Iberia is a great example of the success of our profitable growth strategy.

Profit before tax in Motor has more than tripled in the last two years with around €75 million increase this year. Premium growth in retail Motor has also picked up, and as of September, we have been growing above the market in premiums and in line with the markets in units.

The combined ratio of 91% is well below the rest of the market, thanks to, first, the cancellation of loss-making portfolios carried out over the last two years. Second, our

prudent approach to Baremo. Third, improvements at VERTI. And lastly, strict cost-containment initiatives, all while optimizing the structure with growing business volumes.

Life business continues growing even after 10 years in our bancassurance partners with a strong performance in this channel. Thanks to a well-designed sales and product strategy, and powerful distribution network.

In LATAM NORTH and SOUTH, we are also bearing the fruit of the measures that have been implemented. In these regions, the attributable result has increased by almost 56%. The business in Mexico has undergone an intense restructuring process with a strong refocus on retail clients, and a significant reduction in expenses. Cancellation of unprofitable business in Colombia and Peru is showing results. Finally, Central America continues to show solid profits with exceptional combined ratios.

MAPFRE RE, as we mentioned, continues achieving low volatility on its combined ratio and results compared to peers. This year is also benefiting from exceptional performance of large non-cat claims. The combined ratio at September was 96.6%, 90% excluding three quarter cat events, and the 10-year average is a remarkable 95%.

EMEA is another success story. Over the last two years, premiums have grown on average 26% each year as a result of the acquisition of the Direct Line's business in Germany and Italy, and results have more than quadrupled.

Turkey is performing very well, as we mentioned before. The business plan and rebranding in Germany are on track, and there has been a strong reduction in losses in Italy, due to a quick and complete restructuring of the business there.

Please turn to next page. On the other hand, we are still working on optimizing profitability levels in other units. Though some are taking longer than initially planned, we expect to gradually see the results of these efforts soon. Specifically, I would like to comment on Brazil, USA and MAPFRE ASISTENCIA.

In Brazil, the competitive market environment and microeconomic situation are still affecting the Motor business. And the combined ratios are still well over 100%. We have already implemented several measures including tariff increases, cancellation of loss-making businesses, as well as increasing deductibles and changing covers.

This cancellation process is ongoing, and we will continue working to improve profitability in this line of business. Results are still resilient. Thanks to a diversified business mix with a positive contribution from the Agricultural and Life business, both coming from the bancassurance channel with our partner, Banco do Brasil.

As you know, the U.S. is a key market for MAPFRE. But as we mentioned in our last AGM, we note that we don't have enough scale in some states, and we are currently analyzing those states considered nonstrategic. We expect to give you more color on this at the coming Investor Day. This year, premiums in the states outside Massachusetts have fallen

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by almost 8% based on both lower commercial activity and cancellations. Our business in Massachusetts is very profitable with a 96% combined ratio, and the region is a cash cow and the funding for the other states. And it will continue to be the core business in the U.S.

Finally, we're also working hard to restructure the assistance business. But this process is also taking a little longer than we expected. Results are still being affected by the write-down of intangible and other non-performing assets, as well as negative loss developments from contracts in the EMEA region that have already been cancelled.

In addition, overhead expenses of MAPFRE ASISTENCIA were high, considering its current size. But a significant reduction is already underway, with unexpected 24% decrease at third quarters and across the regions.

Please turn to page 13, and I will comment on the main drivers of the variation of the net result as well on extraordinary items. First, I would like to explain the changes in Non-Life. There was an over €90 million increase in the underlying technical result. Thanks to improvements in underwriting and cost-containment initiatives. There was an offset by €253 million loss due to the cat losses during the quarter, we already mentioned.

The non-technical result had a €27 million improvement due to extraordinary expenses in 2016, and around half of the €107 million reduction in the underlying financial result is due to the U.S. dollar depreciation, while the remainder is due to lower reinvestment deals in Brazil, and as I mentioned before, in the eurozone. Finally, there was an over €10 million reduction in the level of realized, capital gains, net of write-downs.

