

Y 2017 Earnings Call

Company Participants

- Antonio Huertas Mejias, Chairman & Chief Executive Officer
- Fernando Mata Verdejo, Chief Financial Officer
- Natalia Nunez, Head of Investor Relations and Capital Markets

Presentation

Natalia Nunez {BIO 19480994 <GO>}

Good morning and welcome to MAPFRE's Results Presentation For Full-Year 2017. On this occasion, it's a real pleasure to have Mr. Antonio with us, our Chairman and CEO, here with us. He will start providing us with a brief review of the main highlights of the year, and at the end of the presentation, he will also participate in the Q&A session. It's also a pleasure to present our CFO and Member of the Board, Mr. Fernando Mata, who will take you through the main trends of this period as in previous quarters. As usual, during the final Q&A, all questions received in the specified e-mail address will be answered by our speakers. And the Investor Relations team will be available to answer any further questions you may have after that.

And now, let me hand the call over to our CEO.

Antonio Huertas Mejias {BIO 15896108 <GO>}

Thank you, Natalia, and good morning, everyone. Before we run through the numbers, I would like to roll over the main highlights of 2017. The fourth quarter results have been excellent in the wake of the catastrophic events occurred during the year. We are happy to announce that our initial loss estimates have been revised downwards, thanks to our effective reinsurance program. Fernando will give you more detail later.

I'd like to make a special mention of two units that are performing extremely well, IBERIA, MAPFRE RE, where our profitable growth strategy is proving to be a great success. LATAM NORTH, LATAM SOUTH, and EURASIA have also shown exceptional results. Other core units for us, Brazil and United States, need more time to reflect in their accounts the effects of the measures that are being already implemented.

Regarding to the fourth quarter results, I'd like to highlight that in the NatCat losses were lower than our initial estimates, supported by an effective reinsurance policy; secondly, the extraordinary income in USA and Brazil; thirdly, significant progress made in cost reduction program; and lastly, successful management of our investment portfolio. Overall, 2016 (sic - 2017) results exceeds EUR700 million allowing us to propose a total dividend of EURO.145 per share, the same of the last year.

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Moving to slide four, here we are presenting the breakdown of shareholder remuneration for the last six years. At this point, I'd also like to highlight MAPFRE's commitment to stable and growing shareholder remuneration. For the year 2016 (sic - 2017), the final dividend to be proposed to the AGM stands at EURO.085 equivalent to a 63.7% payout ratio, which is within our target range. Therefore, the total dividend for the year will amount to EURO.145. I'd like to assert that this high dividend shows our strong commitment to our shareholders, especially in such a difficult year in terms of cat events.

Let's move to slide five. Going into more detail, let me give you a brief summary by business units. Spain, we have grown in our line of business with an excellent technical results, thanks to our prudent underwriting guidelines and gaining market share in the majority of business lines.

In Brazil, one of MAPFRE's main feature is our business diversification, and in this country, this has helped us offset the effects of some competition in Motor business with outstanding results in other lines. We are confident that the improvement of the economic environment in the country is underway. In addition, we have just announced the signing of a Memorandum of Understanding with our partner Banco Do Brasil to update our bancassurance agreement after six years of success.

According to these new agreement, MAPFRE will own 100% of the business generated by the agent network and the Motor and large risk assessments in BB, Banco Do Brasil bancassurance channel. However, it won't affect Life and Agro business. We are very happy with our partnership with Banco Do Brasil and we are laying the foundations to make it more efficient and profitable. Both groups think the same. We have now more opportunities to increase business and profits.

Now let me talk about the US markets, where the Northeast region continues to be key to MAPFRE. As we announced during our last Investor Day, we have already implemented a new strategic plan for this country and expect to see the results soon. As far as I know, we are closer to exit from the states where we have always decided. Also, we have benefited from the recent Tax Reform and which has allowed or has had a EUR38 million on attributable results. As we also announced during the Investor Day, we have already joined the former EMEA and APAC regions together into EURASIA. And our figures have been reported accordingly as you will see during the presentation.

In Germany, the rebranding of our direct business into VERTI has been a great success. In Italy, we will start with rebranding in a few weeks. In this country, we are starting to see premium increases on VERTI branding of the business. Malta and Turkey have also reported a spectacular increases in results. All-in-all, they give us healthy growth in EURASIA.

LATAM NORTH; Dominican Republic and Central American countries are doing very well with outstanding performance. Mexico, which is still in transition, has implemented many measures to improve. LATAM SOUTH is showing an excellent improvement in many countries like Colombia and Argentina. All-in-all, Peru and other countries present great results as well.

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Going to slide six, MAPFRE RE, we are very proud of our reinsurance unit. MAPFRE RE's performance has been outstanding in a difficult year, thanks to its excellence in underwriting and effective reinsurance program, which have allowed it to successfully manage the impact of the catastrophes. Additionally, we have seen the benefits of diversification, both geographically and by business mix. MAPFRE GLOBAL RISKS suffered heavily the cat events. Also, during the year, had a few number of losses which affected dramatically its results. And finally, ASISTENCIA units is being very closely monitored and improvements are expected, thanks to the strict underwriting, cost cutting and restructuring processes implemented.

Lets move to slide seven, where you can see the main figures for the quarter. Revenues went up to EUR28 billion with an increase of 3.3%. Life insurance shows a better performance with 4.2% of growth. E&C represents 77% of our total premiums, and grew by 2.6%. In the middle of that line, you can see premium growth excluding foreign exchange rate effects, which shows a premium growth of 4.1%, without this effect. Combined ratio stood at 98.1% and expenses remained stable. The ratio went up mainly due to the weather-related losses.

