

Q2 2017 Earnings Call

Company Participants

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

MANAGEMENT DISCUSSION SECTION

Natalia Núñez Arana {BIO 19480994 <GO>}

Good afternoon, and welcome to Mapfre's Results Presentation for the First Half of 2017. As in previous quarters, Mr. Fernando Mata, Mapfre's CFO and Member of the Board, will take you through the key highlights and main trends of the quarter. And I will also help him with the Q&A session.

Also in this occasion, it's a pleasure to have Mr. Ramón Carrasco here with us, Mapfre's Chief Risk Officer. He will give us an update on Mapfre's Solvency II figures as well as ongoing developments on the implementation of Solvency II.

We continue working to improve our financial disclosure in response to the feedback we have received. We have included a slide and spreadsheet data focusing on quarterly standalone figures. We hope this information helps you better understand our results. I would also like to point out that our financial statements and management report, along with their corresponding audit reports are available today in both English and Spanish on our website.

At the end of the presentation, we will answer all the questions that were sent to the specified e-mail address. As usual, the Investor Relation team will be available after this call if you have any further question.

Fernando, the floor is yours.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Natalia, and good morning, good afternoon, everyone. Pleasure to be here again. Let me take you through the highlights of the period. As you can see on page 4, the 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.

During this period, we have seen an increase of over 8% in premiums with nearly 10% growth in the life business, and close to 8% in nonlife. Growth was affected by two large policies in 2016, a large group savings policy for over €130 million, and in June 2017, a

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multi-year policy in Mexico for almost €500 million. Excluding this, premiums would have increased by over 5% with nearly 16% growth in the Life business.

We've seen positive trends in the majority of the business units. In Spain, I would like to mention the strong performance of the Life business thanks to the launch of new products and campaigns. Retail Motor and Health are also growing thanks to the economic recovery.

In the U.S., the Motor segment in Massachusetts has performed well, thanks to tariff increases. Also currency movements, mainly the Brazilian real, and to a lesser extent, the U.S. dollar have also had a positive impact on premiums.

Let's move to the next page. The combined ratio stands at 97.2%, 40 basis points lower despite the effects of the Coastal Niño. You remember the heavy rains on Peru. This is by far the largest cat event of the period with nearly €58 million of losses incurred, adding approximately 80 basis points to our combined ratio.

The loss ratio fell by 20 basis points. We've seen a positive performance in the following countries: In Turkey, the Motor loss ratio improved by nearly 6 percentage points, thanks to a stricter underwriting policies, and tariff increases.

In Spain, the Motor loss ratio fell by 70 basis points; and in Brazil, in Non-motor lines, the combined ratio fell nearly 5 points to 80.1%. This excellent level helped offset the difficult market environment in Motor. On the other hand in the same period, three large claims impacted the Global Risks unit, which reported a net loss of €13 million for the first time in its history.

Regarding expenses, our strict cost containment initiatives led to a decrease of 20 basis points in our expense ratio to 27.4%, well below our strategic target. This improvement was especially remarkable in Italy, thanks to the business restructuring implemented last year, as well as in Spain with a 60-basis-point reduction and in Mexico with 5-percentage-point reduction.

Finally, the net result grew by over 9% reaching €415 million with an ROE of slightly over 9%. This reflects excellent performance of our core units mainly IBERIA and MAPFRE RE, as well as the relevant improvements of businesses that have undergone restructuring processes, especially Turkey, Colombia and Italy.

Please turn to slide 6. Shareholders' equity decreased by nearly 3% in the period, mainly as a result of the depreciation of several currencies especially the Brazilian real which has fallen almost 10% this year, as well as the U.S. dollar and the Turkish lira which have both depreciated close to 8%. Assets under management continue to grow steadily supported by the rally in equity markets and the positive evolution of the mutual and pension fund businesses with over 8% growth as a result of the successful implementation of Mapfre's strategy to grow in asset management. On the other hand, the increase in interest rates in Europe seen during the quarter has led to slight decrease in the value of the investment portfolio.

Let's now turn to slide number 7. In this slide we have included quarterly stand-alone figures. Regarding the main impacts in the quarter, it's worth mentioning the following. Premiums in IBERIA have fallen on the quarter as a result of the seasonality effects in Health and the concentration of Life-saving campaigns during the first quarter.

Regarding claims experience, despite (06:42) additional losses reported from the Coastal Niño in Q2, we've seen a lower level of large catastrophic and industrial claims in Brazil, LatAm North and MAPFRE RE. In Spain, there has been a pickup in frequency in Motor and a large fire claim.

Regarding real estate, the sale of a building in Madrid generated a net consolidated gain of €29 million. As we mentioned last quarter, we have applied more conservative methods to value our land portfolio which resulted in additional provisions with a net impact of almost €9 million.