And now, regarding the Life business, profit increased by €29 million due to improvements across the board, especially in Iberia, Colombia and Peru.

In addition, there were several corporate transaction that had a €24 million impact on pre-tax results year-to-date. The information is fully disclosed at the bottom right of the page.

Finally, taxes have decreased as a result of the catastrophes and thanks to the Agricultural business in Brazil which has, as you know, tax reliefs.

Please turn to following page, next page. On this slide, I would like to take a closer look at the evolution of our main units, and the impact that these catastrophic events have had on the results. As we already mentioned, performance in Iberia has been remarkable with over 8% growth in profit. LATAM SOUTH, the net result has almost tripled, and EMEA had a net loss of €16 million at September last year and now has reached a profit of nearly €30 million.

Even with certain non-cat losses (24:42), profit on MAPFRE RE continues growing as a result of good performance in non-cat claims, as we mentioned before. Results in North America fell by around 12%, excluding the catastrophes, mainly as a result of a still high Motor combined ratio in the U.S.

Global Risks has suffered a large impact from the catastrophes, €33 million, and there were also several large non-cat losses during the year. You already – you know well, because we already mentioned during the previous result presentation.

In summary, the net profit will have increased by over 8% during the year, excluding cat, which demonstrates the underlying resilience of MAPFRE's business.

Following slides have a more detailed breakdown of figures for the Non-Life and Life business. We have already covered the most important points. So, we can go directly to page 20 to take a look at our investment portfolio.

Our investment strategy has been stable throughout the year with a slight reduction in fixed income assets, mainly reinvesting in equity, also in alternative assets. We took advantage of higher volatility during the quarter to make changes in our portfolio. Realized gains in Non-Life are slightly lower than the previous year figure and include the €48 million pre-tax gain from the sale of building in Madrid in the second quarter.

I would like to point out the high level of unrealized gains on our equity and mutual fund portfolios are around €175 million. This give us leverage to take advantage of future market opportunities.

Finally, it's worth pointing out the high accounting yields in our portfolios, 2.6% in Non-Life and around 4% in Life, well above market yields, and small variation compared to previous quarters.

Now turn to page 21 to discuss the evolution of our capital base and debt position this year. On the left side, you can see the breakdown of the capital structure as of September 2017, which amounting to around €13 billion, the largest of which is equity with over 80% of the total.

On the right-hand side, you can see the evolution of shareholders' equity which has fallen by €360 million during the year to €8.8 billion, the decline was largely driven by market movements, first on one hand (27:24), the depreciation of several of main currencies already mentioned had an accumulated impact resulting in a €526 million decrease in equity.

On the other hand, there was a decrease in financial assets available for sale reflecting two opposing movements. First, an increase in the value of equity in the global (27:46) environment. And second, a decrease in the value of fixed income which was largely offset by shadow accounting.

The main change in our debt structure during the quarter was the redemption of the July 2017 outstanding bond on the first call date. We also slightly increased the balance of the syndicate credit facility with €660 million drawn down in September compared to €320 million at the end of June. Leverage remains at very low levels compared to our peers at 18%. Our interest coverage stands at around 17 times earnings before interest and tax.

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On the next slide, we will take a look at our Solvency II position. Solvency figures as of June 30, this last quarter, this year confirm MAPFRE's strong solvency position and low volatility. The Solvency II ratio is based on high quality capital structure of more than €9.4 billion in eligible own funds, of which 87% is Tier 1 capital. Tier 2 capital includes the subordinated bond that was called on July 24. Excluding this, the pro-forma solvency ratio will be 192%.

On the right, you can see the main drivers of the change in our solvency ratio. The 4-point reduction mainly driven by a fall in IFRS equity, was offset by the increase in Tier 2 subordinated debt.

That's all from my side. Thank you. I'm handing the floor back to Natalia.

**Natalia Núñez Arana** {BIO 19480994 <GO>}

Thank you, Fernando. We hope that you have found this presentation interesting, and that we were able to cover the main topics that interest you.