The column on the right shows data, excluding the NatCat events that affected MAPFRE's primary insurance business during 2017. The result stood at over EUR700 million with nearly EUR256 million during the fourth quarter. Excluding these cat events, the results would have increased by 6.5% to EUR826 million, a reduction of 1.2 percentage points on the combined ratio, the ROE would have reached over 9%. Finally I'd like to highlight the excellent solvency ratio, which was 189% by September 2017.

Now I will hand the call over to Fernando Mata.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Antonio, and good morning, everybody, especially those connected from the - - early birds connected from the States, I know too early. Happy to have this opportunity to be here with you again. Before going into the details of annual accounts, let's take a look at the impact of exceptional catastrophic losses on MAPFRE results in 2017. These events were the largest accumulation of cat events in a three-week period in all MAPFRE's history. We were very accurate in our initial loss estimates, releasing figures ahead of our peers.

The gross loss is now estimated at just over EUR1 billion with a 100 million reduction compared to the initial estimate. Of this EUR1 billion at year-end, 189 million correspond to claims paid, 552 million of outstanding claims, and the remaining 306 millions of IBNR reserves. The total net loss is EUR183.8 million including the Coastal Nino, of which 125.6 million correspond to losses of primary insurance units. The remainder are MAPFRE. During the last quarter, the main variations were a significant reduction in losses of MAPFRE RE and GLOBAL RISKS, which was slightly offset by an increase in losses in Puerto Rico.

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MAPFRE's strict underwriting policy and our reinsurance protection has hence -- has helped mitigate the impact. Also, we have implemented the necessary processes in each of the affected countries to handle and settle all claims as quickly as possible. However, settlement will go on for months, and some of these adjustments could be quite complex.

On this slide, you have the breakdown of premiums and results by region and business unit. You can see that MAPFRE's appropriate geographic mix has also helped our resilient results. Insurance units represent 75% of business volume and MAPFRE RE represents over 16%, with the remainder of premiums at GLOBAL RISKS and MAPFRE ASISTENCIA. Regarding insurance units, IBERIA represents nearly 27% of total premiums, followed by Brazil with 18.6%, and the rest of LATAM with over 13%. North America contributes nearly 10% of business volume and EURASIA also has a strong share with 7%.

On the right, you can see the evolution by business unit, which we will discuss in more detail in the following slides. Regarding attributable results, IBERIA stands out with over EUR500 million, by far the largest contributor. I would also like to point out the strong recovery in EURASIA with an over 100 million increase in net result, as well as an over 50 million improvement in LATAM SOUTH. These are both clear examples of the success of the restructuring processes that have been implemented in both regions during the last two years. Furthermore, the results in Brazil have proven very resilient, taking into account the market context. MAPFRE RE has performed very well too, especially considering NatCat events. Finally, IBERIA's result, excluding real estate transactions, grew by almost EUR27 million.

On this slide, you can see that the revenue was up over 3%, supported by the positive evolution of premiums, while financial income is still being affected by lower reimbursement deals across LATAM basically and Europe. Our income grew substantially stemming from positive currency differences. Life business grew by over 4% and Non-Life by 2.6% despite the cancellation of more than EUR528 million of loss making portfolios, in line with profitable growth strategy which started two years ago. Growth was positively affected by a multi-year policy in Mexico for nearly EUR500 million issued in June 2017, already announced in the previous quarters.

In addition, I would like to highlight the following. In Spain, the Life business is performing extremely well, especially unit-linked with outstanding performance in the bancassurance channel. Retail Motor and Health are also growing, thanks to new campaigns and fine tuning of some products. In Brazil, we've seen some green shoots with a slight pickup in premiums in local currency, but the appreciation of the Brazilian real is still the main growth driver.

Let's move on to the next page. Slide 11, I would like to take a look at the extraordinary impacts that have affected MAPFRE's net result. 2017 was a special year in terms of complexity and one-offs. As we have already mentioned, the largest effect has been NatCat losses with a net impact of around EUR126 million. Net realized gains were also EUR75 million lower than 2017 -- 2016, sorry, comprising both financial investment and real estate. The decrease is mainly due to a sale of MAPFRE Tower in 2016, and lower realized gains in the fourth quarter of this year.

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On the other hand, we booked two non-recurring positive events in December this year. The first impact is related to the write-down of intangibles. As you may recall, last year, we wrote down goodwill by over 46 million, mainly in Italy. In 2017, the positive net impact of 28 million is the result of write-downs of goodwill and other intangibles for EUR75 million, offset by the cancellation of a provision amounting to EUR103 million. With these cancellations, we have aligned balance sheet valuations with the current economic context and distribution as structured in Brazil.

Second, there is an extraordinary income of EUR38 million at MAPFRE USA, as a result of the decreasing deferred tax liabilities from the US Tax Reform. And last, a EUR27 million of positive impact due to the reversal of a provision for bancassurance made in the first quarter of 2017 that you already know.

On the screen, you can see the breakdown of key Non-Life figures by region and unit. The result of Non-Life was impacted by, first, the fall in underlying financial result, mainly due to a decline in deals and inflation in Brazil and the rest of LATAM, as well as the low interest rate environment in Europe; second, the already mentioned cat losses of the period affecting mainly North America, MAPFRE RE, and GLOBAL RISKS.