There were also some one-offs impacts from corporate transactions during the quarter. First, the full consolidation of ABDA as of June 1 resulted in a €13.5 million net gain. This is due to the update of the fair value of the initial 20% stake that we bought four years ago.

Second, the sale on agreement of the DUERO Life Pension (07:46) and the sale of the annuity business in Peru generated net gains of almost €6 million and €4 million, respectively.

Please turn to slide 8 to look at premium trends by region in more detail. Insurance units, the core of our business, represents 75% of Mapfre's premiums, over 16% comes from MAPFRE RE, and the remaining is split between Global Risks and Assistance.

I would like to point out the following: IBERIA accounts for over 27% of total premiums. The variation in this region amounts to 4.4%. LatAm represents 31% of the total premiums with over 22% growth, largely due to LatAm North where they already mentioned PEMEX policy has boosted premiums. International accounts for 16.6% of premiums. In North America, premiums are up over 2% mainly due to the growth in Retail Motor in Massachusetts.

Finally MAPFRE RE represents over 16% of total premiums, showing solid growth above all in non-group business, and also due to the inclusion of the reinsurance program of the direct business in Italy we mentioned in the first quarter presentation.

In slide 9, we will take a look at the evolution of profit in these regions. Results showed the consolidation of our profitable growth strategy in Spain, and we are also starting to reap the benefits in EMEA and LatAm. IBERIA continues to be the key contributor to profit with a 53% share. It's worth mentioning the improvement in the Motor combined ratio, almost 2 percentage points to 93.5%, as well as the contribution of the Life business. LatAm has improved in the first half, mainly thanks to good performance in the Life business in Colombia and Peru.

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International shows significant growth thanks to the excellent performance in EMEA, especially in Turkey and in Italy where losses have been significantly reduced. Now, for MAPFRE RE net result increased by 12.5% supported by lower frequency and significant claims and cat losses. Profit contribution from the U.S. business is also remarkable.

On the negative side, as we said before, Global Risks was hit by several large claims. We will give you more details on this later. Finally, the reorganization process continued at MAPFRE ASISTENCIA, where recovery is taking longer than expected. The Assistance unit is bearing costs from the cancellation of unprofitable contracts and the closing of some operations. Overall, the improvements in the larger businesses mainly IBERIA and RE, were strong enough to offset losses in other smaller units.

Please now turn to slide 11. These are quite dense with a lot of information. By the way, I would like to comment on the main drivers of the evolution of the net results as well as the extraordinary items. This chart shows variation from the net results for both periods. First, I would like to explain the changes in Non-Life. There was an over €85 million increase in underlying technical result, thanks to improvements in underwriting and cost-containment initiatives

The U.S. dollar depreciation has also helped to reduce claim costs in both LatAm and MAPFRE RE. This was offset by a €57.6 million loss due to the Coastal Niño, mainly affecting Global Risks and MAPFRE RE.

The non-technical result had a €30 million positive impact due to the extraordinary expenses in 2016 that we haven't had this year. The €73 million reduction in the underlying financial result is due to the U.S. dollar depreciation and lower reinvestment yields in Brazil and in the Euro area. There was an over €8 million reduction in the level of realized capital gains net of write-downs.

And now, regarding the Life business, profit increased by €50 million due to improvements across the board, IBERIA and Colombia being the most relevant. There was a reversal of provision in the bancassurance channel in Spain amounting to €29 million, already reported in the first quarter.

In addition, there were several corporate transactions that had a €26 million impact on pre-tax results during the quarter. The figures and breakdown between life and other activities are fully disclosed at the bottom of this slide.

Further, taxes have decreased as a result of a different business mix, Spain is the largest contributor, and a reduction of taxes in Brazil thanks to the agricultural business, as you know, which has tax reliefs.

Lastly, the increasing non-controlling interests due to better performance at bancassurance subsidiaries as well as the appreciation of the Brazilian real.

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On the next page, we will look at trends in Non-Life premiums. Non-Life premiums have grown by 7.8% with an excellent performance in our main markets. In IBERIA, growth was notable in Retail Motor, 3.3% year-on-year, and over 7% in June. The average premium grew slightly higher than the market, as usual, and the number of vehicles insured increased by almost 50,000 during the first half of the year despite fleet cancellations. In Health, we're growing above the market at a 4.7% rate.

Regarding LatAm North, premiums include a two-year PEMEX policy. Excluding this impact, premiums would have fallen by 4%. Mapfre Mexico showing an over 38% reduction in Motor premiums in local currency due to the portfolio review we currently are carrying out

In Brazil, solid local currency growth in industrial risk and agriculture lines helped to offset the difficult situation we're living in Motor. The United States higher Motor premiums in Massachusetts have been supported by tariff rises. In the other states, premiums have fallen by over 7% in U.S. dollars as a result of lower underwriting activity in some of them.