And now, as in other quarters, we will try to answer all the questions you are sending. If there are any remaining doubts after the presentation, please feel free to contact the Investor Relations team, and we will be more than happy to help you with whatever you may need.

So, let us start the Q&A session.

## Q&A

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

I'm going to start with a block of questions concerning development in Brazil. So, first one comes from Andrew Sinclair from Bank of America Merrill Lynch, and he wants to know in Brazil, Life premiums are still declining year-on-year in local currency. What signs have you seen of a turnaround?

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

Thank you, Andrew. As you know, the Life business fell 4%, affected by the drop in - basically in Life protection insurance. This process is linked to personal loans from Banco do Brasil. I mean, the country is leaving, I mean, the (30:44), but we still don't see great activity in lending - a great increase in lending activity, and also the correlating insurance business, but hopefully, we can expect a better scenario for the coming quarters.

Basically, the evolution in the next quarter will depend on as I said the recovering of the economy, which is underway; the recovery on the lending activity, which we'll expect being better, but we don't have the crystal ball. And also, that there will be an increase - better distribution of personal loans from Banco do Brasil.

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

Okay. Thank you. Regarding Brazilian investment income on both Non-Life and Life side, this was materially lower in Q3. So, do we expect further deterioration in Q4 as SELIC has declined further?

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

Yeah. Investment income is affected by first, lower returns from floating rate investment. Second, the reduction as we mentioned in interest rates applied by Central Bank in 2017, the current SELIC is at 8.25%, if I don't remember - if I remember well. And last year, it was 14.25%.

And also, we have to bear in mind that our duration is quite low. It's approximately three years in the Brazilian investment portfolio. So, the flow of investment, I mean, is hitting that somehow. I mean, it's reasonable to expect a further decline perhaps in the investment income in next quarter, but we're working in the company, I mean, trying to reduce our expenses in order to offset this reduction in financial expenses - in financial income, sorry.

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

Okay. Great. Thank you. Now, as you can imagine, there are lot of interest about catastrophe losses, and we would like to start with some questions regarding catastrophes. First of them comes from Andrew Sinclair also from Bank of America Merrill Lynch. He wants to know, what is your total gross exposure pre insurance (33:05) for the recent catastrophe events?

**A - Eduardo Pérez de Lema Holweg** {BIO 19830783 <GO>}

Well, thank you. First of all, we are not providing yet the gross losses and gross exposure. We hope to give some more details later in the year. But for the time being, it's far too early to get the full details.

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

Okay. Thank you. That's clear. Can you please provide us some numerical detail of how you come to your net loss estimates from the recent catastrophe events?

**A - Eduardo Pérez de Lema Holweg** {BIO 19830783 <GO>}

Well, to get to that figure, actually what we have done is going in detail through our whole exposures in the affected areas, mainly in Puerto Rico which is the territory that is creating the biggest loss for us, and comparing it to our reinsurance structure. Once we know that the reinsurance structure is sufficient to cover whatever we can expect from this kind of events, then we could calculate based on our retentions how to get there.

Maybe it's useful that we give a little bit of flavor how we are so confident that our reinsurance protection is sufficient, and that has mainly to do on, first of all, how we're structured and then knowing very well our exposures. First of all, for that region, we have

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to make clear that we structured the protection to be able to work with events that affect several islands in the Caribbean and the U.S. simultaneously on the same event. Maria, which is the biggest one that we will face, only hit Puerto Rico, and so there was a good buffer of cover in place.

In addition to that, we have to know a little bit more details about the portfolio, and there we have basically two parts, which is MAPFRE GLOBAL RISKS exposure and the one from MAPFRE Puerto Rico. On the MAPFRE GLOBAL RISKS exposure, there is a substantial part of the risk that we are ceding through facultative to the market, that's approximately 60% of their exposure is protected through facultative. Then there are certain specific protections for certain types of portfolios like hotels and so on.

