

Investor Day

Company Participants

- Alfredo Castelo, Chief Executive Officer, North America
- Antonio Huertas Mejías, Chairman & Chief Executive Officer
- Eduardo Pérez de Lema, Chief Executive Officer - MAPFRE RE
- Fernando Mata Verdejo, Director & Chief Financial Officer
- Jaime Ibañez Tamayo, Chief Executive Officer-International
- Natalia Núñez Arana, Director-Capital Markets & Head-Investor Relations

MANAGEMENT DISCUSSION SECTION

Natalia Núñez Arana {BIO 19480994 <GO>}

Good evening, everyone. It's a great pleasure to welcome you today to our second Investor Day. It's being broadcast live. The first one last year was a great success on a comprehensive event. Following your suggestions, we have decided this year to focus in the issues that have raised the most interest during the last year. These subjects are the evolution of our strategic plan, our capital management and policy; of course, the impact of the catastrophe events during the third Q, and also our operations in the international business with a special focus in North America region. The presentations have already been uploaded in the CNMV web and also in our website, in Spanish and in English.

Today, we have here with us MAPFRE's Chairman and CEO, Antonio Huertas. Good morning, Antonio.

Antonio Huertas Mejías

Good morning, Natalia. Thank you. Thank you for joining us. Today, it's a very important day and we are very delighted having the opportunity to share with you our views about MAPFRE and what MAPFRE is doing now. Thank you very much.

Natalia Núñez Arana {BIO 19480994 <GO>}

And also our CFO and Member of the Board, Fernando Mata will be here today with us. Good morning, Fernando.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Natalia, and good morning, everyone.

Natalia Núñez Arana {BIO 19480994 <GO>}

During the event, we will also hear from Eduardo Pérez de Lema, our CEO of MAPFRE RE; Jaime Tamayo, the CEO of International Business; and Alfredo Castelo, CEO of North America region. And as you may know, I am Natalia Núñez, Head of Investor Relations in MAPFRE, and I am going to read the Q&A session.

Regarding the structure of the event, there will be four blocks. The first block will be the opening remarks with Antonio Huertas, and the capital management policy with Fernando Mata. After that block, we will have a short break. When we return from that break, we will have the second block with Eduardo Pérez de Lema on the reinsurance program. After his presentation, we will have the first Q&A session regarding reinsurance business.

At the end of this Q&A session, we will have again another break. And when we come back, Jaime Tamayo and Alfredo Castelo, will talk us about the International business and MAPFRE USA. At the end of that block, we will have again a Q&A session regarding only the questions of MAPFRE International and MAPFRE North America. We will have another break and when we come back, our Chairman will give you the closing remarks.

After the closing remarks and the wrap-up, we will have a Q&A session with all the participants in the event of today; all the participants will be here. So, it would be good if you can send us the questions in advance because that way we can loop them and we can answer as much as many questions as we can.

And finally, one more thing. During the breaks, we want to share with you the videos of MAPFRE team in the Volvo Ocean Race. By the way, we are leading the competition after the second leg. The competition will finish in June, and I hope to come back with excellent news, and I hope you enjoy them as much as we do.

And now, without further ado, please welcome Antonio Huertas.

Antonio Huertas Mejías

Thank you, Natalia. Good morning, again, everyone, and thank you for joining us for this Investor Day, proof of MAPFRE's firm commitment to strengthening our relationship with our investors and stakeholders.

Let me start by giving a quick overview of the main figures of the company as it stands in the last period we have published, the third quarter which, as you already know, were affected by severe cat events. Last quarter, we concluded the first half of the three-year cycle of our profitable growth strategy. This strategy is being deployed throughout the globe and there are units that already show a sustainable growth in premiums and a very significant improvement in their profitability.

This growth model started a couple of years ago in Spain, and there you can see the result. Premiums are growing well above the market, around 4%. We have beaten the market in almost all businesses and profits has grown close to 10%. In Spain, Life business is also performing extremely well with outstanding performance in the bancassurance channel.

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MAPFRE continues contributing positively to business volumes, even in the context of the recent catastrophes, as we will explain clearly throughout today's presentation. Our profitable growth strategy is also seen in other markets such as Peru, Colombia, Turkey and Italy among others, with very significant improvement in the results. On the other hand, the process of progress towards greater profitability of larger markets such as Brazil, Mexico, and the United States continues.

As you know, there has been an exceptional concentration of natural catastrophes in this third quarter that has not occurred in decades, both by their magnitude and by the coincidence in time. We will view more information on this topic, but it's important to emphasize it. Despite the exceptional nature of this event, we are talking about something that is inherent part of our insurance, protecting our insured against those risks. What's relevant is the prudent financial capacity and solvency of MAPFRE to respond to our policyholders as we are doing. It's also important to highlight the effectiveness of our insurance protection that MAPFRE has against these type of events, and how this limit the impact on the group's results and equity.

On this, we can say that the specific impact of the catastrophe does not alter the evolution of the company that is still performing very well in line with our strategy. We stand by our net impact estimated of €176 million which we gave in September. Eduardo Pérez de Lema, the CEO of MAPFRE RE, will be able to break down for you some of the gross impact estimates we are starting to obtain which could rise to €1.1 billion.

In the next few minutes, our CFO, Fernando Mata, will also update you on our financial position and the evolution of our investment strategy. As we've repeatedly told you, the main focus of MAPFRE's capital management is to maintain capital levels and consistent dividends. In that regard, MAPFRE is working towards meeting its commitment of a stable and growing shareholder remuneration.

Final dividend against 2017 result will be announced in February 2018, and approve at the shareholders' meeting to be held in March. Solvency position and the diversified balance sheet are some of our defining feature. Moreover, our asset allocation policies are successfully managing financial returns for us even in the low interest rate environment, with high accounting yields and flexibility to take advantage of market opportunities for harvesting gains.

We also make the most of this meeting to update you on the restructuring we have already decided for our North American business. Going forward, we will focus our operations on a fewer states in the U.S. We will reinforce our market leadership position in our home state, Massachusetts. We will focus on our core markets and line of business, and drive our profitable growth strategy in the states where we remain operating. This means we will exit five states; New York, New Jersey, Kentucky, Tennessee and Indiana.

At the same time, we are implementing a digital transformation of our operations there, which includes the recent launch of our VERTI brand in the State of Pennsylvania, offering auto insurance to digital customers. Alfredo Castelo, our CEO of MAPFRE North America, will explain all the details to you in a moment.

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And finally, we are going to dive a little deeper into our businesses in Europe, which are in general registering a remarkable turnaround profitability compared to previous years. Our CEO in the International territorial area which includes North America, EMEA, and APAC, Jaime Tamayo, will explain to you shortly what the outlook is for our business in Turkey where profits are up 120% in local currency terms; Italy, where net result is up 71% on the previous year; Germany, which is developing a solid business model with a new brand and diversifying into digital life insurance, a merger that continues its sustained value creation; thanks to its leadership in both Life and Non-Life insurance. Also we have - are very excited (11:12) the creation of a new subregion in the LATAM North region, which brings together all the MAPFRE businesses' activities in Central America and in Dominican Republic.

Now, I'd like to continue reviewing main points of our three-year strategic plan. Our main goal is to achieve profitable growth through four main pillars which are shown here; client orientation, digital transformation; comprising both digital business and also the digitalization of our processes; technical and operational excellence; and lastly, developing our internal culture and talent. The 2016-2018 plan shows thus far quite satisfactory development, with almost all the projects in progress and 75% of the indicators on a schedule. The strategic plan also incorporates a number of financial objectives, some of which I have already mentioned. Let's take a closer look at them now.

We've set the goal of above 5% annual average revenue growth, with premiums growing being the main driver. We have recently said that we may not achieve the three-year average ROE target due to the severity and frequency of cat losses during the third quarter of 2017. But obviously, we will work hard to grow it as much as possible, as we will keep our dividends payout between 50% and 65% of profit.

In relation to the objectives centered on the client, I have to say that; firstly, we have reached a 65% perceived quality NPS rating, in line with the three-year average; secondly, we have increased our Non-Life market share in 54% of our markets, a little below expectations. More commercial activity will be required in the near future to get this well (13:34) on track.

Regarding digital transformation, we can say that we have increased digital transactions in Spain, Brazil, U.S., and Mexico by 20%. So we are on track to meet this objective. Digital business has increased by 33% compared with a cumulative target of 50% for the three-year period plan through the MAPFRE, VERTI and INSUREANDGO brands.

Moving on the technical and operational management excellence, it should be noted that the combined ratio was 98.7% at September 2017. But excluding the third quarter cat events, this ratio would have improved by nearly 1% point to 97.3%. We will step up our efforts to improve on this objective over the last quarter of the year. The expense ratio was 28.1%, aligned with a three-year average objective of 28%, demonstrating the success of the cost containment program. We estimate that savings exceeded €60 million during the first year of the plan and probably the same amount on the second year.

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In terms of digital dispatch to service provider, which is a fully automated system without human interaction to dispatch (15:14), we reached 73.6% of total services - were provided in this way, comfortably exceeding the goal. Referring to culture and talent, I have to say that we have obtained a Great Place to Work score of 72%. We will need to pull out the stops to ensure that we will reach our ultimate objective in 2018.

With regards to equality policies, women already occupy 38.8% of managerial positions compared with an objective of 40% for the three-year period. Our inclusion policies are also bearing fruit, as we have already reached 1.6% of people with disabilities integrated in our global workforce, with the relevant objective being 2% by 2018. In 2016, the occupational mobility rate was slightly higher than our 10% objectives and we're continuing on the same line.

And now, let's dive into the different topics that I have just outlined. At the end of the event, it will be my pleasure to address you again to deliver the closing remarks on digital transformation. Let's start with Fernando Mata, our CFO, who will provide you with an overview of how MAPFRE creates value through its capital management.

Please Fernando, the floor is yours.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Antonio, and good morning everybody, especially those that they're logging in from America. Unfortunately, you got up earlier than usual, but hopefully I mean this presentation will be of your interest. Probably, I mean my presentation will be shorter than expected. The only purpose is just to give more time to the main topics of the Investor Day is the catastrophe and insurance protection and also the (17:24) the USA.