In EMEA, growth in Germany and Italy has been remarkable. In Turkey, premiums have fallen as a result of the strong depreciation of the Turkish lira. Number of vehicles insured has fallen by over 340,000 in the last year. In addition, the others premium has fallen by 18% in local currency in the current quarter.

Please turn to the next slide. Mapfre is focused on cost containment and strict underwriting continues showing results. Improving claims trends in several main markets helped to offset other negative developments.

In Spanish motor, we've seen a stability in baremo-related claims cost and a positive evolution of VERTI's business. In Brazil, the good evolution of Multiperil lines as a result of more benign weather offset the increase in Motor, where fraud and theft continue to worsen the loss ratio.

In Mexico, there have been improvements in General Insurance and Health lines, although Motor is still having difficulties.

The U.S. is benefiting from tariff increases and the solid performance of the homeowner line with a remarkable combined ratio at 71.5%.

In Turkey, tariff increases and underwriting improvements in Motor had led to a nearly 6.4% in the claims ratio, very remarkable.

On MAPFRE RE, the combined ratio has fallen by 4.5 percentage points, thanks to absence of relevant claims and the excellent performance of the U.S. business. However, this quarter figures were affected by three large claims at Global Risks totaling almost €50 million. Two were already reported in the first quarter the Coastal Niño and a fire in a refinery in Abu Dhabi. And in the second quarter, there was a large claim in a power plant in Panama.

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You can see on page 14 the Non-Life financial result fell over €80 million compared to the previous year. Over half of this fall is due to lower foreign exchange differences driven by the 8% depreciation of the dollar this period. The remainder of the fall is explained by lower financial income in Brazil due to several cuts in the Selic rate, which is now at 10.25% compared to the high of 14.25%.

Realized gains are slightly lower than the previous year's figure and include the €48 million pre-tax gain in IBERIA from the sale of a building in Madrid. At consolidated level, this capital gain is reduced by €10 million approximately. Also, we booked in the second quarter additional provision on land amounting to almost €12 million. Finally, we'd like to point out the high-level of unrealized gains of nearly €180 million on our actively managed equity and mutual funds portfolios. These give us leverage to take advantage of future market opportunities in the second part of the year.

Please turn to the next slide. Now, we can take a look at the evolution of the life business. In IBERIA, premiums grew by 9%, thanks to the successful launch of the new savings products and sales campaigns, especially unit-linked. There are also improvement in margins across the board. Realized gains include the impacts from the sales agreement of Unión Duero Life and Pensions, and the reversal from provision in the bancassurance channel as already mentioned.

In Brazil, premiums have grown by over 9% as a result of the appreciation of the Brazilian real. In local currency, they have fallen by around 5% as a result of the lower lending activity in the bancassurance channel. High margins in Life-Protection help offset the decline in financial income.

LatAm South reflects an €8 million gain before tax and minorities from the sale of the annuity business in Peru. We've seen improvements in Colombia, as well as a result of the portfolio cleaning measures taken last year and that are also boosting our results.

On the next slide, we will look at the evolution of our capital base this year. Shareholders' equity fell by €267 million in the year to €8.8 billion. The decline was largely driven by market movements. First, several of our main currencies depreciated, especially the Brazilian real, the U.S. dollar, and the Turkish lira. And second, the fall in financial assets available for sale which reflects two opposing movements.

First, an increase in the value of equity investment in a rally market, and second, a decrease in the value of fixed income investments due to the current yields in Europe largely mitigated by shadow accounting.

On page 17, we'll take a look at the investment portfolio. Our investment strategy has continued in line with the first quarter, with slight reduction in fixed income assets mainly reinvesting in equity. But also in alternative assets. We were also active in primary markets.

Regarding asset allocation, exposure to government debt has gone from 58% to almost 55%. And corporate debt from around 21% to 20%. On the other hand, equity and mutual fund exposure have each increased by 1 percentage point.

Now turn to page 18. Let's analyze our capital structure and debt position. The left side, you can see the composition of the capital structure which amounted to €13.5 billion, and the largest of which is equity, with 81% of the total. During the quarter, we partially paid back the syndicated credit facility which finished June with the balance of €320 million, compared to €480 million at the end of March.

Also, this past Monday, we've redeemed our outstanding subordinated bond that was issued in 2007. On the right side, you can see our leverage at nearly 20%, and our interest coverage at 21 times earnings before interest and tax. Both figures are favorable compared to our peers.

Please now turn to slide 19 where Ramón Carrasco, our CRO, will present the Solvency II figures. Thank you. Ramón, you have the word.

Ramón Carrasco

Thank you, Fernando, and good afternoon. It's a pleasure to be here today. The solvency information we are presenting today corresponds to March 2017. The 211 percentage Solvency II ratio is based on a high quality capital structure of more than €9.6 billion in eligible own funds with a high share of unrestricted Tier 1 capital.