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 6.3 percentage point improvement in the combined ratio in EURASIA, thanks to successful restructuring and better claims experience, and LATAM NORTH minus 4.2 p.p and LATAM SOUTH minus 2.2 p.p are reaping the benefits of profitability initiatives.

On this slide, I would like to comment more in depth on the result of the Non-Life business, which has proven quite resilient, excluding the impacts of NatCat events and other non-recurring events already mentioned. Please keep in mind that the extraordinary events disclosed in this chart are before taxes and minorities. As you can see, the underlying result decreased by 69 million with two opposing factors. First, there is an improvement in the technical result of 62 million, and second, a decrease in the financial result of 131 million, due to the already mentioned reduction in yields.

On the right, you have the combined ratio information, which stood at 98.1%, 96.9% excluding cat events. While we are talking about Non-Life, I want to discuss the extraordinary Non-Life results in Spain. The implementation of the Non-Life transformation process that began in 2015 focused on profitable growth is delivering results in Spain. As you can see on the left, pre-tax profits grew from 235 million to 427 million in two years. This outstanding performance was achieved mainly thanks to the reduction of the combined ratio, which improved from 97% to 94%. On the right, you can see the Motor premium growth reaching 3.9% in retail lines, while fleets are still decreasing. Total Motor premium growth was 3.5% compared to 3.4% for the market.

MAPFRE Espana is outperforming the market, despite the cancellation of underperforming business segments. In the year 2017, MAPFRE has continued reinforcing its leading position in the Non-Life Spanish market, and has increased its market share in Motor, Commercial, and Health business. MAPFRE's growth is based on profitability and average

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Motor premium growth is well above the market. Continuing with the strategy for profitable growth, MAPFRE Espana has implemented a series of measures to control and reduce claims and expenses in Motor lines. All of these measures have significantly lowered the combined ratio, which stood five points below the market, and has continued improving. At the close of 2017, MAPFRE's Motor combined ratio stood at an extraordinary 90%.

I'm going to skip the two following slides, which contain the main highlights for Non-Life by region and unit. Moving on to show information regarding the Life business, we will take a look at premiums which are up over 4%, thanks to the outstanding performance in the bancassurance channel in IBERIA, as well as the positive developments in Mexico, Colombia, Peru and MAPFRE RE. In Brazil, Life premiums are down 2% as a result of lower lending activity. The result of the Life business is down slightly, largely driven by the declining financial income in Brazil, due to the sharp fall in interest rates and inflation. This was mitigated by strong results in Colombia and Peru, as well as the gains in IBERIA from the cancellation of the provision for contingent liabilities in the bancassurance channel already mentioned.

Shareholders' equity decreased by over 5% in the year, mainly as a result of the depreciation of all of our main currencies, and I'll repeat it, all our main currencies, especially the Brazilian real, nearly 14%, the US dollar around 12%, and the Turkish lira over 18%. All the Latin American currencies have also fallen in value against the euro.

Assets under management continue to grow steadily, thanks to the strong performance of equity markets during the year, and this positive trend was partially offset by the decrease in the value of the bond portfolio, due to an uptick in rates in Europe, especially at the longer end of the curve. Finally, the mutual and pension fund businesses continue with a strong growth, nearly 10%, thanks to MAPFRE's successful strategy to foster the asset management business.

Next please, yeah, as you can see on this slide, our investment strategy has been stable throughout the year with a slight reduction in fixed income assets, mainly reinvesting in equity and mutual funds, but also in the alternative assets. We took advantage of higher volatility of the year to make changes in our portfolio.

Please turn to next slide. Realized gains in Non-Life are lower than the previous year's figure, mainly as a result of the sale of the MAPFRE Tower last year. I would like to point out the high level of unrealized gains on our equity and mutual fund portfolios, in Europe around EUR130 million. This give us a leverage to take advantage of future market opportunities. And finally, as we are pointing out the high accounting yields in our portfolios, 2.6% in Non-Life and over 4% in Life, well above market yields, and quite stable during the year.

Next please, yeah, on the left side, you can see the breakdown of our capital structure at year-end, which amounted to EUR12.8 billion. Its largest component is equity with 82% of the total and you can see its breakdown on the chart on the bottom left. The majority is capital, retained earnings and reserves. There are over EUR600 million in net unrealized

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capital gains, which remain, as you can see, quite stable if -- for the last three years, even after realizing over a EUR100 million in 2017. Finally, these gains are offset by over EUR700 million in negative foreign exchange differences.

The right side, you can see the evolution of the shareholders' equity, which has fallen by over EUR500 million during the year to EUR8.6 billion. The decline was largely driven by the depreciation of our main currencies, which we have already mentioned, resulting in a EUR639 million decrease in equity. On the other hand, there was a decrease in financial assets available for sale, which was partially offset by shadow accounting.

On the next slide, we will present the Solvency II information, which was already given at the Investor Day. So there are no further details to discuss now. As a reminder, we will release the full-year Solvency II figures with the first quarter 2018 results, which will include the annual solvency capital requirement calculation.

That's all from me. As I said, 2017 was a complex year in terms of one-offs and cat events, but we're more than happy with the final outcome. We hope the information disclosed has been interesting for you. And now Antonio Huertas is going to discuss the MAPFRE, Banco do Brasil alliance and wrap up the presentation. Thank you.