But before going into the main topics of the Investor Day presentation, I would like to take a quick look at MAPFRE's solvency and capital management. As we have mentioned in the past, the main focus is to maintain capital levels in line with Solvency II and ratings targets, and also to pay stable dividends.

On the left side, you can see the composition of the capital structure at September 2017 amounting to €13.2 billion. The largest component is equity with 82% of the total. Our debt structure is very well diversified between senior and subordinated debt and also the syndicated credit facility.

On the right side, you got the leverage information. Our leverage is 18%, which as you know is lower than our peers. The burden, you have Solvency II figures that confirm MAPFRE's strong capital position and low volatility, in line with you got on the left, the 200% target with 25 percentage point upper and lower limits for tolerance. The Solvency II ratio at September stood at 190%. This is provisional figures, there's - we're still doing some checkups, but the figure will be around this amount.

The reduction in eligible funds is in line with the decrease in the IFRS equity. The ratio, as we said, is based on a high quality capital structure with 93% Tier 1 capital. As you know,

MAPFRE feels quite comfortable with this capital structure, leverage and Solvency levels. All of these, give us significant stability, financial flexibility for the future.

Moving on to our equity base, as you can see in the graph on the top of this slide, our equity base has grown 4% on average over the last five years, while we saw almost 4% decrease as well in 2017, due to the reduction in net income from the cat losses occurred in the third quarter, and also negative currency differences.

There are two factors that generate, let's say, unexpected volatility in our equity. The first is the unrealized gains on our available for sale portfolio, and the second is currency conversion differences from the units operating in non-euro currencies. As you know, in general, we do not hedge currency risk. We merge assets and liabilities in the local balance sheets. So, we need to retain part of our earnings to mitigate this volatility.

The graph on the bottom shows the trend of unrealized gains and conversion differences over the last five years. As you can see, historically, there has been a negative correlation between these two factors. The available for sale portfolio has been more stable while the currency conversion differences have suffered more volatility. As you can see in the chart, in 2015, the devaluation of the Venezuelan bolívar and the fall in the Brazilian real caused a large decrease in our equity of approximately €500 million, which by the way recovered in 2016. Thanks to the strong appreciation of the Brazilian real and again, the positive evolution of the U.S. dollar.

In 2017, unrealized gains have remained quite stable, while again negative currency conversion differences grew substantially. We'll take a closer look at these changes on the next slide. 2017 has been strongly impacted by the significant depreciation of both the U.S. dollar and the Brazilian real, as well as minor negative effects from the rest of currencies. In fact, the Mexican peso was the only currency that increased in value against the euro.

In the chart, we show the change in main currencies that caused a decrease in our net equity of €526 million to-date. The largest impact by far was coming from the U.S. dollar. In the column on the right, we present the equity sensitivity analysis for the main currencies, which - with again the U.S. dollar being the most relevant. The way which you read this column is 10% change in a currency, for instance will cause a 2.7% change in our equity for the U.S. dollar and the remaining for the Brazilian real 1.1% and so on.

Let's move to investment management. Regarding investment management, MAPFRE has successfully managed its investments in a low interest rate scenario, with excellent financial returns, high accounting yields and flexibility to take advantage of market opportunities to harvest, to realize capital gains. We have rebalanced our portfolio, aiming for higher yields and diversification. In 2017, as you see on the screen, the weight of equity, ETFs and mutual funds increased by 2 percentage points, while reducing Spanish fixed income in the same amount.

Our actively managed portfolios are performing above market returns with the stable accounting yields. Regarding realized gains through September 2017, we have realized

over €120 million in capital gains and we have still €175 million of unrealized equity gains, giving us a cushion for the fourth quarter or the next year.

We are also looking to increase our weight in alternative investments with approximately €450 million commitment until 2019 - the end of 2018, with the end of the three-year strategic plan, of which 2,000 - sorry €210 million is already invested in this year in 2017. A large share of these investments is allocated to Core European Real Estate and expected yield is approximately 4%. Our asset management business is performing well with 12% growth year-to-date. The Luxembourg Sicav will reach €500 million by year end. And MAPFRE Gestión Patrimonial is the new unit, reached its €200 million annual target already in September.

Finally, and this is very important for us, MAPFRE also recognized - recognizes the importance of sustainable and responsible investing. As you know, we have changed our investment policy this year to include this model and we also signed our - the United Nations Responsible Investment Principles and recently we took a stake in La Financière Responsable, a French boutique asset manager specialized in ESG, Environmental Social and Government investing.

Now, let's talk about the real estate portfolio and also the management actions for the last years. At September, MAPFRE had over €2.2 billion in real estate investment at the cost of value, with almost €570 million in unrealized gains, which by the way diluted in the Solvency II eligible funds, but not under IFRS equity.

We have always followed a strategy of actively rotating our investments according to the economic cycle and the market opportunities. As you can see in the chart on the bottom, when the real estate crisis hit Spain, we wrote down almost €200 million, happened in 2012 and 2013, especially in the - and the developed land portfolio. As you know, we left these business lines, residential business and we focus on commercial units since that day.

The chart is very important to mention, also shows that no relevant depreciation was booked in recent years. We are pretty optimistic with the future trend, especially in commercial units and in large cities in Europe, so we can expect some future releases of provisions regarding real estate. On the left side, you can see the different activities carried out during the last years. In 2015, we resumed commercial activity with relevant acquisitions, one was abroad, in Boston and the other was the acquisition of the Plaza de Independencia building in Madrid.

And also, we made relevant sales in 2016, the iconic building of the MAPFRE Tower in Barcelona and also the sale of the Luchana building as well in Madrid. I have to say, this is important as well, but both buildings, they stay longer than 20 years in our balance sheet and it was time to rotate the units.

In conclusion, we strongly believe that the real estate, these are complimentary investments, providing capital stability to the group, stable financial income and also, opportunities to realize capital gains in the future.

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Now, let's talk about cash flow upstreaming in MAPFRE Group has been one of the questions you've raised during our meetings. Our policy – first, I have to say, our policy governing cash flows include three main principles that you've got on the bottom. First, dividends upstreamed from operating units to holding company must cover: MAPFRE S.A. dividend, holding expenses overhead and capital needs of loss-making units. Second, operating units must retain enough capital to finance their organic growth. And third, debt should only be used to finance acquisitions.

In the chart, we present this year cash flow forecast, which comprises over €750 million upstreamed from subsidiaries. On the left side, you can see that €447 million will be devoted to pay to shareholders in the 2017 calendar year. Another €124 million will be devoted to overheads and other payments at holding companies and €183 million will be allocated to improve our capital position and capital increases of loss-making in units, principally I'm talking about the MAPFRE ASISTENCIA and also our subsidiary in Italy, DIRECT LINE Italy.

In conclusion – I have to say as well that the – a small amount, €122 million will be an increase in debt in order to finance the recent acquisition of a small stake in ABDA.

In conclusion, there is a proper diversification of dividend contribution from the different regions and units. We suspect with Spain again being the most important unit contributing dividends. It is also relevant to mention that dividends are coming from units holding the highest Solvency II ratios, particularly I'm referring to the units in Spain, MAPFRE ESPAÑA, MAPFRE VIDA, and also MAPFRE RE. I will also to remark that we have an excellent dividend flexibility and also the capital fungibility between regions and units.

And last, I would like to discuss shareholders' dividends that were also mentioned by our Chairman. The evolution over the last five years shows an overall stable trend in payout and dividend growth. Regarding our three-year strategic objective, our dividend payout target range of 50% to 65% is still in place, no doubt. And with flexibility to reach the upper limit, if necessary and achieve the 5% dividend yield target.

As you know, net income this year has been impacted by the third quarter cat losses that we have already mentioned. So, in order to maintain the dividend this year, we have to optimize our performance to achieve an extraordinary fourth quarter profit, which will allow us to maintain our commitment of a stable and growing shareholder remuneration.

In this context, we have to wait to see the year-end figures. And as the Chairman mentioned, the final dividend against 2017 results will be announced in February 2018 and approve at the AGM in March.

Thank you for your attention. And I hope you enjoy the rest of the presentation and also the Volvo Ocean Race video you're going to see in a minute.

Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you very much, Fernando, and thank you again Antonio. We are going to have now a short break of five minutes. We will return at 9:40. We will - then, we will hear from Eduardo Pérez de Lema, our CEO of MAPFRE RE. Thank you so much. See you in five minutes.

[Break] (33:32-40:28)

Welcome back. And as promised, we are going to hear now about MAPFRE Group Reinsurance Program with Eduardo Pérez de Lema, CEO of MAPFRE RE. Eduardo, the floor is yours.

Eduardo Pérez de Lema {BIO 21645220 <GO>}

Thank you, Natalia, and good morning, everyone. I will start the presentation with a very quick update on the current situation of MAPFRE, and then we will go into more detail not only on our reinsurance program but on the whole cat risk management framework that we have in place. This is not much different to most of our colleagues and competitors, but for us, the important thing is that your key takeaway after the presentation is that the approach and handling of the risk for catastrophe events in MAPFRE is solid and measured.

Talking about the performance of MAPFRE RE in 2017, we have to say it's again an excellent year for us given the circumstances in which we are moving this year. The growth in premium that has been very strong over the last years is still positive with just under 4% growth ratio in premiums. And in terms of results that have been excellent over the last few years. We still are in a very positive position, although the results are smaller than the previous years. We have a decline of 21% on our attributable result to MAPFRE, mainly driven by the cat events happening in 2017 and a reduction in our investment income due to some - to the low interest rates that persist. Excluding the cat events that we had in the third quarter of 2017, but not excluding those happened in the rest of the year, the profit of the year would have been growing by 39%.

This confirms the necessity that we already advised previously of having a very good underwriting results in the long run with the period from 2005 to 2017 having an average combined ratio of 95.4%, even considering that we had 2005, 2010, 2011 and this 2017 with a very high cat frequency and intensity. But the most important thing in addition to having a good combined ratio is that the volatility is significantly lower than the market average. As you can see, for example, in 2017, our combined ratio is 20 points better than the market average.