The proportional increase in Tier 2 capital this period is due to the fact that these figures include a subordinated bond that was called on the July 24 along with the subordinated debt issued in March of this year.

Excluding the called bond, the pro-forma solvency ratio would be 198% with 93% of Tier 1. Mapfre's fully loaded Solvency II ratio, excluding the impact of the transitional measures for technical provisions and equity, stands at 192%.

In the first quarter of the year, the figures reflect the first phase out of the transitional measure on technical provisions and equity which, as you know, are effective for 16 (23:14) and 7 years respectively starting in 2016.

The impact of the matching adjustment is limited, around 5%, but it is a very useful tool in case of significant spread increases in which case its effects will be much higher.

On the next slide, we include information about the composition of the Solvency II eligible own funds. As you can see, we start with IFRS equity valuing the participations not included under Solvency II and intangible assets at zero. The value of subsidiaries under equivalence - this is Mexico, the United States and Brazil - is adjusted, and they are valued by recognizing own funds in line with local rules.

Real estates and other assets are valued at a market value. Accounting provisions are value under Solvency II criteria. Finally, subordinated debt is aggregated to look at total eligible own funds. The figures on the right of the chart show the evolution of the funds in

the quarter. As you can see the most important increase is due to the subordinated debt issued in March.

On the other hand, there was a reduction stemming from the difference between accounting and Solvency II provisions which is explained by two factors. First, solvency provisions have gone up because expected profit is corresponding to future premiums are recognized only in the annual calculation. Second, the reduction from the phase-out of transitional for technical provisions had an impact of €50 million.

Please turn to slide 21. The composition of the capital requirements is stable compared to the previous quarter. Given that this is calculated annually. On the next slide, we will take a look at recent developments in Solvency II implementation. MAPFRE continues evolving its capital models. We are currently restructuring processes to streamline Solvency II calculations to move up and deadline ends and publish Solvency II figures earlier. Analyzing the feasibility of using the equivalence method in Puerto Rico.

Analyzing the best treatment for the Indonesian insurer ABDA where our stake went from 20% to 51% of the second quarter. We have decided to exclude this entity from the Solvency II perimeter as we already do with other small entities. Finally, we are adapting our longevity and mortality and Motor underwriting models in order to be able to calculate regulatory capital for Spanish entities.

Let's move on to slide 23 to give you a quick overview of Mapfre's embedded value figures. The full presentation is already available on our website. First of all, we must mention that we have changed the methodology of the calculation from European embedded value to market consistent embedded value.

2015 figures have been adjusted accordingly. Embedded value has proven resilient despite the challenging market environment. Our total embedded value grew by 44% in 2016 and our return on embedded value remains high, over 10%. This improvement is explained by the inclusion of the Burial business of Mapfre España as well as the Life businesses of BANKINTER VIDA in Portugal and MIDDLESEA VALLETTA in Malta. The positive impact from the deviation of actual value from expectations which primarily reflects adjustments of financial investments.

This is all from my side, Natalia.

Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you very much, Ramón. Thank you very much, Fernando. We hope you have found this presentation useful and that we were able to touch up on the main topics that interest you. Now, as in other quarters, we will try to answer all the questions as time allows. Nevertheless, if there are any remaining doubts after the presentation, please feel free to contact the Investor Relation team and we will be more than happy to help you with whatever you may need.

Now, we are going to start with the Q&A session.

Q&A

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

The first question comes from Farquhar Murray from Autonomous. He asked the following question regarding extraordinaries. Please, could you explain the additional Coastal Niño losses in 2Q 2017? Why are these larger than in Q1? And why this was not flagged at results in May?

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

Yeah. Thank you. I mean, it was an event that was difficult to capture in terms of claims. And the losses were large mainly in Global Risks and MAPFRE RE. Approximately, two-thirds affecting MAPFRE RE in retention and one-third to Global Risks. And a small proportion impacted Peru, I mean, the Insurance operation and it was due to the low retention that the company has.

The recognition effects of the claims has taken place above all in the second quarter because of these negative loss development during the second quarter. It was new claims that were filed with. And also there is an increase as well in the average cost of some claims, and affecting mostly MAPFRE RE.

I want to point out that this cat event is not a well-known catastrophic event in the reinsurance market, but it has had a significant impact for Mapfre both in Insurance and Reinsurance business. I mean, the figures are - I can disclose it. I mean for Peru, it was gross - before the - I mean the - in terms of claims, now the net profit contribution for Peru was €2 million, and MAPFRE RE was €33 million more or less, and Global approximately another €23 million, totaling €58 million before taxes and minorities.

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

Thank you. Also, Andrew Sinclair from Bank of America Merrill Lynch would like to know or to have some color on the development of prior year reserves in the period. Have there been any notable releases or strengthening?