Antonio Huertas Mejias {BIO 15896108 <GO>}

Thank you. Thank you, Fernando. At this point, I would like to go back over our new scenario in Brazil. You know, we have just announced a Memorandum of Understanding to update our event with Banco do Brasil. According to that, MAPFRE will control 100% of the BB MAPFRE's agency channel. Secondly, MAPFRE will also control 100% of Motor and Large Risk business in the bancassurance channel. And next MAPFRE would maintain exclusivity both in Life and Non-life for the distribution of products in the Banco do Brasil channel. And finally, BB MAPFRE will focus on Life, Agricultural, SME and Homeowner insurance for Banco do Brasil customers.

Please turn to the next slide to see the main advantages of our new agreement. What will this agreement bring to MAPFRE?

In my own evaluation, firstly, it significantly increases our shareholding in Brazil; secondly, it increases the profit contribution expanding its consolidation scope from Brazil; also it will simplify MAPFRE's strategy execution in Brazil and eliminate shared management restrictions giving us even more freedom to make management decisions; moreover leverage the MAPFRE brand in Brazil becoming along the second largest Non- Life insurer in the country, and last but not least, exclusivity in the Banco do Brasil channel is maintained.

To draw the presentation to a close, I will like to outline some conclusions regarding 2017 MAPFRE performance. Firstly, MAPFRE has delivered solid results in an extremely complicated year; secondly, we continue demonstrating our financial strength, conservative management strategy and a continuous commitment to our shareholders. Also, after the successful implementation in IBERIA, the focus on profitable growth is

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beginning to bear fruit in other regions. To wrap things up, we are satisfied with the results of a well defined and well-executed strategy.

Thank you, and now I will let Natalia begin with the Q&A session.

Questions And Answers

A - Natalia Nunez {BIO 19480994 <GO>}

Thank you, Antonio. Thank you, Fernando. We hope that you have found this presentation useful and that we were able to cover the main topics of your interest. And now, as in other quarters, we will try to answer all the questions you have sent, time permitting. If there are any remaining questions after this call, please feel free to contact the Investor Relations team who will be more than happy to help you with whatever you may need.

Now let's start with the Q&A session. First question regarding Brazil coming from Franco Riquel, Alantra Equities, is regarding the reorganization of the JV in Brazil and the buyout of the Non-Life Business. Is this real that you can finance with that or would you consider raising equity at all?

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

Thank you, Franco. First of all, and as you know, I'm really happy, I mean to answer your question regarding Brazil, but it's not just a deal and where we have signed is a non-binding agreement and we have to still to wait still probably a couple or two months in order to wait, and have the final contract. But anyway, I mean, let me say, that with this current non-binding agreement, there is no change in the risk that we are taking in Brazil, I mean, solvency capital requirement would be quite similar, and also total assets as well. But, you are right, I mean, the only change that we have to replace some of them are minorities, because the acquisition will be in cash. We have to replace minorities by some sort of capital instrument. At that point, we haven't decided yet, it could be both, I mean, debt or well rights issue, we haven't decided yet. And also you have to bear in mind is what that there is an excess of cash currently in Brazil that we can use for this potential acquisition. Regarding our capital Solvency II ratio, capital levels are currently excellent and within the target range of 175 to 225. So overall, we do not expect a significant impact on our capital position.

A - Antonio Huertas Mejias {BIO 15896108 <GO>}

I would like to add, Franco, information about your question. If we are able to get any synergy or efficiency gain from this acquisition, it's a -- indeed, we don't have any doubt about that. You know that usually when you run a company alone, it's better than doing that with inside our joint venture. As well, MAPFRE has strong knowledge of P&C business. And usually in all the Latin American countries, we run these companies alone doing our best getting excellent results.

In terms of the -- our business in Brazil, for real we have had good returns and we know that managing this business. both the business coming from the agency channel and the Banco do Brasil channel, we can increase the efficiency mixing the teams, using one single

platform and trying to making the most out of our knowledge. We haven't yet quantified the savings, but we know that we will do better managing this business in the new scenario.

A - Natalia Nunez {BIO 19480994 <GO>}

Thank you very much. And the next question is also regarding Brazil, also comes from Franco Riquel. And the question is, what is the financial criteria that MAPFRE will follow when assessing such an acquisition?

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

Thank you, Natalia. And back to our commitment regarding the strategy planning. As we said, we focus on our current footprint. And we were more than happy I mean to expand and also our current strategic operations and obviously Brazil there has been and we will be for sure, I mean, on a strategic operation in country for MAPFRE, is a quite attractive market with an excellent growth potential. And as you know is moving out of the recession, the current macro figures, I mean, looks -- look much better. And regarding insurance, it's a country with still low insurance penetration. So it gives a lot of opportunities in order to expand our premium volume in Brazil.

Regarding valuation, the assessment of the business that we will acquire, both with this Seguridade and MAPFRE both are listed companies. So we together both things and in order to get market price valuation for this transaction, it can be other way. So for sure, we will have an arm's length transaction at the end of the discussions. Obviously, we'll look at the potential synergies as Antonio said and future business plans and so on.

A - Natalia Nunez {BIO 19480994 <GO>}

Thank you very much, Fernando. Next one also on Brazil. What has been the net attributable profit in 2017 of your 50% stake in the Non-Life business in Brazil and was it impacted by any one-offs?