This has some reasons of course as we said already before. The first of all is, the wish and the requirement of our shareholders that want us to be less volatile than the market average. And we achieved that by avoiding certain territories and certain types of risk that we don't write and actually add those to the big extent that were affected most in the 2017 events, and also that we are substantial buyer of reinsurance cover that of course reduces our income in the better years of the cycle, but in the years with big cat activity has a positive impact on our results.

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Bloomberg Transcript

When we look at it from a return on equity point of view, as you can see, the returns have been very positive over the years especially in the years 2014, 2015, 2016, and even in 2017, we are well above 12% on the average on return on equity. Again the most important part for us in addition to that is that volatility is lower than the market average. The reason for having such a good return also has to do with the reduced volatility because our capital requirement is also lower than some of our peers because of the composition of our portfolio.

This good results have also helped us to being - it will finance the growth of MAPFRE over the last six years where we increased our equity by 56% or €460 million without having to ask for any capital increase to our shareholders. But in addition to that, we were able to pay dividends to our shareholders for €500 million. And even in 2017, we have been able and approved already distributing dividends of €103 million to our shareholders.

Turning now to our cat management framework for the MAPFRE Group, we will try to give you a complete view of all the aspects of that. The first fair thing to answer is, why it's actually me who is sitting here and MAPFRE RE doing the presentation. And the reason for that is that MAPFRE decided to delegate in MAPFRE RE this part of the risk management of the group. The reason for that is that we are a professional reinsurer present in 20 countries having business in more than 100 countries, but most importantly, that we have a very extensive experience in managing cat risk over our whole history. This has been always been our core competence of MAPFRE RE and the group is taking advantage of that.

MAPFRE Reinsurance is a 100% reinsurer of all treaty reinsurance in the group, as you know. And in that role, we define the group's reinsurance structures and retrocession programs. We optimize the retentions for the group. We supervise credit risk for the treaty and facultative for the group, and we also monitor and control the cat risk across the group. We will try to give more details about that over the presentation.

Talking about our reinsurance policy, there is a certain philosophical points that are very important for us. First of all that we separate when we buy reinsurance the portfolio of our inwards reinsurance that we accept from non-group companies from those coming from the MAPFRE Group. The main reason for that is that we don't want to - that there is any chance that the MAPFRE Group companies can lose competitively if we suffered losses coming from non-group companies.

Additionally, for us, it's very important that we keep a very long-term partnership with our reinsurers. It's not only important that we get competitive pricing or that we are sure that the credit risk is in order, but for us it's important that we design reinsurance structures that are sustainable and relationships that are sustainable with our partners. It's important for us that not only that our reinsurance are able to respond in a stress situation, but also that they are able and willing to support us after a stress situation so that we continue with our business normally and without much of a disruption.

Additionally, there is another important aspect of it, MAPFRE RE doesn't cause additional cost to any MAPFRE company, we don't charge over-riders or any other remuneration

policy for the work that we do for the group. Our remuneration comes from the retention of additional risk that we take from the MAPFRE companies in the group.

As you know and we will talk about later on, a big part of our protection from - for the cat risk comes from our cat XL regional programs, but this is not the whole picture, it's just a part of our whole protection framework and reinsurance framework.

Talking about specifically that cat XL protection, when we design that structure newly for 2014, we had a number of objectives with the ultimate goal of making the cover more efficient for MAPFRE at all. We decided to structure and place global programs for the whole group that tried to simplify the reinsurance structures. And the main approach was designed to be on a territorial and not designed for to cover specific companies. We tried to protect the exposures that we get from a given territory not taking so much interest in the protection of individual entities, but protecting the balance sheet of the whole group and the P&L of the whole group.

When we talk about our risk management framework, as I said before, it's not just talking about reinsurance, it's talking about the whole process that we have to accomplish with. We have distinguished here five steps that are applicable for all MAPFRE companies, being insurance companies, Global Risks, and MAPFRE RE. That includes the exposure accumulation control, the full risk modeling of our portfolio, after that we will talk about reinsurance design, (49:44) reinsurance we need to make sure that the credit and liquidity risk is also controlled. And finally and not the less important is to have in place, contingency plans and disaster recovery, first to make sure that the safety of our teams and collaborators is warranted, and then that we are able to respond to the needs of our clients immediately or as quickly as possible.

Talking to specifically on the different points, we will start with the accumulation control. In this process that we actually do is aggregating all the insured values that we have in a given territory that could potentially be exposed to cat events and trying to get that information with a maximum granularity possible, and the most detail about the cover and the characteristic of each risk that can have any influence on the ultimate loss that the risk can suffer with an event.

We do that both on a legal entity basis and then we consolidate all the information on our corporate level in MAPFRE RE. This information is the basis for all the modeling that we do of our portfolios. We can't do any modeling without having a very detailed control of these exposures.

Turning to the modeling, this is a very busy slide that I won't go into detail on all the content. It's just for you to make sure that this is an extremely complex process that we have to go through that includes 20 legal entities that get involved into this where we model 177 territories, and that gives us a full view of the cat exposure and the cat risk that we have in the group.

It's again a three steps process. The first one is actually the modeling of the exposure that we have been aggregating in the first step of our model. And this is done using

commercially available models in the industry. And where they are not available, we use what we call PML curves, which are internally developed curves to try to get information about the portfolio. The outcome is that we get statistical loss distributions that simulate the events that could happen in a given territory.

These distributions that we obtain through the modeling of the portfolio are transferred to what we call a DFA model, dynamic financial analysis, where we put together in addition to their loss expectations that we have, we put it to work together with different reinsurance structures that we have in place and seeing how effective they are or not.

The final step is that what we get our outputs that we separate in two main areas, which are probabilistic where we attach to a certain loss scenario, different probabilities of occurrence and we take different views of the risk. And additionally, we obtain what we call deterministic scenarios, which we will cover on later that are mainly used for stress testing our accounts and for the credit risk control.

Talking about one of the outputs of our probabilistic scenarios is the one that we see on the next slide. One of the results that we can obtain is actually the capital that MAPFRE would require for the cat risk that we assume, and we can start with the one that we would require if we wouldn't buy any reinsurance at all, which is an option that some of companies in the world decide to do. But we also can analyze how much capital relief we get by buying different types of reinsurance.

In this slide, we do a simulation of our whole capital requirement for the insurance portfolio, MAPFRE, so the MAPFRE Insurance portfolio in the different countries, plus MAPFRE Global Risks, and we see that through facultative placements, we are reducing our capital needs by 29% currently. By ceding to reinsurance treaties that are different to our global Cat XL program, will reduce another 30% of our capital requirement. And finally, our MAPFRE Group XL Protection reduces our capital requirement by 20%.

So, altogether, we can now estimate what our gross capital requirement is and our net capital requirement for the Cat risk. In addition to that what we have to model is, if the cost of that capital relief that we get, which effectively is a substitute of other types of capital is effective or not. And this is the information that we try to obtain and we show on this next slide.

We have here an estimation of the cat relief that we get from our Regional Cat XL cover what we call the Ceded Capital is actually the reduction of capital that we obtain from our reinsurance program, and then we can estimate if the price that we are paying for that capital that we get from our reinsurers is effective or not.

First thing that you could do is, just deduct the premium that we pay from the amount of capital reduction that we get, and that would mean that that capital cost us 11.7%. That is not the real economic calculation that you should do, because we expect to get recoveries from that over the years and in the long-term. So, if we deduct what we expect to recover. And this is again a modeling output, we expect to recover 9.3% from losses.

So, what we expect as a margin from - for our reinsurance is 2.4% of the capital relief that we obtain. And if we estimate that pre-tax - the after tax, sorry, it's 1.8%.

Just as we are as well a (56:06) professional reinsurer, just to mention that these economics are not exactly the same for our reinsurer. For them, when they enter this risk into their portfolio and for diversification reasons, probably their margin that they obtain is significantly higher, because the additional capital requirement that they get from this acceptance is lower than the one that we - than the relief that we get. And that's the beauty of reinsurance in the market.

This is, of course, a key consideration when we decide what reinsurance we buy or not is the cost (56:37), and how effective it is compared to other sources of capital, but it's not the only one of course. There are additional considerations that we need to take in place like a volatility management of our accounts, the actual available capital in MAPFRE that we can put in danger. And, of course, the risk appetite that we have as a company.

Another output as we said before that we get from the modeling are deterministic scenarios. And just for you to understand what we mean by that is, just the simulation of specific events happening during one year. In this example, for example, we would simulate what would happen to our accounts if we had in one given year a large windstorm in Europe that would mostly affect MAPFRE RE, a large earthquake event in Chile that would affect MAPFRE RE, MAPFRE Chile, and MAPFRE Global Risks, so it would be a very significant event from MAPFRE.

And, in the same year that we would have another event like a large hurricane effect in the Northeast of the USA. When we can introduce the simulation in the model and we would get a complete detail of what our gross loss could be for this in that year for Cat events and the amount of reinsurance recoverables that we would get from all the reinsurance treaties that we have in the portfolio, let it be on a per event basis and also for the reinsurance protection that we get for frequency and we would end up having what our net loss and net figures would be.

Let's move on now to our reinsurance (58:23). This slide was already presented in the third quarter results presentation and it shows how our reinsurance structure is done. This is only applicable to our group, insurance operations or MAPFRE Insurance in different countries and MAPFRE Global Risks and it's not how we protect our reinsurance portfolio for non-group business.

As we said at that time, we have for every MAPFRE entity, legal entity, they have their own reinsurance program protecting their balance sheet and that company and they would normally buy or approve, an XL Protection or proportional protection and facultative. As per our reinsurance policy, 100% of the treaty business whether it'd be proportional or not proportional is accepted by MAPFRE RE, and part of the facultative business. Of that business that is coming to MAPFRE RE, we may see it most of the times proportionally part of that risk through specific placements and retain another part of it.