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

Thank you, Andrew. I mean, nothing relevant to comment as in previous years. As we said, average cost for Baremo is quite stable during the two first quarter in 2017 and in line with our tariff raises. And regarding the special provision that was accounted for in previous year in order to cover those deviation in the former Baremo, the amount remains the same, and we will update, I mean, the situation at year end in order to propose any releases.

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

Okay. Thank you. Now, taking advantage that Ramón is here, we are going to - we have some Solvency II questions. The first one comes from Farquhar Murray from Autonomous, and it's what are the adaptations Mapfre is hoping to make to the Solvency II internal model with regard for instance to Motor underwriting risk and mortality? Should we expect

favorable changes in the SCR from this exercise? And what is a realistic timeframe for reaching a conclusion on this?

A - Ramón Carrasco

Thank you Farquhar for the question. We are currently - as you know, we are currently reporting Solvency II figures with the standard formula. We already have internal models only for internal risk management purposes. What we are doing now is adopting our internal models in order to use them to calculate the regulatory capital requirements for the Spanish entities, which we expect will lead to lower capital requirements for these entities.

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

Thank you. Also regarding Solvency II, Andrew Sinclair from Bank of America commented, your Solvency II ratio looks strong and your credit rating also, which you have previously mentioned as a binding constraint has been put on positive watch. Can you tell us how you see your excess capital versus the credit rating constraint? Do you have plans to put any of this excess capital to work?

A - Ramón Carrasco

Thank you, Andrew. This positive outlook is really a very recent event. As we have mentioned before we feel comfortable with our current capital position and it is aligned with our risk appetite and rating objectives.

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

Thank you very much Ramón. Now, we start with a set of question regarding Brazil. The first one comes from Andrew Sinclair in Bank of America Merrill Lynch and Sofia Barallat in BPI. Could you please give us details of Non-Life pricing dynamics in Brazil?

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

Thank you, Andrew. Well, Brazil is quite - we live in a difficult situation due to the tough competition. As you know, there are big guys, I mean, in this market in Brazil. Mapfre is quite big as well but there is a lot of competition.

What we've done is that rather than being in this war price (sic) [price war], what we're trying to do is to fulfill the process of the sanitation of our portfolio focused on our strategy of profitable growth. And also we have to reduce our personnel expenses, particularly acquisition expenses that are really quite low, being more competitive in terms of expenses rather than further price reduction.

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

Thank you. Also, can you talk more about the complicated situation in Motor in Brazil. What is the outlook there?

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

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Well, when we say complicated situation, it was because there was deterioration of the combined ratio. I mean, for Automobile, it was I don't remember well but, correct me if I'm wrong, but like 3 percentage points. And it's tough competition and the regulatory change that we already mentioned in previous presentations.

SUSEP has implemented a 30% reduction in the tariff for compulsory insurance. But in that case, it's different than Turkey. It is important to take into account that this coverage has quite low weight in our Mapfre Brazil portfolio. Our operation in Brazil is very well diversified and other good performance in (34:34) line of business allow us to offset the current negative trend in Automobile.

So, overall, I mean, we are quite happy with the resilient performance of Brazil.

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

Good. Thank you. Also, in terms of the agricultural insurance market, can you tell us more about this market, the evolution of this market in Brazil?

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

Well, this line of business is quite difficult to predict. As you know, agricultural insurance has 18% growth in premiums in local currencies. But in any case, I mean, it's extremely difficult to anticipate the evolution of this business because it depends on government aids and also the interest applied - interest rates applied.

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

Okay. Thank you. In general, in Brazil, what are your expectations in terms of Life premiums in Brazil?

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

Well, the Life business fell 5% affected by the drop in Life protection insurance linked to personal loans from Banco do Brasil. The evolution in the next quarter will depend on the recovery in the economy and also the distribution of personal loans from our bank assurance channel, Banco do Brasil.

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

Good. Thank you. Now, the next set of questions is with regards to the evolution of the business at Mapfre U.S.A. Andrew Sinclair at Bank of America, would like us to provide details of Non-Life pricing dynamics in the U.S. market.

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

Yes. As you may already know, we usually talk about the U.S. market and rather than the U.S. market, we're talking about 50 different U.S. markets. So, let's say that the U.S. market pricing dynamics vary from state to state, some are more regulated than others but depends a lot of the local regulator.

Our experience tells us that when tariff rises are necessary, the regulator is supportive and in the end, they tend to be in line with the rest of the market. For example, during the quarter, we filed for 3.8% increase in Motor tariff in Massachusetts that we expect - I mean to put (36:57) in the market, I mean, in a quite positive way.