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

Yes, thank you, Franco. As you know, the states or the corporation in Brazil, there is a split not into Life and Non-Life, but into bancassurance channel and the agency channels. Majority of bancassurance channel comprise Life and but there is Non-Life. So, we don't have with me at this point, I mean, the right figure regarding Life and Non-Life. But let me say that the current scenario in Brazil, I mean, is not the best for Non-Life business. Automobile combined ratio stands from MAPFRE nearly 108%, fortunately other line of business they are offsetting these bad results, but overall, we are quite happy, I mean, with Brazil -- with Brazil performance.

Regarding one-offs, as I mentioned, the most relevant one-off is the 28 million, which is the net effect of the write-downs of intangible assets for Non-Life and also the cancellation of provision for expenses and risk. Both balances were accounted for in 2011 as a result of the bancassurance alliance with Banco -- that year with Banco do Brasil and both have been canceled. The provision for EUR103 million, the liability, was established at

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that year to cover the potential risk for different sort of expenses. And it was canceled because it was no liability for MAPFRE.

On the other hand, and in that case, there are two main reasons, first is the current economic situation in Brazil particularly affecting the Motor line. And also the final outcome of the alliance with Banco do Brasil. So in the end, we thought that the both the environment and the change in the alliance could affect the any potential impairment of our goodwill. And we decided -- that's what the Board decided to write -ff both and all sort of intangibles affecting the agency channel, mainly was goodwill, but it was a small amount as well of value or book acquired. So, basically this was the one-off separated into assets and liability, income and expenses. And affected more than Non-Life it affected the agency channel.

A - Natalia Nunez {BIO 19480994 <GO>}

Okay. I think it's clear anyway, if you need further explanation, we are available later on. And this one also from -- regarding Brazil is the question coming from Andrew Sinclair, Bank of America Merrill Lynch. How much is MAPFRE paying up from the extended Banco do Brasil relationship?

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

Well, as we said, this is a non-binding agreement. We haven't set the price, the consideration yet. It will take at least two to three months, the first thing we have to get -- what we have to complete is the independent review of the financial accounts and get the independent auditor reports and also to draft the final contract. But Andrew, for sure, as I said, the transaction will be at market price, I mean, both these two companies and in the end we'll have an arm's length transaction 100% sure.

A - Natalia Nunez {BIO 19480994 <GO>}

Thank you. We continue with Andrew Sinclair Brazil questions. Brazil attributes are still declining year-on-year in local currency. What signs have you seen of a turnaround?

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

Yeah, you're right, the Life business out and affected by the drop of life protection insurance. You know that you very well know that there is no savings business in Brazil. Let's say that the trend is well linked to personal loans from Banco do Brasil. We haven't seen yet relevant increase in the lending activity. So, the evolution in the next quarter will depend basically to the recovery of the economy, will keep the same trend. In the end, it will be an increase of lending activity. I guess that the process is underway, the recovery on the banking activity, as I said, and also the distribution of personal loans from Banco do Brasil.

A - Natalia Nunez {BIO 19480994 <GO>}

Right. Next one from Andrew Sinclair also is regarding Brazilian investment income, both in Life and Non-Life that it has been materially lower in Q3. Should we expect further deterioration in Q4 as SELIC has declined further?

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

You're right, I mean, we've seen a relevant drop in the deals in Brazil, you still remember those good times the SELIC rate that above 12% last year, at year-end it was nearly 7% the deal. Sometimes, we said that and we were right that our portfolio was privileged, but it won't last forever. I mean, we have to turn the maturities and we are trying to replace with the higher deals available in the market. But this year was a significant decrease in financial -- recurring financial income approximately EUR100 million. The impact on the net results is completely different, because in Brazil there is only 25% on net results from Life mainly coming from BB, but in Non-Life, affected basically 50%. As long as the GDP grows up and the interest drops which is what we are seeing, let's say that we are trying to compensate both factors. Inflation rate they are decreasing, we expect a very good impact in our structural cost in Brazil. So far what we've seen since the majority of our investment are inflation linked instruments, what we've seen is the damages on the value of the financial income, but we expect to see the effect of the inflation drop in our loss and expense ratio during this year and probably next as well.

A - Natalia Nunez {BIO 19480994 <GO>}

Anyway in the financial information we have released in the Brazil part, you can see that we have estimated around EUR100 million the decline in financial income during this year, both Life and Non-Life. You can -- you need further explanation, but you can find it in the Brazil part in the financial in the MD&A that we have released today.

So next question is regarding MAPFRE USA. Now, the first one comes from Franco Riquel, if -- can you update on the restructuring plan in the US, the exits from several states that we have announced during the Investor Day and on the online launch in Pennsylvania?

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

Thank you, Franco. And what we're seeing and probably Antonio then give you an additional comment as well. We expected both transactions, the one in the Middle States and also New Jersey being pretty difficult. We know that because of the size of some operations in some states are quite small and also because there we are running losses. At the beginning, we thought that it was a difficult task. Fortunately, we've seen some interest for both operations and we are quite optimistic in the medium run, I mean, we don't see to any solid expectation to fulfill both operations in the future two, three months. But at least there we've seen a lot of interest for both operations. And Antonio you want to add something?

A - Antonio Huertas Mejias {BIO 15896108 <GO>}

Yes, it's true. We are very positive and we should expect major changes -- advances in the process in upcoming months. It's not easy as you know that in the States, we have to follow a strict regulatory process to exit from different states. But the interest that our operation has served -- has appeared -- has been very, very positive and we think we are achieving our goals in the next few months.