When we talk about the Cat XL Protections of MAPFRE, what we are protecting by those Protections is the aggregation of the retentions of the different legal entities, including MAPFRE RE after all other reinsurances that are placed before that.

Once we have decided how we want to operate, we need to resolve how much limit of cover that we want to buy, and that is what we try to explain on the next slide. Again, after the modeling, we obtain what the size of events we can suffer from given events and for the different tariffs that we are exposed to in the territories and the probability of that.

And on that graph, you'll see that we say that for 100 years return period or a 250 years return period, we will suffer certain type of losses. That means in the case of 100-year return period that we have a chance of one every 100 years of having a loss that exceeds a certain amount or in the case or that one in 250 years the return period is that we have 0.4 probability each year of exceeding a certain amount.

When we look at those outputs on the different territories, we come to the loss expectations and the probabilities. And based on that information, we decide how much limit we want to buy in reinsurance cover. But we don't look just (01:00:01) on individual countries, but also on the combination of different countries that could be affected on different events.

So you have the different countries protected under what we call our NARC Program that we will explain later on. But also what is the combined expected loss for losses affecting the whole of the Caribbean or the whole territory covered on this, so effectively that we have loss affecting the USA and the Caribbean at the same time.

As you see there, we draw the line on the limits that we are buying where you can see that we are buying protection for each individual territory for covering losses that can happen once every 250 years and we only have the possibility of exceeding that for certain very specific events that affect both, the USA and the Caribbean or that are extremely big events in one of the given territories.

Now, we will disclose for the first (01:02:06) time what our actual reinsurance structure is for - again for the non - for the group business - the Group Insurance business, so covering business generated by the MAPFRE Insurance Companies and MAPFRE Global Risks, but not the non-group business of MAPFRE Re.

As we said before, we have three towers or pillars, as we call them of, cover one is called NARC, which protects the territories that could be affected by hurricanes in the Atlantic. It's called North Atlantic Regional Cover. For those territories, we keep our retention on each event of \$100 million and we buy a protection of €900 million for losses that exceed this \$100 million threshold - \$300 million.

We have another tower that is called MERC that mainly covers Latin America and Turkey, and the main peril is earthquake, although it covers also for other (01:03:07) perils. Again, for those events affecting that portfolio, we take US\$100 million retention. And in this

case, we buy \$1 billion of cover in addition. So, we are covered for losses up to US\$1.1 billion.

And in addition to that, we have a third pillar or tower that we call CIRC, which is a smaller one that has two main areas, where it works. First of all, it protects for exposures that we have in territories where MAPFRE Global Risks operates, and there is no MAPFRE company. And additionally, it works as what we call as a sub-layer for what we call smaller territories for MAPFRE, where we want to reduce something our retention.

In addition to that, we have what we call an umbrella cover that gives us additional \$300 million of limit, and it's used in case that any of the different towers is exhausted by one event, we get an addition of \$300 million of cover. And, finally, we have what we call a Frequency Cover that reduces our retention in case that we have more than one event in any given year. So, for the first event and that affects the NARC or the MERC tower, we would take US\$100 million retention, but for the events happening afterwards, our retention is reduced to \$75 million.

Now, how did this structure work with Maria, which is the only one that really has a big influence on that. In Maria, we had three portfolios that were affected. The most important ones were MAPFRE PUERTO RICO portfolio and MAPFRE Global Risks, and additionally a small exposure to MAPFRE Dominican Republic. Additionally on a separate, we have some exposures coming from non-group companies under the MAPFRE RE portfolio.

Our current best estimate for the gross loss for MAPFRE PUERTO RICO is US\$500 million - sorry €500 million. We have converted everything to euros from this point onwards. Of that €500 million of gross loss, MAPFRE PUERTO RICO retains €30 million themselves and they see the rest of the reinsurance covers €415 million to their own Cat XL program that is ceded completely to MAPFRE RE, and another €55 million to another treaty that they have on their commercial portfolio that where MAPFRE RE doesn't retain risk.

Therefore, what we call the protected retention under the group Cat XL €455 million, made of the local retention of MAPFRE PUERTO RICO, and the amount ceded and retained by MAPFRE RE.

MAPFRE Global Risks has the best estimate that we have currently at €381 million gross loss of which they cede on a facultative basis €146 million to other treaties that they have, that are not there Cat XL €53 million, and to their Cat XL €159 million and their net retention is €23 million.

Again, the contribution to the protected retention under our Cat XL is €192 million made of the retention that MAPFRE Global Risks takes themselves, plus the one that is retained by MAPFRE RE. Finally, MAPFRE Dominican contributes with another €0.8 million to the protected retention. So adding up all these figures, the amount that will be ceded to the Cat XL of the group is €639 million. Of that amount, the retention of MAPFRE is US\$100 million, which equals to €85 million.

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When we see how we distribute, then the loss between the different treaties (01:07:15), we said before that MAPFRE PUERTO RICO has retained €30 million, Dominican Republic has €1.8 million, and MAPFRE Global Risks retains €23 million. So, the MAPFRE Insurance entities are retaining €53 million, and the difference up to the external reinsurance program of MAPFRE, this US\$100 million that are €85 million, is retained by MAPFRE RE in this case is €31 million.

Additionally, we have another retention, which is what we get from the reinsurance portfolio that we accept to non-group companies making €114 million net retention to MAPFRE before the Frequency Covers that we will talk about later. I don't know if this is complicated or not, but what I can tell you that it's effective and efficient for sure for MAPFRE.

Let's talk now about what our estimates (01:08:20) of loss into MAPFRE on a net base is (01:08:24) after tax and after minority interest, which are, for the time being unchanged compared to the ones that we released already with the third quarter results.

On the next slide what we do is, we will - we do present what our gross loss is and how it's ceded to the different protections. The gross loss that we are currently estimating, again it's our best estimate and it can fluctuate is €1.15 billion of gross loss coming from the five events that we suffered in the third quarter. We have €152 million recoveries from facultative from non-Cat XL treaties (01:09:09) and as we said before for €574 million recovered from our Cat XL. Additionally, we are able to recover €24 million from the Frequency Cover that we mentioned before that protects for MAPFRE for having more than one event affecting us in a given year.

So, finally as a wrap up on Maria, Maria was the biggest Hurricane in Puerto Rico in over 100 years. The good thing about it is that, it didn't take us by surprise, what happened or the outcome of the loss in terms of economic values, it was within our expectations.

When we talk about the MAPFRE PUERTO RICO portfolio, we are using still very conservative loss estimate and everything is within our expectations and within our group protections. It has to be highlighted that the MAPFRE PUERTO RICO portfolio is of extremely high quality and that the market intelligence that we - and the local knowledge that we gained over many years in Puerto Rico has proven to be very effective in keeping the loss within acceptable levels.

On the MAPFRE GLOBAL RISKS, again we didn't have any surprise. And the degree of facultative cessions that we bought and the limitations in terms of limits, again prevent us for having strong deviations (01:10:40). And talking about the MAPFRE RE portfolio, the impact is very moderate, specifically because we decided not to take much risk in the Caribbean, precisely because of other MAPFRE companies were very exposed to that territory, and it is a very volatile area, and a highly exposed area.

Finally, one additional step on our risk management framework is the control of our credit risk. It's not only about ceding risk, but also being sure that we are able to recover those. We have to say that the quality of our reinsurance panel is excellent across the whole

chain of reinsurance covers that we have. As you can see (01:11:23), we have a 56% of the €900 million recoveries that we have is placed with carriers that are double AA minus or higher, and 100% of our recoveries are with reinsurance that are over in the A-level rating.

We have to say in addition (01:11:41) that we have obtained. great response from our reinsurers that have been bidding (01:11:46) claims very deeply and we have at the current time no liquidity issues and no problems in recovering the claims from the reinsurance market.

Finally, the last step of our - but definitely not the least important, is the contingency planning and that disaster recoveries that we suffered. We have to say that those contingency plans have worked very well in all territories that were affected by cat events in the year. We have been able to provide services to our clients and the community at all time and it has been working extremely well.

Additionally, MAPFRE has taken steps to help our employees, their families, and their communities to overcome the situations that they have been suffering in the country, especially in Puerto Rico, the situation of the country has been extremely difficult and is still extremely difficult to our employees and their families, and MAPFRE has taken steps to help them to overcome the situation.

So, finally as a few key takeaways from this. We have to say that 2017 has been a great test for us in improving the effectiveness of our cat risk management program. Everything has worked well and according to our plans. These impacts will have any impact on our earnings, that's clear, but it will not affect our capital and will not cause any big stress for us. The group cat reinsurance program has proven to be effective, has worked as planned and we are satisfied with what we have in place.

Thank you very much. And now I am very glad to answer the questions.

Fernando Mata Verdejo {BIO 19676348 <GO>}

If I may, Natalia. I would like to say a couple of words regarding Eduardo presentation. First of all, thank you all, Eduardo. We've seen a quite comprehensive presentation. It was almost - I mean the MAPFRE RE presentation is it like a MAPFRE RE Investor Day for you. We really thank you.

Second, I mean just to reaffirm the importance of a MAPFRE RE in the group. MAPFRE RE is an integral part of the group. MAPFRE RE in the strategic approach with our subsidiaries that operate in Latin America, especially in territories with the recent natural cat exposure, subsidiaries primary insurance and MAPFRE RE, they're birds of the same feather and we flock together for sure.

Also to thanks Eduardo for the new disclosure, as he said that this is the first time that MAPFRE is opening its stores and giving to investors and analysts, let's say, quite commercial sensitivity information. This is part of the transparency plan that MAPFRE

studied last year in order to give the markets more information in order to have a better knowledge of MAPFRE.

Some of the information and the details given, they were asked at our - the financial conference that we attended in New York and also in London, at that time, it wasn't impossible. I mean, just to provide you with this information, it wasn't the right time.

And we want to thank you for your patience and also we've reaffirmed what we said at this conference. I mean, we were, we know very well, the risk we're riding (01:15:44) and our feeling at that point was that our loss expectation was quite far from the external parties, as I explained that were made at that point.