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

Thank you. Also Michael Huttner, JPMorgan, has some questions regarding the U.S. business. One of these is what is the action plan for the U.S.? I see reference to minus 7% premiums outside of Massachusetts. And I would like to know if there are specific actions, which states you are withdrawing from? Where are you in the most challenging state, which I think is New Jersey?

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

Thank you, Michael. You are not wrong saying that New Jersey is a tough state. And as we have mentioned, we have already taken several measures and mainly reducing our sales and underwriting and commercial activity, as well as increasing tariffs across the states. We are still analyzing our strategic plan in the U.S., we held different meetings, I mean, both at the corporate level and also in the U.S.

And hope to give more detail in the coming months when the meetings for a strategic view, I mean, were completed, I mean, in the third or fourth quarter. I mean, the short list will be, I'm sure available at the end of this year, and our final geographic footprint will look like in the U.S. We have mentioned that in previous forecast (38:30) situation that both New York and New Jersey they both are quite challenging states.

But there is still, I mean, the short list is still to be done, and we're quite comfortable with the current performance results in Florida and California. But we haven't yet taken a formal final decision on the states we will operate in the future.

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

Okay. Thank you. Now, the next question is regarding strategy. Regarding the ROE target, Niccolo Dalla Palma at Exane BNP Paribas and Michael Huttner at JPMorgan would like to know how confident is Mapfre to reach the 11% target.

Are you going to use real estate gains to bridge the gap?

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

Thank you, Niccolo and Michael again. As we said in many occasions, this is the most challenging target, have to be quite moderate and optimism, since some units are not performing as expected. But still, we believe that until 2018, we will try to achieve our strategic targets. And the 11% ROE is one of these.

We already mentioned many, many times, we're not going to do a cosmetic accounting in order to achieve this target. We don't realize those real estates that they are not at the right market price, nor the current unrealized gains on equity we reported, amounting at

June 30 of €180 million. I mean rather than real estate will be easier, I mean to improve our ROE, reducing our capital base and realized gains, and then putting in the profit and loss again and including our net result. But we're not going to do it.

We will sell our real estate units, and we will realize gains on the equity according with the market conditions. I mean, the majority of the realized gain were made during the first quarter, and during the second quarter, we're quite passive, and that we're waiting to have movements in the yield core both and another market rally in equities in order to not to lose good market opportunities.

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

Thank you so much. Now, we have next set of questions regarding IBERIA's operation. The first one is sent by Andrew Sinclair in Bank of America, Silvia Rigol from BBVA and Michael Huttner at JPMorgan.

First one, can you please give us the net premiums earned by line of business especially in Motor? What was the combined ratio in Motor for the second quarter standalone?

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

Yeah. Thank you. In Motor, the net premium earned were €956.9 million, approximately €960 million at June 2017, and approximately €470 million at March 2017. Standalone combined ratio for Motor in the second quarter of the year was 95% compared to 92% in the first quarter.

As we explained during our first quarter presentation, I mean, the first quarter was superb in terms of weather conditions, and also what we saw is quite stable figures in terms of frequency. And, again, during the second quarter, we see a rise in frequency due to an increase in both the number of cars sold and also more mileage as well.

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

Thank you so much. Also, in Spain, Motor frequency is up. Can you say what action you are taking there? What rate rises, and whether, for IBERIA, the 95% combined ratio is one you are comfortable with?

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

You're pretty right. We've seen an increase in Motor frequency in Spain. I've already mentioned approximately 1% of our tariff rise for 2017 was fully devoted to this expected increase in frequency. And so, overall, I mean, the way we're going to offset the increase in frequency is increases in rates; there is no other way. But also measures include the cancellation of unprofitable policies, mainly fleets and cost-containment efforts will help us, I mean, to reduce this increase in the loss ratio.

So, even though we can see increases in frequency in Spain, we think we are in the right path and well prepared to keep the current good levels of combined ratio. I mean, it's difficult to see. 95% is the perfect combined ratio. I mean, it's quite positive, but - I mean,

it's in line with our targets. If we can get lower. I mean, we'll try, we will go for it, but 95%, I mean, it's, let's say, a long-term sustainable combined ratio.

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

And regarding pricing dynamics in IBERIA, what can you tell us about that?

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

Yeah. The pricing dynamic in...

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

In Non-Life.

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

In Non-Life, yeah. Thank you. The pricing dynamic in IBERIA are improving. As we see it because their economic recovery is boosting consumption, and this is helping insurance premium. Approximately 500,000 new cars were added to the portfolio for the total fleet for Spain, and approximately 450,000 new cars sold during the first quarter. So, I guess that being new cars - I mean, they will help us, I mean, to move from Compulsory Insurance to full coverage insurance and will help us as well to increase the premium average.

At the same time, after the implementation of Baremo, many companies are increasing tariffs on motor. Mapfre is not doing this. I mean, we're trying to cover new deviations in coverage with tariff rises but not for Baremo. I mean Baremo was fully covered in 2015 and for us I mean, it's history. I mean, it's just this current business.