Talking about our development of the new operation in Pennsylvania VERTI, I have to say that it's very soon to say information about that our VERTI launching has been very, very

soft. It's a beta operation and we are still trying to improve the system, to make the fine tuning in tariffs, to know better the market competition in the States and even the development of the thought is still on track. We are trying to make changes in the next months to improve the development, the distribution -- the distribution platform and how we can be more competitive in the States, but I told you we are happy with our launching in Pennsylvania, and we have completed the launching in a record time and the team is ready to reach its objectives.

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

If I may, there's something as well, the most likely transaction that we are looking at now is renewal rights, the sale of renewal rights for the central states and there is some interest for the operations I mean there a corporation from business in New Jersey.

A - Natalia Nunez {BIO 19480994 <GO>}

Okay, thank you very much. And now regarding taxes, how much of EUR38 million positive impact from the US Tax Reform on the attributable result. How much is it could be considered recurrent?

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

Yeah. Thank you, Andrew, it was a great surprise. It was our Christmas present from Trump. We didn't expect anyway, but let's say that we consider this as a one-off and you want the recurrent, the 38 million positive impact is after tax obviously. It came from the decrease of the tax liabilities. Unfortunately, I mean, the tax assets extending from MAPFRE ASISTENCIA, we wrote off and because of the running losses for this unit and the 38 is affecting MAPFRE USA and in the coming -- the reason is basically timing differences mainly the useful life used to calculate depreciation, different for tax purposes and for IFRS purposes.

Obviously, will be a recurrent effect because going forward the tax rate will go down from 35% to 21%, and so we will expect higher net result coming from MAPFRE USA business.

A - Natalia Nunez {BIO 19480994 <GO>}

Great. Thank you. Now, we are changing and moving to MAPFRE GLOBAL RISKS. Carlos Peixoto from BPI remarks that its fourth quarter combined ratio was quite low. What was behind the improvement? Any release of provisions here?

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

There is nothing relevant, I mean, in the fourth quarter rather than the decrease of the 40 million from the cat losses and also the good performance of Espana and the agreement for the surety business which contributes an extraordinary net income of EUR5 million, but in general, I mean the fourth quarter was quite steady in terms of losses and weather was quite benign both in the US, but there you saw a big snowfall in Massachusetts, but it was quite benign in Spain.

Unfortunately, the change -- there was a change in January and we had severe weather both in the US, in Massachusetts, and also in Spain in January, as you know well.

A - Natalia Nunez {BIO 19480994 <GO>}

Thank you very much. Now Michael Huttner from JP Morgan wants to know what should we expect in terms of your challenging units in full year '18. What is the outlook at ASISTENCIA, will it profit this year? How much can you reduce the losses in Italy and Germany this year?

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

Well, I'll take Italy and I'm sure Antonio will give some comments as well. ASISTENCIA, as you know, we've been dealing with currently many problems of ASISTENCIA for the last few years. The first phase was focused on considering the unprofitable business. It was mainly 2016 across the board, but mainly focused on Europe and UK, trouble assistance multi-year portfolios were provoking our losses. The second phase was focused on balance sheet clean-up and adjusting some cost structure to business volume. We started deteriorating writing-off intangible assets as a decrease in the business projections. We wrote down as well some debtors and in the end some tax assets, as I mentioned, particularly in the US.

The reduction of expenses was made at the year-end of 2017. So we will look at the 2018 loss cost structure lower than last year. So in the end, we expect better results. But I mean, it's too early to say that probably we will see a turnaround next year or a small loss.

A - Antonio Huertas Mejias {BIO 15896108 <GO>}

I would like, Fernando, to add some words about market development during the 2018 year. We are very positive because we think that the units that are doing well, will be on the same line. IBERIA and MAPFRE RE are already on excellent profitability levels, but we can still expect some room for improvements, especially, for example, in Spain homeowners and third-party liability.

In US, as you know, the foundations have been set to improve technical results and we should expect during the year better returns, especially at the long end of the (inaudible) the lower tax rates. In Brazil, we are very confident with the new scenario, with the measure that we have already taken to improve the results. We can expect a better performance. As well, we could still see some headwinds from the lower interest rate environment and currency volatility going forward, but we should benefit as Brazil moves out of recession.

And ASISTENCIA as Fernando said the reduction of losses should also be a positive driver to 2018 result and we can't forget Mexico. Mexico is a great country. We have there an excellent platform and we expect during 2018 better improvements and if God permits, we don't expect big cat event during the year and we should get better results due to the lower frequency in big cat events.

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

There is one thing I forgot Michael. We are running wonderfully small, but wonderful profit in Germany even looking at the papers, the net result grew from 2.4 to 2.7, so there are no losses in Germany. Regarding Italy, you're right. I mean the losses are still there and significant decrease due the restructuring changes made last year. And we are quite positive. I mean the outlook is much better from Italy, but it's still probably we expect one digit growth next year.

A - Natalia Nunez {BIO 19480994 <GO>}

Okay, thank you so much. Next question is coming also from Michael Huttner from JP Morgan. And it is regarding the US program of gradual withdrawal from loss-making assets. What's the progress? How much benefit could you -- could we see this year from that program?