Additionally, many of the policies that MAPFRE GLOBAL RISKS rates have in themselves indemnity limits, so that even if there is a deterioration there, the loss to MAPFRE GLOBAL RISKS can't deteriorate any further. So, we are absolutely confident with the kind of loss that MAPFRE GLOBAL RISKS will take there, and we think, we have been very conservative when buying protection for that portfolio.

Talking about the MAPFRE Puerto Rico portfolio, there is a difference sometimes between the gross premium that I reported to the market and the net exposures that are protected and to which we are exposed.

When we look at the total exposures, I'm not talking here about gross premiums, but net exposures, 64% (36:15) of the exposures are residential, which is the type of portfolio that has been less impacted by the hurricane.

Within the commercial portfolio, in the commercial - there are certain types of business that are very close to being residential, and that includes what we call the residential condominium business that is booked as commercial business, but is definitely not commercial activities. And there are some government accounts that are also included in the commercial portfolio that we call the public housing, which is effectively also a personalized portfolio (36:50).

So that whole part of what I said between the residential and these blocks of business is approximately 90% of the exposures that we are protecting in MAPFRE Puerto Rico. And those are the ones that have been - they have been affected, of course, but to a much smaller extent than other parts of the portfolio.

And then, we have the pure commercial business, where we have been reducing our exposures very substantially over the last few months and years, because of pricing conditions in the market, and our portfolio at the time of the hurricanes were lower than before, which we have very much under control.

Finally, the biggest component or the biggest threat to the losses in the market is the business interruption cover and that is in our exposures, a very small part of the total aggregates. And we have been assuming there, very conservatively the losses that we

may face. And that's why we are extremely comfortable that the loss will be significant. It is significant to MAPFRE, but within expectations.

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

Great. Thank you so much, a very thorough explanation. Thank you very much. I hope this explanation helps to more questions asked half-time later. Thank you, Eduardo.

There is one more regarding cat losses and reinsurance agreements. He wants to know how much cover remains before reaching retention limits?

**A - Eduardo Pérez de Lema Holweg** {BIO 19830783 <GO>}

Well, there are two parts of that, that is for any specific events, we are not giving the gross figure and we are not giving the protection at this point. But we have cover in place even if there are deviations on our current views of the risks. So, we are comfortable with that.

And for further events, we have a lot of additional cover available, because as we buy from a pillar point of view, we have still cover for hurricanes, which we are close to ending the season. And for other type of events, we have separate pillars and separate covers and they have been used so far. So, we have more than enough cover for the remaining of the year and part of 2018 as well.

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

Great. Thank you. Could you also tell us who covers your reinsurance trend?

**A - Eduardo Pérez de Lema Holweg** {BIO 19830783 <GO>}

Well, we are not disclosing our reinsurance panel. But I mentioned before during the presentation that the panel is extremely high-quality panel and we are absolutely convinced that there is no risk at this point that there is any problem with recoveries.

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

If I may add something, I mean, our reinsurance panel has been with MAPFRE for ages, and we're extremely happy with the support they have given to MAPFRE. And I'm sure they will give us same support in the coming years.

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

Great. Also, there is a question that have been raised, and obviously it's about how much do you spend on reinsurance, and do you expect this to materially change when renewed. I mean what do you expect about the renewals (40:02)?

**A - Eduardo Pérez de Lema Holweg** {BIO 19830783 <GO>}

Well, the renewals are now starting, the negotiation process, it's early to know exactly what the outcome will be. I would expect that there will be some adjustments on pricing,

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depending on specific parts of the portfolio, and with difference if to what extent the protections are affected.

On our outwards program for the group companies, which is the only one affected by these events, the renewal is due in July next year, so we have some time to go. And for the rest of the programs, we are now in the renewal process. We would expect some price movements, not only because of these cat events, but also the general market situation in the reinsurance industry. But it's still early to know the full details about that.

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

Yeah. Thank you so much. And more or less, we have answered a lot of questions regarding cat losses, but they would like also know if you - if we are going to change our €150 million to €200 million guidance for these NatCat losses?