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

Okay. Very clear. Thank you. And there is one question regarding real estate disposal. More or less you have answered that - about that before, but they want to know if - that's the second disposal in two years, have you got any other upcoming disposals you can flag?

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

Well, I mean, it's difficult to predict market conditions and also, I mean, those that we can materialize during the second half of the year. Majority of our units, those significant buildings I mean in the main cities in Spain, they are 20 years older or even more, and we had to either revamp, I mean, with another investment in real estate or, well, to sell them because they're not in the best place, in the prime rate place in the cities. There are a number of two, three, I mean significant buildings that are in the market currently, but it's difficult, I mean, to predict if those capital gains will materialize during the second part of the year or next year. I mean, we're not hungry. I mean we don't have this appetite in order to realize gains. I mean, just only when the market price is the right one and it's time for a rotation of buildings, we will make it.

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On the other hand, I mean, we're quite active as well in looking for new investment opportunities in both alternative business – alternative portfolios, and also in the real estate market. So, we could see both things, sales or buying new opportunities, both direct or indirect through pension – sorry, to real estate funds or SOCIMIs or whatever other vehicles there will be for Mapfre.

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

Thank you. Now, we have a question – a couple of questions regarding LatAm North. The first one comes from Farquhar Murray in Autonomous and Niccolo Dalla Palma, Exane, and they want to know why premiums are falling in LatAm North. If we exclude the PEMEX policy, which business are experiencing decline?

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

Yeah. Thank you. Niccolo and Farquhar, in Mexico, P&C has been positive performance and that's Life, however – and we were moving from commercial business to personal lines. Personal lines I mean is the main business for Mapfre and is where we can apply our knowledge – doing the best practice of our business knowledge.

There is a 38% fall in premiums in Motor in local currency as we reported. What we're doing is the application of stricter underwriting policies, fleet cancelation, rate adjustments and non-renewal of loss making contracts. We're analyzing as well some distribution channels from brokers and the portfolio is quite unprofitable, and we're cancelling those portfolios.

Health line also experienced an 11% fall in premiums in local currency due as well to non-renewal of some group loss making contracts. In the rest of countries, I mean, we're quite positive. Premium growth shows a favorable development in the Dominican Republic and also Central American countries, especially Panama and Honduras. Dominican Republic, Panama and Central America, I mean all the countries together, the three of them, they are reporting premium growth over 10%. So, it's quite positive figure.

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

Thank you, Fernando. And also in LATAM North, they want to know what's the expected profitability of the PEMEX policy and what does it cover exactly.

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

Yeah. As you know, it's a very complex policy where the rate is distributed more than usual and that means that the retention is very, very low. So, there is a quite low risk appetite for Mapfre and therefore the benefit is always reduced. Important of this policy is the Mapfre capacity to manage global risks of this nature.

We're the leading insurer of global risk in LatAm. And also – I mean, it was a public tender. So, Mapfre getting the renewal. It meant that there are a lot of confidence, I mean, in Mapfre as a very good delivery in policies that size. So, we're pretty confident that we will perform as expected.

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

Thank you. Now, we are moving from Mexico to Turkey.

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

All right.

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

This is about what are your expectations for premiums in Turkey?

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

Yes. The business in Turkey evolves very positively, I mean, the figures are fantastic at the end of this first half of the year. The thing is, as you all probably know - I mean, the earned premiums are coming from the tariffs and premiums that we increased last year. So, as Mapfre Genel Sigorta is adjusting tariffs to the new market conditions that we know well. And implementing measures to reduce impact in the performance of the business.

As we reported the average premium for Compulsory Insurance for the second quarter was 18%, approximately, and quite low, below our expectation. This was according to the different geographical areas and also the segments of vehicles was 30%. So, so far, the damage is being limited. And overall, I mean we are quite optimistic. We believe that we can offset a part of this loss with increase in other coverage, in other line of business, considering the proper diversification of our portfolio in Turkey.

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

Okay. Thank you. And in order to give you a little time to relax, we are going to ask Ramón Carrasco a question about Solvency II. Michael Huttner from JPMorgan would like to know how much is the benefit of the equivalence adjustment for Brazil and the U.S.?

A - Ramón Carrasco

Okay. Thank you for the question. The benefit mainly is not on capital requirements, it's in allowing these entities through to apply their own rules to calculate the capital requirements and so to be able to compete in the market in the same level playing field.

In terms of the equivalence, as you know, the U.S. we include according to what is expected by the European supervisor where we are including three times level to these entities. And Brazil is more or less the same. We are well capitalized there, but we - and we feel comfortable with the local regulations that we are applying.