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

Thank you, Michael. I mean it's too early. We said as you know at the Investor Day new targets for business in the US. It's just one month after we have released these objectives. So I mean it's too early just to discuss or to comment on the performance of these objectives. Mainly, it will depend on how fast we are, I mean in the restriction of different states. So coming back to my words, I previously mentioned, I mean we are quite optimistic for both potential transaction, the sale of the renewal rights for the central states and also the sale of the operations in New York and New Jersey.

If we sell both operations, I mean, let's say at a good price, so we are expecting a good price, let's say that the net income will be much, much better, I mean, from the US. For the long run, as I said, I mean it was a great and wonderful surprise, the reduction of the tax rate in the US. It will help us to increase as well our net income. And also, I mean, there is our protection as well for the goodwill impairment that we have to carry for next years.

Regarding operations, Massachusetts in general, Northeast, New England, I mean is performing well. Combined ratio is in the low 80s. Last year was extraordinary. The quota share arrangements concerned with MAPFRE RE working well. So, I remember that one-third of the profits goes directly to MAPFRE RE accounts and the remaining states, there is still an increase in combined ratio, but we focus on the plan made and unveiled at the Investor Day in order to reduce on those states that there is ample development in order to reduce losses and improve the combined ratio. Probably, I mean at the first quarter 2018, we'll be able to give you further details regarding progressing in the US.

A - Natalia Nunez {BIO 19480994 <GO>}

Thank you very much, Fernando. Now we have a question regarding Solvency II. Do you expect -- it is from Franco Riquel. Do you expect the Solvency II ratio to improve in Q4 from 189% levels in Q3 despite the increase in the dividend payout?

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

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Thank you, Franco. Let's say that we are expecting two non-relevant effects to have at the year-end Solvency II calculation. First is the, let's say, the future business profit that we only estimate on yearly basis. So, on the quarterlies, this positive impact on eligible funds is not contemplated. The second is the cat losses effect. I do know there's a relevant increase in our assets due to the reinsurance to be collectable from our reinsurers and also an increase in provisions. As I said, there is over 500, including IBNR, like 700 million of increase in outstanding losses in the liabilities side of the balance sheet. Both are -- both represent more requirements in Solvency II capital requirements. But we do not consider to be relevant, I mean taking the figures as a whole from MAPFRE. So probably it will be a slight increase on improvement, but it is still too early to assess, I mean the final impact. But there will be for sure non-relevant.

A - Natalia Nunez {BIO 19480994 <GO>}

Okay, now we are going to ask you something about IBERIA, we guess we haven't talked yet about that. Silvia Rigol from BBVA, Carlos Peixoto from (inaudible) and Michael Huttner from JP Morgan, wanted to know what happened during the quarter in the live units and why have margins decreased despite lower mathematical provisions?

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

Thank you, everybody. I mean, there is two main reasons for these decrease in the fourth quarter. The first has been lower level of realized gains and has affected the financial income, and as we mentioned, I mean the one-offs -- the positive one-offs, that we've booked in December, I mean the 28 in Brazil, and also the 38 in the tax effect in the US allow us to the decrease the pace of the realized gains from financial investment. So this is the first reason.

And also additionally, as you remember, it was a early retirement schedule in Spain that took place affecting almost a 100 people and at the cost of 35 million. The cost was split between Life or Non-Life and I guess this is one of the reason for the decrease for the drop in net results in the fourth quarter.

A - Natalia Nunez {BIO 19480994 <GO>}

Thank you so much, Fernando. And very similar one regarding Motor combined ratio in Spain. Is Motor combined ratio recurring for coming quarters. Could you give us more details on VERTI in Spain?

A - Antonio Huertas Mejias {BIO 15896108 <GO>}

Thank you. We are certainly happy with the combined ratio of Motor in Spain. Of course, we don't have the magic ball to know what's going to happen with the business. But we have now our hands over all the possibilities to continue on the same line. MAPFRE started to raise the tariffs two, three years ago when we saw the difficulties -- the future difficulties of the business for the implementation of the (inaudible) for the recovery of the economy and the market competition. For that, we did our duties and we now are very sure that we are on the right track. We have cancelled many non-profitable business in Motor and we are trying to run the business in a very positive way. But it's difficult we know to maintain this combined ratio close to 90%. But we have still room to improve

other lines as homeowners, health, and third-party liability and other and we have a -- even in Motor, we are growing over the market, having increases in average premiums in the line. We are very positive.

Talking about VERTI, we said two years ago that we started a new -- tiny new system with VERTI. Because of the the differentiation of the company in the markets as well VERTI has started the process to work more to together with MAPFRE in the back-office processes and VERTI has made many, many savings in the back-office operations. VERTI is growing less than the beginning of the operation, but it's growing, VERTI is trying to be the leading company in our line business in the Spain and reaching the breakeven, even making little bit profits during 2016 -- 2017, sorry. We are positive and it's the beginning of the new time for this operation. Seven years after the launching we have got into the goal and now we are trying to improve the quality of the business, the quality of the service as well as the increase of the margin of direct insurance of VERTI.

A - Natalia Nunez {BIO 19480994 <GO>}

Okay. Regarding also Spanish Motor combined ratio is a question about it, is there -- it includes this exceptional good combined ratio of 90.8 in the Spain includes any one-offs such as reserve releases or are there were anymore provision?