**A - Eduardo Pérez de Lema Holweg {BIO 19830783 <GO>}**

We are not changing that, because we don't see - there is nothing that we know today that could lead us to change that range. We are very comfortable with that and actually from the amount that we booked, which is in the middle of that range, we consider that can slightly increase up to the top end of that range, but it could also reduce slightly to the bottom end of that range. So, we are comfortable with that, and we don't see anything why it should change.

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

Great. Thank you. Now, yes, we are going to jump to Iberia, in order to give you a slight break. Now, it's a question coming from Silvia Rigol from BBVA, is asking about, what has happened in the P&C line in Spain. The loss ratio has been 69.9% in 3Q similarly to the report in 1Q and 2Q, when you were affected by severe weather?

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

Thank you, Silvia. In fact, in P&C in Spain, we've seen clear improvements in the third quarter. Remember that the first and second quarter, both, they were hit by severe weather and are affecting both. I mean the harmonious line of business and also Agricultural business. The drought season has been one of the worst in Spain and affecting our Agricultural pool as well.

And the third quarter, I mean, has been just the reverse, just the other way and we are currently practically not seeing the rain in Spain. If I remember well it has rained over Madrid a couple of days since July.

So, the third quarter, particularly for some line of business like Automobile, I mean, it's nice, and Automobile is performing very, very well. So, all-in-all, I mean, the three-quarter combined ratio is quite below previous quarters.

We expect, I mean, some rain and weather change as well, because we need, not for the insurance business, but for the country, and also, I mean, for other business in Spain, rain

to come in November and December.

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

Okay. Thank you. In any case, Silvia if you need further explanation about the numbers and the figures, we can have a talk later.

Continuing with Iberia, Sofia Barallat from Caixa BPI, wants to know about the expense ratio of Iberia Motor business that rose this quarter to 16.6%. Is this purely related to seasonal effects or should we expect a deterioration going forward?

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

Yeah. Probably, I mean it was something I didn't explain well during the presentation, and is related to some release of reserves. In MAPFRE España, particularly in Iberia, we released €15 million of the general provision for Baremo. But it was important to mention as well, and is included in the management discussion and analysis, we expensed €35 million on an early retirement scheme to be made in the fourth quarter.

And since Automobile is approximately one-third of the total business, one-third of this €35 million impact is offsetting somehow, I mean, the release of provision from Baremo. In the end, I mean, we expect to both impacts to be netted in the expense ratio. Perhaps, I'm not 100% sure, but perhaps, I mean, this is the right explanation for the increase in the expense ratio and the decrease in the loss ratio in our Automobile business in Spain.

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

Okay. Great. Thank you. Also, Silvia wanted to know about the result in Colombia that reflects losses in the quarter. we have reported a net income of €10.1 million in nine month, and it was - in six months, it was €10.4 million. What has happened? I think Silvia, it's a slightly movement, so we can discuss later about this. So, we can have a call later this afternoon and discuss about all these doubts that kind of emerge from the numbers.

So, after these questions regarding catastrophes, it's a question coming from - also Andrew Sinclair about reserves. He wants to know if we can give him any hint about any reserve releases or strengthening that we have done during this quarter.

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

Well, let me explain first those affecting the primary business. And as I mentioned, there is nothing to report. But the only I already mentioned is the release of €15 million in the general provision of Baremo. As you remember, it was booked in 2015 before the Baremo took place - the new Baremo took place. And the main reason for the general provision was to cover any retroactive implementation for claims from 2015 and previous of the new Baremo scheme.

After almost two years, and then we have no evidence of any retroactive application of the new Baremo. And in theory, I mean, we expected this release to be taken at the end of the year. But in order to offset part of the catastrophe losses we booked in the quarter.

The release was made following recommendation from both the actuarial and legal departments of MAPFRE España. And the figure - the amount the €50 million - sorry, out of the €35 million, it was assessed following the correlation between or the number of outstanding losses, currently in our balance sheet regarding 2015 and previous years. So, approximately, I mean, there is like €20 million of these provisions to cover more or less, and it will be more than half of the outstanding losses at end of 2015.