And, finally, I mean, the way that MAPFRE is handling natural cat losses, (01:16:09) figures, numbers, coverage, retentions, number of claims, and so on. For MAPFRE, I mean behind a cat loss like this, like Maria, there are always people, their personal situation is extremely difficult, their damages and also fatalities. And this is the social size of a group MAPFRE. We will be always providing support first to our policyholders, to our agents, to our employees, families and so on.

As you know, our Chairman visited Puerto Rico after the cat losses and he worked for Puerto Rico, I was with him as well and also Jaime Tamayo and also more executives were there and I'm sure they could give you later on more details regarding the way MAPFRE socially handle natural cat loss like Maria.

So, there is nothing else from my side, so we're ready I think we can go...

Q&A

A - Antonio Huertas Mejías

We can start with the Q&A. Thank you very much for this interesting presentation and also the remarks, the wrap up made by Fernando. The first question comes from Francisco Riquel from Alantra Equities. He wants to know, apart from RE, Global Risks is another area where you are having large and frequent claims this year. What change in risk taking on protection policies are you adopting in this area if any?

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

Well. MAPFRE Global Risks, it's true that they have - they are a global company and have exposures on a global basis. They have their own reinsurance program and we keep analyzing if we can improve their protection locally.

As I said before, our main goal is to protect the balance sheet of MAPFRE as a whole and that the losses that we keep within MAPFRE of the global portfolios of including Global Risks MAPFRE RE and MAPFRE Insurance are recovered sufficiently.

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Sometimes, it's not that important if there is one entity that suffers a little bit more than the other. What we really try to achieve is that the ultimate retention of MAPFRE as a group is sufficiently measured. Global Risk operates in a business that by itself is volatile and we have to be aware that there will be years. And this is a very special year because they had a concentration of losses that is absolutely unusual where they suffer a little bit more than others. But they are suffering in line with peers and with other competitors operating in that business. But for us what the important thing is that it doesn't generate instability in MAPFRE outside of certain boundaries.

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

Okay. Thank you. Very clear. Thank you. Next one also comes from Francisco Riquel. He would like to know what additional net cat coverage do we have still in place. In other words, how would another catastrophe before year-end affect our guidance for net cat losses. The guidance that we gave between €150 million and €200 million?

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

Well, it is very much will depend on where it happens and what kind of portfolios are affected. But what we can see from the presentation is, for the insurance portfolio being MAPFRE Global Risk or MAPFRE Insurance companies, we see that additional losses would affect in - with a figure of \$25 million which is where our frequency coverage would start to play.

And the only bigger uncertainty would be if the cat events happened in territories where MAPFRE RE operates and not other MAPFRE group companies where we would have to suffer bigger losses. We have more than sufficient protection in place available. And in any case, as we have already a number of cat losses during the year, the additional retentions that we get - that we would have, would get smaller for every loss that comes after the one that we had...

A - Eduardo Pérez de Lema {BIO 21645220 <GO>}

A decreasing (01:20:57) trend.

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

Yeah.

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

Okay. Thank you so much. There is one also comes from (01:21:04) from JPMorgan and (01:21:09) from Exane BNP Paribas. And the question is what changes in reinsurance prices are you observing in terms of renewals. What is the reinsurance strategy in 2018. Would you buy more or less cover and what's the potential rise in the cost in 2018?

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

Well, for the changes in reinsurance prices, as you know we are now in the midst of the renewals of year-end. There is very clearly pressure from the reinsurance market to

increase the pricing and, of course, there is resistance from the reinsurance buyer to increase those costs which is part of the negotiations. And to get the full picture, it's still very early days. We don't foresee a massive price increase in non-affected territories.

We think it is healthy for the market both for the buyers and for the sellers of reinsurance to increase the pricing overall because we have been suffering for a prolonged soft market, but to have the exact figure of what the outcome will be is still early.

It's absolutely sure that the prices won't fall during this renewal and definitely we expect some price rises, but we can't tell a figure right now because it's still very early days. Talking about the reinsurance structure for 2018, we are very comfortable with our reinsurance structure and strategy.

As you could see from the presentation, we have plenty of cover available to cover losses that are even bigger than those that we suffered in 2017. So, we are comfortable with the structure and at this point in time we don't expect any change, but it will depend on how the market evolves from here to our time of renewals, which for the insurance portfolio of MAPFRE, the program that we have shown in this presentation is due to renew in July.

And again, it's very early to say how much the prices will rise, but we have very good news and a big advantage this year that (01:23:24) could be different, but the events happened in the third quarter of 2017 and we are renewing in July 2018 and specifically in the territories affected, we are already starting to increase the insurance pricing. So, we will get the income to pay for any potential increase in cost. Then, we will try to buy as effective and competitive as we can. And that's the only thing we can say right now because it's still a long way to go until we have the renewals coming.

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

Okay. Also regarding MAPFRE RE, Ivan Bokhmat from Barclays want to know, if there is checkout (01:24:07) budget for the year for MAPFRE RE in terms of combined ratio, how has it involved over time and how do you see it change in the future?

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

Sorry.

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

Sorry, the budget for the combined ratio.

A - Eduardo Pérez de Lema {BIO 21645220 <GO>}

We have an estimation of what we can expect of having - of cat losses in MAPFRE RE. We are not disclosing that figure right now, but we have a budget and what we suffered so far 2018 - 2017 sorry, is within the budget and the normal trend that we had, very specially because we were lucky this time that the cat events for the MAPFRE RE portfolio, not for the whole MAPFRE, but for the MAPFRE RE portfolio occurred in places and types of risk

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where we are less exposed than the market average. So, we were able to keep the loss experience within the cat budget that we have for 2017.

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

Thank you so much. Because this one came just in the last minute, and we have time to answer all of them. There is another one from (01:25:17). He wanted to know, what do you expect in terms of cost of reinsurance for primary companies?

A - Antonio Huertas Mejías

Well, as I said before, we definitely hope and we think it would be healthy that we see a price increase. But we don't have the answer yet, and I think we as an industry, we are all pressing to try to increase something, the pricing and - but I can't give you the figure, because there are too many market players influencing the situation. Unfortunately, it's not just on us, it's on the whole market to decide.

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

If I may that's something and let's say that for internal reinsurance, majority of the MAPFRE subsidiaries, they know very well that the moment of - we live in (01:26:05) and they will prepare in order - their profit or loss again for next year in order to handle. I mean these potential rights and also to transfer to policyholders.

I mean, we operate in markets like Puerto Rico with - there is up and downs (01:26:20) and there is always an upside market after a catastrophe and MAPFRE subsidiary and all the subsidiaries they're quite (01:26:32)

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

Okay. Thank you. And this is the last one of this block of questions. Anyway, as we have mentioned before, at the end of the event, we will have all the participants here and if there is any question that comes in the late, I mean it's worth mentioning, we will. So the last one from Andrew Sinclair, Bank of America, Merrill Lynch (01:27:04) one and he wants to know if you can confirm how much of your anticipated recoveries from your reinsurance has now been received yet from September storms?

A - Antonio Huertas Mejías

Well, it's not a public information, but it's not a big figure yet, especially where we get the recoveries, which is in Puerto Rico, it's still early days. It will be a claim that will take time to be fully settled.

We have received some recoveries from our reinsurers and they have been responding extremely well. But the full payout of the loss will take for the bulk of it at least a year to be fully paid, because there is a substantial part of the recoveries that will be made on their business interruption policies, where we will see the amount of gross loss later in the year and then the beginning of next year.

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

So, we have cash closes in (01:28:00)...

A - Antonio Huertas Mejías

Yeah, yeah. We have already asked cash recoveries and advance payments that cover our liquidity needs until the end of the year. And I have to say that our colleagues and partners, the reinsurance partners have been paying extremely quickly and almost competing to be the quickest in paying. So, it's very pleasing and I think it's a very good news for the industry that as an industry, we are able to cope with a year like this without any disruption and paying our obligations very quickly.

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

Okay. Thank you very much. Again a great presentation. Good (01:28:42) questions, great answers. Thank you very much, Eduardo. Thank you very much, Fernando. Now we are going to have another break.

A - Antonio Huertas Mejías

10 minutes break.

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

It's going to be 10 minutes break. So, we will come back at 10:40.

A - Antonio Huertas Mejías

Yeah.

[Break] (01:28:59-01:39:32)

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

Hello. Welcome back, and now please welcome Jaime Tamayo, CEO of International Business, that will give us a great insight about the International operations. After his presentation, Alfredo Castelo, CEO of North America region who will talk more in depth about our North American operations.

Thank you very much. Good morning.

A - Jaime Ibañez Tamayo

Good morning. And thank you, Natalia, and good morning, ladies and gentlemen. It is a pleasure for me to share with all of you information related to the MAPFRE's International operations, its third quarter performance, as well as the fundamentals of the restructure actions that we are taking in order to better optimize our results. After my intervention, Alfredo Castelo, my colleague Alfredo, CEO of MAPFRE North America will dive into the details of our U.S. operations and its restructuring plan, which are key component of our renewed International strategy.

Let me start by lining the composition of how International operations. We're currently structured in three regions. North America, EMEA, APAC Asia Pacific. As you can see, diversity is the key feature of our area. Geographic, demographic, linguistic, cultural, as well as diversity related to the economic development of the markets in which we operate and their degree of maturity.

In this slide, let me show you the levels of growth and performance in terms of top-line that we're seeing now in our International operations. At the closing of the third quarter, International showed a 2% decrease in premiums versus 2016, mainly related to the performance in two markets.

Turkey with a 19% decrease which reflects the steep depreciation of the Turkish lira in the current year, combined with the profitability measures that we had to take after the government decree of April 2017, which as you may know imposed a mandatory decrease in auto third-party liability premiums or the so-called NTPL business. This decrease was estimated by our teams in Turkey at an average of 30%.

And second, the second market which is dragging down our top-line performance is Puerto Rico with an 8% decrease, mainly related to the economic situation in the Island in recession since 2006, which has cost an endemic slowdown in economic activity.