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

Yeah. Thank you. The 90.8, I will clarify. First, the 90.8 is from Spain and Portugal Motor, it's for IBERIA. From Spain, it's even lower because it's 90.5%. But the reduction is not due to one-offs, it's due to the quite extensive number of initiatives taken for the last two years in order to improve our performance in this line of business. The only release of provision we made was the EUR15 million of the Baremo provision was made at third quarter, if I'm not mistaken. And probably, I mean it's very likely there is no changes in current trend, probably we will release the remaining balance which extends I guess 20 million, I'm not sure, but probably next year. What happened also in the effect of those initiatives was as well, helped by quite a benign weather during the last quarter.

That was just the contrary last year, but let's say that we are quite proud of the job made in order to improve their performance or more aligned in Spain, which is key strategic and now a very good example in order to implement same process in other regions and countries.

A - Natalia Nunez {BIO 19480994 <GO>}

Thank you and now regarding the bond portfolio, Carlos Peixoto from BPI asks. What could be the impact of 100 basis points rise in the European sovereign bonds? What is the modified ratio in the portfolio?

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

Thank you, Carlos, and to be honest, and overall it will be a very positive news if it happens, but we do not expect a 100% -- 100 basis point increase. It is true that we expect an increase on rates, but probably nothing significant in next year in 2018 despite the recent movements in the financial markets. We will prepare for you, I mean the

calculation, the sensitivity analysis, and we would get back to you with the numbers. But just to let you know that in our IBERIA portfolio, we have a 4.2% gilt at appreciation cost versus 1.4% market value. So there is a relevant gap, and that's what I said that we have a privilege portfolio.

A - Natalia Nunez {BIO 19480994 <GO>}

Okay. Thank you. Thank you so much, Fernando. Now there's one remaining question in Brazil from Silvia Rigol BBVA and Carlos Peixoto from BPI. Could you give us some more details regarding high acquisition cost, is it recurring for the coming quarters?

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

Thank you, Silvia and Carlos. You're right commission -- acquisition costs are quite high in Brazil, particularly when we compare with other regions. But is this something that is recurring in this country, as you know that what we call the (inaudible), these independent agents, they got a quite potential role in the brokerage of premiums. We are trying to reduce this acquisition cost, it is quite difficult, but you're right. The only increase in commissions that I remember is that the one made for the bancassurance channel and it was already mentioned in the past in order to foster activity in the Banco do Brasil. My conclusion overall, I mean, let's say that, that we expect the reduction in the acquisition cost. We're working on it. But due to the current structure of the intermediary agents in Brazil, we consider it as recurrent for the coming years.

A - Natalia Nunez {BIO 19480994 <GO>}

Okay. Thank you. There is one left, but I think more or less you have told that, what are the expectations on the evolution of premiums and combined ratio in Brazil?

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

Well, what we expect is that the similar trend we saw in Spain for the next three years after coming out from the recession, we expect a similar trend in Brazil. I do know there is a time lag, usually one year, two years between the good metrics, good macro metrics for a country and also relevant increase in premiums in the insurance business and also improvements in combined ratio. Let's say that the first year is gone and then and we are -- our expectations are great, greater I mean for next year. And basically it's that we are quite happy and our expectations are pretty high regarding the new transactions with Banco do Brasil. We; also enlarged our positions in non-life in Brazil.

A - Natalia Nunez {BIO 19480994 <GO>}

The last question -- thank you, Fernando. The last question comes now because now we are running out of time. And it comes from Ivan Bokhmat from Barclays. Will you be able to present any items for 2018 on net profit, combined ratio, investment result?

A - Antonio Huertas Mejias {BIO 15896108 <GO>}

Thank you, Ivan. As usual, we don't make any release of our forecasts out of the AGM. You know, we are in the middle again actually again of the current strategic plan and 2018 is a transition year. When we communicated the impact of a catastrophic event, we said

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that we have, we moderated our expectation to accomplish some financial targets like ROE. It's very difficult in the third year to rate it. But now we are focused on the improvement of the business in all geographies. Sales network in all countries will have pressure all year to get us close to these goals as possible.

The new strategic plan will be analyzed during the second part of this year and it will be launched for the next three-year period. We will continue working on the same lines trying to get the most profitable business and stress only to talk about growth. Quarter-by-quarter, we are seeing the success of the current strategic approach. And in the third year of the plan, we are satisfied, we are quite happy with the plan. The improvements of the business in Spain, the first country where we applied the profitable growth; the improvements as well in LATAM, all the regions in LATAM have excellent combined ratios below 100%. And now we know that we have to embrace the main challenge to lower the combined ratio in the States and Eurasia. IBERIA AND MAPFRE RE will continue having excellent results. USA is in progress with plans we've already released, and in Brazil, we are very confident with the measures that we have taken to improve the technical results. For that reason, in 2108, we expect to keep going our current process and to improve little by little our combined ratio and the ROE. But it's obvious that it's a year that where we will continue doing the same activities to improve the quality of our business.

Nevertheless, we are happy, we are very satisfied with the results of the year and we are thinking the 2018 we will be again an excellent year for MAPFRE business in the world. Thank you very much.

A - Natalia Nunez {BIO 19480994 <GO>}

Thank you very much. No more questions.

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

Thank you, I got one thing, and just to say bye bye. And know this has been -- 2017 has been a quite complex year in terms of both accounting effects and also one-offs. Hopefully, we hope that the explanation given and also the disclosures included in the documents that we file with the stock market are of quality -- are quite interesting for you. But any additional detail or any additional question you may have, as usual, do not hesitate to contact MAPFRE team. They will be fully available for you. Thank you for your presence again and bye bye. Thank you.

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