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

Thank you, Ramón. Also Michele Ballatore from KBW is asking regarding the Reinsurance unit. This question is, could you please give more color on the strong underwriting performance of MAPFRE RE? 2Q have historically a lower technical profit, what changed?

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

Well, for both, I mean, MAPFRE RE and Global Risks large claims are not evenly distributed through the year. And, fortunately, Mapfre is properly diversified and what we've seen in Global Risks, we haven't seen in MAPFRE RE. So, fortunately, putting them together, I mean, the net result is quite positive.

And focus on MAPFRE RE, we've seen lower frequency of large claim and cat losses despite the already mentioned Coastal Niño. And also I would like to mention as well the profit contribution from the U.S. business which is quite remarkable.

As you know, I mean, there is a 30% quota share that is being ceded by our direct operations in the U.S., so the net profit - the profit contribution is being booked in MAPFRE RE. But the underlying region of this business obviously belongs to the U.S. business.

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

Okay. Thank you so much. And let me see, we can - yeah - let me see because - we are seeing lower - Niccolo Dalla Palma - sorry. I am not following the questions. Niccolo Dalla Palma from Exane BNP Paribas has also a question regarding the disclosure of net premiums earned by line of business in IBERIA.

If we can provide more detail on Motor, general P&C, and Health and Accidents in Spain? Because it doesn't include the earned premiums to be able to reconcile the IBERIA P&L. This is a question also we have received from Silvia Rigol from BBVA. This information has not been released yet but it's numbers we will release in two months, and with the technical accounts.

Anyway, we think that, we can give you these figures since you have asked about that. And if we're talking about Motor, second quarter premiums accumulated in Spain were €956.9 million. In terms of multi-peril insurance, General Insurance, they were €710.9 million. And Health and Accident, they were €259.1 million.

In March, in order to give you the idea of the stand-alone quarter, in March, the premiums for motor were €469.5 million. In March also, General Insurance, these premiums were €362.4 million. Health and Accident, these premiums were €127.5 million.

We can go through these numbers after the call if you need also, but feel free to call us if you need - know more details, but if you haven't caught quite well a specific figure.

Now, there are more questions. I think these are the last questions we have received today, so there are several items or topics here. Niccolo Dalla Palma would like to know, you mentioned in an answer earlier that you could review the provision for Baremo at year-end. Your comment seemed to suggest you might propose a release. Would you definitely say a release is more likely than an increase?

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

Yeah. Thank you, Niccolo. Very important question because perhaps I wasn't enough clear when we mentioned this point. We have to differentiate both provisions. First is the current actuarial provision for Baremo claims or for auto claims which is being updated on a quarterly basis and reflects both the number of risks and also the trends in the adjusting periods and also average cost and so on.

And the second is the extraordinary provision that we allocated, we appropriated two years ago in order to cover deviation from the former Baremo. Just in case of the prior years, were in the end, because Supreme Court decision or whatever, I mean, will be settled at the current - at the new Baremo.

Answering your question, I mean, it's more likely a release because the - my view is that it will never with information we have now - it will be never an increase, because so far there is no new sentences coming in order to settle current claims - sorry, former claims with the current Baremo. So as usual, at the year-end, I mean we update our analysis on this provision but it's more likely a release and my prediction, my forecast is that we won't have an increase.

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

Thank you. There is one question I think has been also already answered. It's regarding the SUSEP rate reduction that introduced for some coverage up to 30%. Is this already reflected in the numbers or will it feed through in the coming quarters?

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

Yeah. First, this 30% is an average of the different segments and sort of vehicles. This effect will be reflected in the numbers gradually. It's quite similar to Turkey as well. In any case, I mean, we're talking about as a quite small portfolio regarding, I mean, the size of Brazil. So, we do not expect a relevant impact in Mapfre Brazil results as a whole.

We're trying to offset, to mitigate this effect with reduction of exposure. I mean, also cancelling those distribution channels, corredores, as we said in Brazil, brokers, that they're performing a negative underwriting results. That's it.

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

Okay. Thank you very much, Fernando. Thank you very much, Ramón. That's all for the Q&A session. We haven't received any more questions. Thank you very much.

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

Yeah. Finally, I mean, I would like to thank you for your presence today. I want to close the session with a recap. There has been relevant growth in both premiums and net results, and improvements in technical results. Net result is very positive. You have to bear in mind that there is a reduction in the current financial income. We are taking opportunities of the market, but we are being quite prudent with our unrealized gain on our portfolio, and both in our real estate.

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And regarding our strategic plan, the initiative focused on the profitable growth strategy are showing quite positive results, and we expect this trend to continue in the remaining part of the strategic three-year plan.

Finally, for those of you who are sitting out for the summer holidays, we wish the best. Be happy, and above all, safe holidays. Bye-bye, and thank you again for your presence.

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

Thank you very much. Thank you. Bye.

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