Regarding the U.S., we saw a very strong growth of 4.9% in our core market of Massachusetts, which is the largest market in which we operate in the U.S. and this growth somehow is offset by the designed voluntary decreases in volumes in some states outside Massachusetts related to the decisive actions that we are taking in regards to going back or turning back into profitability. On the very positive side of things, we see very healthy growth patterns in our European markets, highlighting Germany, Italy and Malta.

Let me walk you through what we consider our major achievements in the key markets in which we operate, the U.S. Excellent results in Massachusetts, as I mentioned before, 4.9% premium growth with a strong performance on the technical side, showing a 96.3% combined ratio. As well in the last month, we proceeded with a soft launch of our VERTI USA operation in the state of Pennsylvania. VERTI, as you all know is the new automobile digital operation that we put together in the U.S. in order to attack the fastest growing distribution segment of the digital and the digital arena.

In Germany, successful new branding of VERTI Germany. As you know when we acquired their Direct Line operations back in 2015, we also committed to the change of that branding into VERTI. So, in that sense we proceeded with the change by the end of this first half of the current year and the change has been a total success where we are not seeing any movement whatsoever in our retention levels of our business in Germany.

Business diversification as well on the Life side in Germany which is something that we were pursuing in order to balance our portfolio which is mainly composed by Auto business. In Italy, DIRECT LINE Italy restructuring is delivering tangible benefits. I like to highlight the fact that our net result is up by 71% versus last year.

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Malta continues its sustained value creation, thanks to the leadership in both Life and Non-Life and as well the partnership that we enjoy with the largest bank in the Island, Bank of Valletta which is proving to be a very, very successful venture with them. As well, let me highlight in our Maltese operation our return to profitability on the Non-Life side of the business.

Turkey, Turkey's result is up by 120% in local currency and almost 80% in euros in 2016. A major turnaround of our operations in Turkey. Turkey is having an excellent year in 2017. And finally, I'd like to highlight the successful takeover of a 62.3% stake in the Indonesian insurance company ABDA, which marks our formal entry into the Indonesian market.

Being the latest acquisition of MAPFRE, let me give you a brief snapshot of our newest acquisition, ABDA. A country, Indonesia with more than 260 million people with a median age of less than 30 years. As you can see in the table that you have in front of you, the company represents an excellent technical profitability with a combined ratio of 94.1% at the closing of the third quarter and with a net result of €8.7 million. We have great expectations about our long-term future and performance in the Indonesian market.

Let me show you briefly where the International operations of MAPFRE are located with our current organizational structure. So, the current three regions that form International, North America, EMEA and APAC Asia Pacific. There's no question of the importance of our U.S. operations within our International business. As such, we have decided to proceed with a major restructure action in order to totally focus profitability outside Massachusetts. Our actions, which will be explained in detail later by Alfredo Castelo, will focus in three main pillars.

First, reduce geographical footprint representing the exit from five states; New York, New Jersey, Indiana, Tennessee and Kentucky. We will become a more customer-centric organization and we will have a total focus on our core business personal lines, both Automobile and Home.

All these with the actions which are corporate actions as well, which are in place in order to strive our operations towards digital transformation. We strongly believe that these actions will better aid us navigate the U.S. market, a market that is showing, as we all know some challenging signs, such as 10 years of lack of technical profitability in private auto.

2016 combined ratio has been reported for the industry at 106% and is expected to present similar levels of non-technical profitability in 2017. Fastest growth in a decade in miles driven, which is something related to the much improved economy in the United States. 2015-2017, a dramatic increase in loss cost. Why? We're seeing a major factor coming from distracted driving, now a major element of concern in the U.S. market; weather is still playing a role and we have a new key issue in the U.S. market which is the so-called Marijuana States, now a reality of concern.

Let me now proceed to walk you through the second major change we're implementing in our International operations. The integration into one single region called Eurasia of the current EMEA and APAC regions. We believe that our strategies in EMEA, mainly Europe

and Asia have two different speeds and such we must improve our dimension adequacy, as well as increase the capacity of our resources especially in Asia.

APAC integration into EMEA creating Eurasia will be effective January 1, 2018, in a month from now, give or take. Our current heads of operations, technology and processes, finance, and business and clients will continue to be based in Asia to preserve our expertise and know-how in the Asian markets and to keep monitoring the operations in the area locally.

We're building a new strategic plan for Road China Assistance as a platform of innovation and development of the operation in China. We strongly believe that the new Eurasia will give us a stronger platform to serve our current geographies of operation.

Here, in this slide, you can see the difference in size of the two regions being integrated, which we believe is self-explanatory for its consolidation. The consolidated Eurasia region would have had at the end of the third quarter 2016 premiums of €1.446 billion.

Let me now highlight and walk you through the - our key performance indicators for the EMEA region and its key markets, essentially European markets. Total premium show a decrease of 4.1% for the region, mainly related to Turkey. The impact of the 19% depreciation of the Turkish lira, which I mentioned before and as well the previously explained profitability actions that we had to take after the decree from Ankara which mandated the decrease in automobile premiums, which were - these actions were essentially related to the elimination or cancellation of production sources of this business, which we understand will - is becoming unprofitable at this point.

You can see the rest of the countries showing very healthy growth rates. Italy 2.1%, Germany 7.5%, Malta 12.8%. Worth noting that the growth in Italy has been achieved in spite of the important restructure process performed which was announced in our - in last year's Investor Day as well.

In regards to Germany, our growth levels which amounted to 7.5% have been achieved. Taking into consideration the branch change that was effected during the second quarter and third quarter of this year now operating as VERTI.

In regards to net results or attributable results for the region EMEA region, EMEA is showing a major turnaround versus 2016 with €31.3 million in net results versus a loss of €14 million in the prior year and a steep improvement in technical profitability with a combined ratio of 107% versus the 106% of the prior year. Again, it's worth highlighting the Turkey's results with an outstanding performance so far in 2017 showing €39.2 million in net results and an excellent combined ratio of 96.5%. Germany, excellent combined ratio as well, 99% within technical levels of profitability, after the investment that we had to allocate in order to produce the rebranding process with no impact whatsoever in the operations and also in spite of the worst hail season in years which affected obviously the losses and the frequency on our automobile business.

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Finally, Malta, showing as well an outstanding 96.5% combined ratio, much improved from the 106.6% registered in the prior year. Yet some challenges still remain. MTPL regulation, automobile regulation in Turkey has materially changed the rules of the game and the negative effects will become more evident in the upcoming year. Turkish lira will likely continue to be volatile. Direct Line Italy needs to finalize its turnaround and enter the value creation mode and in Germany, continued growth has to keep materialized in increasing ROEs.

VERTI, the main highlights are the following. Turkey, MAPFRE SIGORTA has adapted quickly to the new market context in Turkey - in its country and remains one of the most profitable companies in its Top 4 peer group. Our continued focus in technical profitability, our client-oriented and channel diversification strategies, the increasing cross-selling into higher profitable segments and the sustained investment that we are producing in technology is proving to be a very effective strategy in this country. We are very much satisfied with the performance of our Turkish operations.

Italy. Italy has almost completed its restructuring and is now fully focused on building itself into a profitable digital leader. We have new management in place, new CEO, new CFO, new Direct Digital Director. We have a more efficient cost structure and the results are tangible. Losses have been cut by €28.4 million versus the prior year and our combined ratio has decreased to 114% which is still negative, but is very much improved from the 129% that we were showing at the same period of last year. We believe that Italy is on the right path to recovery and the 2016 - 2017 results show it clearly.

Germany, our model in Germany has been put to test and shows remarkable strength. We had to rebrand the operation and rebranding the operation is not an easy thing to do. We - the company was operating under the Direct Line brand before, we changed it to and rebranded it to VERTI and our levels of retention and patterns of new business have not suffered materially. The 99% combined ratio shows well the focus on technical management of the company. As I mentioned before, this is all in spite of the worst hail season that the company has suffered in years.

Finally, Malta, MAPFRE MIDDLESEA's decisive actions on the motor business and successful partnership with Bank of Valletta continue driving sustained value creation. We're back into profitability on the Non-Life side, which was a major goal for us in 2017. And our total combined ratio for all operations, Life and Non-Life, stands at 96.5%, which is a decrease of 10.1 points versus last year. So, tremendous improvement also in our Maltese operations.

On the Life side of things, the total managed - the total assets under management at the end of the third quarter of 2017 stands at more than €1.8 billion, which is up 11.4% from prior year. We enjoy very healthy market shares in both Life and Non-Life in Malta, 77% Life; 34% in Non-Life. In a nutshell and I'm finalizing right now, we believe we are invested in EMEA in a region with growth - very good growth opportunities. The projected GDP forecasts are as you can see on the table in front of you and make us believe that our expectations are referring (01:58:16) and positive.

Now, let me turn the word to Alfredo Castelo, Chief Executive Officer of our North America region who will explain you in detail the basis of our U.S. operations restructure. Thank you very much.

A - Alfredo Castelo {BIO 20056777 <GO>}

Thank you, Jaime. Good morning, everyone. I'm going to be presenting my first restructuring in the U.S. As you will see my presentation, we are simplifying our operation in the U.S. to make sure that we are able to deliver profitable growth outside Massachusetts. As Jaime has mentioned, this restructuring has three main levers and can be summarized as follows: The first one is to reduce our geographical footprint. As has been already announced, we are going to be exiting five states. We are also going to reduce the number of regions from five to four. And we are going to give more emphasis to the Northeast region with the appointment of a CEO for that specific region.

The second lever, and this is a very important one, is to focus in our core business. We want to focus in auto and homeowner business. As you may know, MAPFRE USA also offers commercial lines, auto and small policies, but we are going to focus the strategy for commercial lines in only three states: Massachusetts, California, and Florida. And it's very important to mention that digital business is something that is of a strategic importance for the group and for MAPFRE USA, and this is the reason why we have launched VERTI in the U.S.