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

Okay. Thank you so much.

**A - Eduardo Pérez de Lema Holweg** {BIO 19830783 <GO>}

And in relation to that if I may also on the cat side, we released a reserve that we had on the flooding cost by El Niño. There was (48:31) for deterioration booked in the previous accounts. We released that and it's in the region of €9 million to €10 million, because if that deterioration happens, it will be absorbed by the frequency cover that we have in place, because of the other events that we have during this quarter. So, we could release that reserve as well.

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

Okay. Thank you so much. Silvia Rigol from BBVA also wants to know if we can confirm the payout ratio, that if the payout ratio would reach 65%.

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

Absolutely, Silvia. The payout range between 50% and 65%, this objective is fully in place.

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

On that sense also, Paco Riquel from Alantra Equities wants to know, if not cat losses at the end of the year are in the upper range of €200 million - in the upper range of €150 million-€200 million guidance that we gave, shall we expect a stable full-year dividend by moving to the upper range of your 50%-65% payout guidance? More or less the same, but if you want to (49:47).

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

Thank you, Paco. It is still too early to talk about the final dividends and the total dividend for 2017 accounting year. We have to see how well the fourth quarter is performing. As I said, we're trying to optimize all our resources that we have in order to keep on the good trend of the recurring profit from the last four, five quarters. But as I said during the press presentation, the final decision on the final dividend will be taken by the AGM at March 2018. Let me say that, for a long time, the general policy of MAPFRE has been to have a stable and growing dividends based on net income, and we would like to keep this long-term policy in the coming quarters.

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

Thank you. I have to tell you that we have more than 50 questions, and we will try to answer as much as we can, but we are running out of time. But anyway, we can continue, no problem. Because another question coming for MAPFRE RE is regarding what share of premiums that MAPFRE RE generate from natural catastrophe and related business? It comes from Andrew Sinclair.

**A - Eduardo Pérez de Lema Holweg {BIO 19830783 <GO>}**

Yeah. Well, that's always a difficult question, because very often the share of cat premium is mixed with other property premium, because it's placed all together. Overall in our portfolio, it's slightly below 50% of our premium is property, and with that - within that, yes, a part of that is pure cat premium. So, at the end of the day, MAPFRE RE is - of course, we get cat exposure and cat premium and we get paid for that. But it's not the - the biggest part of our portfolio by far is not the cat premium. It's a slice of the 49% that we have of property business in the portfolio.

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

On that sense, he also wanted to know if there is any annual NatCat budget for MAPFRE RE and if we were able to provide the performance for the past several years versus budget.

**A - Eduardo Pérez de Lema Holweg {BIO 19830783 <GO>}**

We have a global budget for large losses that we have in place. We are not releasing that. But this year, as you see from our combined ratio that is pretty aligned with the one of previous years, we are in line with that budget so far. Main reason for that is that the first half-year has been extraordinary in terms of both cat losses and large man-made losses, where we had our lowest ratio ever, and then we increased that in the third quarter with these events. But the man-made large losses has been - continues to be below average. In previous years, overall, we were better than average in large losses, and that's why we had extraordinary good combined ratios.

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

Okay, great. Thank you. Now, there is a question regarding GLOBAL RISKS business. Ivan Bokhmat at Barclays has the following question. GLOBAL RISKS could have a combined ratio of 105.2% in 3Q 2017, excluding the impact of hurricanes and earthquakes. Why is the level so high and what actions are planned to address the profitability of this unit?

**A - Eduardo Pérez de Lema Holweg {BIO 19830783 <GO>}**

Well, on the cat side, they are slightly more affected than other business units because of the characteristic of some of these events that affected mostly the larger commercial and industrial risks. So, they suffered a little bit more than other business lines. And in addition to that, because of the nature of their business, they take - they have slightly higher retention than other businesses. Talking about the general situation in the market, I think the soft market in this type of business is very obvious. And what we see definitely is that the market is probably going to be hard (54:22) and specifically in that lines of business more than maybe in other parts, and that may help to improve the profitability - or that will definitely help to improve the profitability of that accounts.