Our third lever is to have a more customer-centric organization. Digital transformation is going to be critical in our strategic plan. In that sense, we have created a digital transformation office, and also we have created two very important areas - business clients and business support - to make sure that we are able to run an efficient operation that is providing first quality service to our customers. And as I said before, because of being more focused in the customer and recognizing the importance of operation in the Northeast, we are appointing a CEO for that region.

Before I explain the restructuring, I think it's worth sharing with you how we see the market and also our operations, our profitability initiatives in the U.S. We have to acknowledge that the market context is challenging for personal line carriers. We are seeing higher frequency and severity in auto business. We are seeing many weather-related claims and wildfires in California, and as Jaime mentioned, the combined ratio for the market is at 106%. While this is happening in the market, in MAPFRE Insurance, we have been very much focused in improving our profitability through a number of initiatives. I'm going to be referring to the most relevant ones.

The first being rate filings. We have taken rates in 36 times in auto business and 97 (sic) [17] (02:01:45) in homeowners, this in the first nine months of 2017. It's important to mention that we have enhanced our pricing system outside Massachusetts. We are also strengthening our underwriting and claims guidelines. I also want to mention that we have working - been able to have a system to validate all technical matters to minimize premium leakage. It's worth mentioning that we have also spent a lot of time in looking at the improvements of our Agency Management. Actually, as you can see on the screen, we have cancelled more than 300 agency contracts because of poor performance.

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In order to improve the quality of our new business, we have also - we are introducing comparative rating strategies and this is to minimize adverse selection. Also on the claims side, we are trying to reduce our loss expenses through automation of processes and also the increase of the use of our preferred repair shops. And the last strategy - the last profitability strategy refers to strengthening our technical areas. We have a new Chief Actuarial Officer and a new Chief Technology Officer. These two people, together with their teams, are going to be leading and making sure that these profitability initiatives are implemented in 2017.

I also want to provide you with some information about our performance in the U.S. as of September. And I would like to start by sharing with you the information of our Massachusetts operation, the operation in the State of Massachusetts. As you may know, we are the leading insurance company in Massachusetts in Non-Life, and we have significant market shares in auto business, in homeowners, and also in commercial auto. As you can see, we are showing a 5% growth in Massachusetts and this is driven mainly because of our auto business. As you can see in the screen, I think these figures confirm that Massachusetts, for us, is a mature and a very profitable state. We are running the business with 96% combined ratio. It is worth mentioning that our main distribution systems are independent agents, but we also have a very important agreement with AAA Northeast.

Outside Massachusetts, as I said before, we have focus on the implementation of all our profitability initiatives. This is the reason why we are showing a negative 8% growth outside Massachusetts. As you can see on the screen that most of the reason for this decrease is coming from our New Jersey book of business, 34% decrease; New York, 17%; and Connecticut, 9.8%. On the positive note, I would like to share with you that we are seeing some improvements in our auto business in two large core states. I'm referring to California with almost 6 percentage points improvement and Connecticut.

The figures you have on the screen has been impacted because of two cat events. As you may remember, we have a tough winter in the Pacific Northwest region, where we have two operations: one in Ohio, in Oregon; and the other one in Washington. The good news is that the second and the third quarter are showing a very much improved loss ratio of 75%. And also these figures include the impact of Irma in our Florida operations. Before I move to the next slide, I would like to point out here that we are hoping to see further improvements in our operation outside Massachusetts, because we are going to be start earning all the rates we have taken in those states.

Let's now talk about our restructuring, and you can see on the screen that we have identified three different categories of our states: core states, development states, and exit states. We have 11 core states, the one of New England plus Connecticut, Washington, California, Oregon, Ohio, and Idaho. We have also identified three development states: Florida, Pennsylvania and Arizona. And the states I have already mentioned the states, we are going to be exiting.

Let us look in more detail through each of these states, and let me start with what we are calling core states, where we want to focus our initiative to have profitable growth. As you can see, these core states have a contribution of 91% of the premium of MAPFRE in the

U.S. and 135% of the earnings. Actually, these 11 states are showing a 95.5% combined ratio.

Why have we considered these states as core states? The first reason is because our brand recognition in the New England region. Of course, it's also very important for us, the scale and the leadership we have in Massachusetts, and also our book of business in Connecticut that also give us some scale.

In relation to California, we have - with the distribution strategy that is showing excellent results. And it's also worth mentioning that we have an agreement with AAA, not only in Massachusetts, but also in Washington, Oregon, Ohio, and Idaho. This will help us in improving our businesses in a profitable manner in these states.

After we have the category, development states, and these states are the states that will be subject to further profitability actions. Actually, in both Florida and Arizona, we want to reinforce our pricing, our distribution fundamentals prior to considering further expansion plans. In relation to Arizona, I think it's also worth mentioning that this is a friendly state from a regulatory point of view and this I think - we think this will help us in being able to implement all our profitability initiatives.

Arizona, as you can imagine, (02:08:40) to the Spanish-speaking operations. And when refers to Pennsylvania, this is a new state for us, and the figures shows that this is still an immature book of business. But it will give us the opportunity of having in one state, a complementary distribution strategy between MAPFRE Insurance and VERTI.

Let us now talk about our exit states. There are - first, New York and New Jersey. Why we have decided to exit New York and New Jersey? This is an state - these are two states, especially the one of New York, that are highly regulated. They are very litigious states, and we also have acknowledged that there is - we have lack of scale. We lack of scale to be able to be competitive. Because of that and because of our high expense ratio, we have decided to exit these two states.

(02:09:43) reason for Indiana, Kentucky and Tennessee, of course we lack the scale, because we have been operating there for that many years, but what I think is very important is that we like automation. It means that we have to improve our system in those states, that will mean further investments. The idea for MAPFRE is to focus our efforts and to focus on our investments in a reduced number of states in the states I have previously mentioned.

In relation to the exit states, let me first talk about New York. And let me share with you that we have already engaged the services of an investment bank that is going to pursue the sale of our New York subsidiary, MAPFRE Insurance Company of New York. As far as Kentucky, New Jersey, Tennessee and Indiana, we are taking all necessary steps to produce an orderly withdrawal of our operation in those states.

Let me highlight that we are very much committed with our customers and agents to make sure that during this process, we are able to provide a good customer service to

them. Regulatory compliance will determine the time required to complete this exist strategy. As I mentioned before, we have a new strategy and because of that we also have a new structure to have both completely aligned.

The first measure we have taken is to reduce the number of regions from four to three. We are going to have a new operational structure that the idea is to bring decision-making process closer to the states of operations, both from a technical and a business development point of view. And also, we want to provide additional empowerment and accountability to our regional leaders. These will be underwriting, claims, and operations. They will have authorities in these three very important areas. So, as you will see, we will be having the Northeast region, East Central region, and the Western region.

As I said before to the importance of digital transformation and this is very important, not only for MAPFRE USA, for MAPFRE Group. That is the reason why we have been working in the past two years in the creation of VERTI USA. This is a truly digital insurance operation. As Jaime said, we did a soft launch in the last month of October in order to fine-tune our processes and our pricing. We are looking at making the official launch of VERTI this month of December.

This is a company that is going to be focusing the State of Pennsylvania and will only offer auto insurance business. VERTI also plays a very important role for our digital transformation in the U.S. As MAPFRE Insurance is going to leverage what we are going to be learning out of the VERTI operation, and we will be able to utilize some of the investments that we are going to make in VERTI Insurance. I think it's very important to mention that what refers to MAPFRE Insurance, we want to be a more customer-focused company and a company that is able to have operational digitalization.

Let me share with you two very important initiatives. We have already created an Intelligent Automation process competence center invested (02:13:33) in Massachusetts, and also we have been - we are going to be strengthening our predictive analytics team. We have implemented during 2017 three very important models for marketing, underwriting, and claims.

I'm going to finish with four key messages. The first one being the new structure we have in the U.S. to focus on our core markets. As I said before, we want to reinforce our market position in Massachusetts and New England, and we want to have a very much a focused approach to be able to show profitable business outside Massachusetts. The second message refers to having a more customer-centric organization with regional empowerment and accountability. The third one refers, I just mentioned, digital transformation to meet the change in customer expectations and operational efficiencies.

And the last one and, to me, the most important one, because this shows our commitments in order to improve our profitability in the U.S. operations are our goals for 2020. As you can see on the screen, we are looking at a 4% average growth in the next three years with a combined ratio of 97%, and a return on equity of 8% in line with the one of our peers in the U.S.

Let me finish by saying that this is our newest strategy in the U.S., and we aim to position MAPFRE USA for success through a focused business strategy. Thank you very much.

A - Antonio Huertas Mejías

Thank you, Alfredo. As you can see, we're taking decisive action in the United States in order to continue with our focus on profitable growth. And in regards to our other operations, we're also being tremendously decisive as we have seen and explained in regarding the integration of APAC into EMEA in the creation of Eurasia.

So, thank you very much, and I believe, now we are open for questions.

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

Yeah, sure. Thank you very much. Very interesting presentations. Thank you, Alfredo. Thank you, Jaime. The first question comes from Francisco Riquel from Alantra, and Silvia Rigol from BBVA. The question is, what are the costs associated with the restructuring plan in the U.S.? Do you plan to book any one-off costs, restructuring charge in Q4 for the states that you are planning to exit?

A - Alfredo Castelo {BIO 20056777 <GO>}

Yeah. Actually, I would differentiate in short-term and medium-term impact. Short-term, I think the cost related, it will be related to severance payments or legal and investment banking fees, and we don't expect these expenses to be relevant. What I would like to highlight is that in the medium-term, it's not we are going to be seeing costs, but we are going to be seeing savings, reduction in costs, because of having less administration expenses, regulatory-related expenses, and controlling expenses. And of course, because of this newer strategy, we want to see our loss ratio improving in the following years. And we don't see a - I mean, more expenses than the one that I had mentioned. And as I said before, and this is important to highlight, we are not expecting relevant expenses out of this exit strategy.

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

Okay. Thank you very much. And this one comes from Francisco Riquel and it is, what are the startup costs that we should expect from the online launch in Pennsylvania?