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

Great. Thank you so much. Now, we are moving to MAPFRE USA. This question coming from Sofía Barallat at Kaiser BPI (54:58) is could you give us some color on the evolution of premiums in North America this quarter?

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

Thank you, Sofía (54:59). Premiums have been more or less flat as of September 2017 at MAPFRE USA, mainly due to a slight depreciation of the U.S. dollar, and the change, if I remember well, is like minus 0.6%. First, I would like to separate Massachusetts from the outside states - the rest of the states. In Massachusetts, premiums are performing well, 5% growth in local currency, especially in Motor. And we've seen growth in both units and average rates as well. It has been a decline in local currency in states outside of Massachusetts, nearly 8%. It's part of our profitable growth strategy, and both based on less commercial activity and also cancellations. And we continue reviewing our business in those states.

North America, we also had an 8% decline in premiums in Puerto Rico in euros due to - in that case, it is due to the cancellation and non-renewal of unprofitable business, as well practically September has been an extremely passive month in terms of underwriting activity and also commercial activity due to the catastrophe. We shut down underwriting and - due to the catastrophe and majority of our agents, our commercial network is fully devoted to helping in order to capture claims and help our policyholders. The full company is fully devoted to handle the hurricane, and we could expect this trend of lower premiums for the fourth quarter.

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

Thank you very much. There is a question now regarding ASISTENCIA business, and it comes from Ivan Bokhmat at Barclays. He asks, what is the progress with ASISTENCIA restructuring? Should further charges be expected for the remainder 2017, 2018?

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

Yes. As I said, the ASISTENCIA restructuring is taking longer than we expected. What we have done mainly in 2016 is to change our underwriting policies and also to move to a B2C more than B2B2C policy. And this year, basically what the profit and loss, the result shows is the massive consolidation of intangible assets and also non-performing assets basically due to the restructuring of our business.

Since some of the businesses are not profitable in the future, we decided to write-down intangible assets such as goodwill, some tax assets, other intangibles, DAC, et cetera. We believe and strongly believe that most of this clean-up has been done, and perhaps, we could expect some additional losses in the fourth quarter. But we're looking at a quite promising next year, assuming that the balance sheet will be absolutely more cleaner than the one we've had last year.

Also, I would like to mention that, as I said, we recognize that our overheads at central offices and also at the regions, they're quite high compared to the current size of the

company. So, we started the restructuring process as well in beginning of September in order to reduce our overheads, and the goal is to have 24% less expense (59:02) in overheads next year. So, we're quite positive. Let's say the majority of the job has been done, and we're looking forward to seeing better results in 2018.

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

Great. Thank you. We have some questions also coming from Paz Ojeda from JB Capital Markets. The first one is regarding the Coastal El Niño and the reduction in the cost of this event. We have already talked about that, and if it's not clear, we can talk later by phone. But also there is a question regarding - from Niccolo Dalla Palma regarding how can we push back some expenses from Q4 to next year, if it's not strategic and also that if we can realize some gains to improve Q4? Why do you do this earnings management? Can you just keep the dividend stable, even if you temporarily pay out more than 65%, given your solid capital position?

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

Yeah. We do not consider this earnings management - let me say that. And if you see the third quarter results, our first conclusion is that it was a big impact coming from the catastrophes, but also recurrent business was as good as usual. We didn't squeeze our cushions. And the amount of realized gains from financial instruments were quite low compared to previous quarters as well. And MAPFRE still has wonderful cushions in order to optimize our net profit in the fourth quarter. As I mentioned, over €175 million of unrealized gains on equities, and we didn't mention, but over €500 million on unrealized gains on real estate.

And also, we did it as well in the third quarter, because we had to do it, and we spent €35 million in our early retirement plan scheme. So, we did it because we had to do it and we didn't squeeze the result. Also, we are quite - we have very good expectation regarding the additional expense reduction in the last quarter. Probably we eliminate some of the non-strategic initiatives, but also as well, it will be some delay in some expenses and then we will take that in 2019. Regarding our payout, as I mentioned, the 50% to 65% range is fully in place and we're not going to change. It was one of the objectives set in the three-year strategic plan and it's there, and we're not going to change.

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

Thank you. Thank you very much. Now, almost to finish with this session, we have some questions to - regarding EMEA business. First one coming from Silvia Rigol from BBVA is related to the margin in Germany that is still very low. In fact, this quarter, the net income is being close to zero. How is the business doing there and what has happened?

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

Well, let me answer first the last question. The business, they're doing wonderfully and the rebranding was a complete success, and we took the opportunity to be with two different brands in the same panel. So, even for sales purposes, it was great. And the reduction in net income, particularly compared to last year, it's a small figure, but it's because the VOBA amortization in 2017 is particularly double than last year. But the

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recurrent business in Germany is doing very well. We're pretty happy with the performance of the unit.

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

Thank you. Now, about Italy, when do you think we will see a turnaround?

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

Well, this year, we've seen an improvement, thanks to the restructuring carried out last year. We got a leaner structure – cost structure this year. The market is still very competitive, and it's difficult to say if next year or probably at the end of next year, but we are quite optimistic on Italy after the change of the trend in 2017.

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

Good. And regarding Malta, why don't you achieve margins above 1%?

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

Well, the margins in Malta, mainly Life Savings, depend mainly on the evolution of financial markets, and also the margin is quite small on this line of business. It's very difficult to anticipate the margins that we'll obtain in this business. But we're quite happy as well with the performance of Malta. The result in 2017 increased compared to last year.

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

Good. And also, Andrew Sinclair would like to know what has happened in EMEA in Non-Life in Q3. I guess that he wants to know about the claims ratio that has increased slightly. So, (01:05:06) apart from the other things you have mentioned before.

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

Yeah. We've seen quite a stability both in combined ratio in Italy and Germany as well, and also in Malta. Turkey is a little bit – is increasing a little bit. We're quite happy with the restructuring change we made in our portfolio in Turkey. As you remember, in (01:05:33) the reduction in TPL rates, and we've seen part of this effect now for the complete year. But what we did is we increased our rates in other covers as well and also we reduced our exposure. There is a much less number of units covered in our portfolio, and also we're expanding as well our other lines of business which are more profitable. So, in the end, we're going to have a wonderful 2017 year in Turkey, and perhaps the impact of the rate cut for MTPL is still to be seen for the first quarter of next year.

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

Okay, thank you. If I may add something also in (01:06:23), we have experienced an increase in claims and in the loss ratio, because we have had hailstorms during this summer and it's been tough also in this...

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

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Yeah, that's a very good point. And it was one of the worst hailstorms over Germany, and we got a strong portfolio in automobile. And so, we got hit and it's part of this business. Sometimes, it happens. Sometimes, we got benign weather. This time, weather was again our wish (01:06:58).

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

Thank you. And now, the last question, and I think it's a good one to finish, is - it comes from Silvia Rigol at BBVA. I want to know if we can give them more details of the topics that we will deal with (01:07:14) during the Investor Day to be held on 1st of December.

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

Okay. Again, thank you for joining us. We hope both the Q&A section and also the information we provided has been interesting for you. As a conclusion, we don't want the cat losses of this quarter to eclipse the positive results of our strategic initiatives. Underlying results are showing relevant improvements and reflect the continuous success of our profitable growth strategy. Probably, you're following the Volvo Ocean Race and like MAPFRE's boat in the Volvo - in this race, the tailwinds will continue pushing us ahead. We're looking forward to the upcoming Investor Day. Until then, thank you for being with us today, and have a nice day, all of you.

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

Thank you.

**A - Eduardo Pérez de Lema Holweg** {BIO 19830783 <GO>}

Thank you.

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

Thank you very much, Eduardo.

**A - Eduardo Pérez de Lema Holweg** {BIO 19830783 <GO>}

Pleasure.

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