A - Alfredo Castelo {BIO 20056777 <GO>}

Yeah. In relation to this, we are having - we already have the experience, because we have launched our other VERTI operations, and we are going to have a very prudent investment approach. Actually, we are going to be focusing just in one line of business and this is going to be auto business, and we are going to be focusing in just one state and this is the State of Pennsylvania. We are going to be having a very deep control and we will be monitoring the performance of the company, and based on that, we will be aligning the investment. I think it's very important to mention that MAPFRE Insurance, our traditional insurance in the U.S., is going to benefit and we are going to see synergies because of our investments in VERTI.

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

Thank you very much. Next question comes from (02:18:38). In Germany – she wants know in Germany, what kind of the Life Insurance process are we targeting?

A - Jaime Ibañez Tamayo

Yes. There's one – yeah, the type of business that we're selling in Germany on the Life side is essentially risk business, and we're not contemplating at this point any savings products to be distributed in that country. The way we're distributing this business, as I mentioned before, is through our digital platform online. We have identified the German market as a market or an environment where these type of small phase value products are sold in a sizable and material fashion. So, again, just to confirm, just only risk business on the Life side.

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

Thank you very much, Jaime. Next question comes also from (02:19:40) and it's about Turkey. 2017 has been – it's been an excellent year, and is this sustainable? What could we expect for 2018-2019?

A - Jaime Ibañez Tamayo

Yes. Definitely, 2017 has been an excellent year. The results are there, as I explained before, and the regulation in regards to MTPL, MTPL business or third-party liability auto business is a big – represents a big chunk of our portfolio, almost 50%. And what we're doing, we have already started the process of terminating, as I mentioned before, over 400 production sources of this business in the Turkish market, waiting to this business to come back to what we understand are technical levels of profitability. Although, the regulation call for a steep decrease in rates, the regulation also produced a slow inflationary, somehow, increases on a per monthly basis. So, we believe that in the upcoming second half of 2018, we should be seeing a more stable market in this sense. Our commitment to the Turkish market is total and complete at this point, I would say as well.

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

Thank you so much. And now we are coming back to the USA business. Francisco Riquel from Alantra is asking, do you plan to sell any of the portfolios in the U.S. from the states that you are exiting? What P&L shall we expect from the portfolios in run-off for 2018-2019?

A - Alfredo Castelo {BIO 20056777 <GO>}

Yeah. In relation to the first question, we have a legal entity operating in New York and we are looking at the possibility of selling this company. In what refers to the other states, New Jersey, Kentucky, and Tennessee and Indiana, we are looking it as the possibility of selling the renewal rates to other carriers. But refers to the run-off of the existing portfolios, as I have just mentioned, we have been implementing a lot of profitability initiative in those states, and because of that, we don't see the run-off of these portfolios to have any negative impacts in our performance in 2018 and the following years.

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

Thank you very much, Alfredo. We have another one from Francisco Riquel from Alantra. He wants to know, apart from your core region of Massachusetts and surrounding states, this Connecticut, we - why do you still remain in so many states?

A - Alfredo Castelo {BIO 20056777 <GO>}

Actually, as you can see, we are operating in 19 different states. So, we have made this thorough analysis and we consider that with the actions we are taking, existing five of them, we can have a more focused approach and we will - it will allow us to improve profitability. We are very committed in being able to improve our results in the U.S., and we are going to be making also a very thorough analysis of the performance of the states we are remaining.

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

That's very clear. Thank you so much. Regarding the states - Silvia Rigol from BBVA is asking, and it is a question that has a lot of interest from the analysts and investors. After interest rate increases that we have seen in the U.S. during 2017, is there any possibility of any - of an impairment in the goodwill associated to MAPFRE USA in 2017 or 2018?

A - Alfredo Castelo {BIO 20056777 <GO>}

Yeah.

A - Jaime Ibañez Tamayo

Yeah. I'll take it, Silvia. Thank you, Silvia. First of all, let me say that we're running - I mean, we are estimating our assessment regarding our impairment test twice a year. So far, I mean we carried out this analysis as of June and we're preparing for the year end. So far we do not have any evidence - strong evidence not weak evidence of any potential impairment test for 2017.

Let me say as well that both the rising interest gives two different consequence, a small amount of future cash flows, but also an increase in our financial income that they're very well correlated. So, we do not believe in the short run that we can have any impairment test on the U.S.

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

Thank you very much. Next one comes also from Silvia. She is asking about a good matter between Europe and Asia operation be seen as a way of masks results. Do you maintain the current disclosure separating by countries, and what is the ROE of the new Eurasia unit for the 3Q of 2017?

A - Alfredo Castelo {BIO 20056777 <GO>}

Sure. I'll take this one from Silvia. The restructure and the consolidation into the new Eurasia region will take effect as of January 1, 2018. So currently, the disclosure remains total and will continue to remain total. To give you just a good example is that the APAC,

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the Asia-Pacific operations, essentially are formed by our insurance companies in Philippines and in Indonesia.

ABDA, the Philippine company has always been disclosed and will continue to be disclosed its results on an independent and separate basis. And in regards to ABDA, ABDA is a publicly-traded company in the Indonesian market, so the information is totally public. So, the answer is no. There is no way that our intention is to mask in any way, shape or form the results of any of those two regions.

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

Okay.

A - Jaime Ibañez Tamayo

(02:26:19) something regarding the area, I mean the full disclosure with the new regions will be presented at the year end, and so on for 2019 and so on. We don't have with us this information for the third quarter of 2017.

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

Thank you very much. Next one comes from Silvia Rigol also. And she wants to know if there is any room to reduce the acquisition cost ratio in Italy currently in 24.5%?

A - Alfredo Castelo {BIO 20056777 <GO>}

Yes. Our Italian operations from an acquisition standpoint – the acquisition cost ratio is kind of a blended ratio between the pure direct digital business and then a very important agreement that we have with Fiat, which carries more higher acquisition costs. But on the other hand, this higher acquisition cost on the Fiat agreement is offset by lower loss ratios and lower administration expense ratios.

So, the blended ratio will not see much movement as long as our Fiat business continues to grow and continues to offset the improvements that we're making on the other side of the operation, which is essentially 50% of the business which is the pure automobile direct business.

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

Thank you so much, and now I will ask to the broadcast team if we can go to the page 86 of our presentation. This is regarding the MAPFRE Insurance 2020 target, because there are different questions about that, and I think it's worth clarifying them. These questions, one of them comes from Silvia Rigol and she wants to know if the combined ratio and ROE in MAPFRE USA is an average between 2018 and 2020 or only 2020?

And also (02:28:27) Wanted to know if we can give her more additional details on the guidance provided for 2020 for MAPFRE Insurance. So I think it's worth mentioning this – clarifying this slide.

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A - Alfredo Castelo {BIO 20056777 <GO>}

Okay. These are the targets we are establishing for 2020. So this means that we are targeting a significant improvement in our combined ratio of the first quarter – so the third quarter we reported 101% combined ratio. We are looking at being able to bring it down to 97% in 2020, and the same applies to the return on equity. We are looking at 8% return on equity in 2020. Now we have reported a 5.6% combined ratio in the third quarter of 2017. So again, we are looking at the combined ratio that is in line with the one of our peers in the U.S.

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

Thank you so much. So I guess, this is the end of this panel. Thank you very much for sending your questions. Thank you very much for this interesting answers. Anyway, if there are any other questions regarding these topics, again at the end of the event, we can ask you again. So, thank you very much.

Now, we have a break of 10 minutes, so we will come back at 11:40.

[Break] (02:30:08-02:42:24)

Hello, again. Thank you for staying with us. Now, we have the anticipated closing remarks from our Chairman. We have the best panel we could have today for the Q&A session at the end of the closing and wrap up remarks from our Chairman. So, please Antonio, whenever you want.

A - Antonio Huertas Mejías

Thank you, Natalia. As we have seen this morning, MAPFRE's underlying results are very positive, showing continued growth and solid performance despite the cat events. The impact of these exceptional events was manageable, thanks to our effective cat protection program, which can still act as a caution should there be further events in the year.

Additionally, we should expect to see the fruits of the U.S. restructuring plan presented today and we will continue focusing on managing our capital position. I would like to highlight the great exercise that MAPFRE has on today. It's a very good experience of transparency, facilitating to you clear and complete information about how MAPFRE is doing themes, how MAPFRE is facing the cat events and how MAPFRE is preparing the future, restructuring its American operations.

At this point, I'd like to say a few words about the situation in Puerto Rico. Puerto Rico is a very good country. We know well. MAPFRE started to do business there in 1989. Until now, the island, Puerto Ricans, are living in a very difficult situation. The Maria hurricane after the Irma hurricane, both have affected strongly the island and Puerto Ricans are now still living in very difficult conditions. As Puerto Rican, having Puerto Rican company there, we would like to send our warmest greetings to the island to the Puerto Ricans, to our customers, to our employees and in general to all of them. They are still living without enough energy power, most of the public infrastructure are still out of service and they are trying to

recover the daily lives little by little. We expect to help them and to serve the island, to serve our customer with our more excellent services in this next weeks.

Now, let me say a few words about trends and innovation. New algorithms, ever greater computational capacity and Big Data are unleashing a technological revolution in our business and I believe insurance is going to face more dramatic changes in the next 10 years than it has seen in the past century.

Insurance, as we know, as we know it, buy it, sell it, underwrite it and service it. It's changing beyond all recognition. We are witnessing changes in the essence of the insurance model with the emergency of the new risk, several risks with a mutation (02:46:25) of the others to cover for example manufacturer risk rather than drivers and also the reduction in frequency in many other risks, for instance, much fewer (02:46:39).

The backbone of all changes we are seeing focuses on the empowerment on the connected client. Nowadays control is neither the company nor in the agents' hands, it's the customer and that is giving rise to changes in processes, businesses models and ultimately releasing a new digital and connected reality.

There is a key element that should not be overlooked when analyzing the impact that digitalization is provoking in the business world and that's the human element. This will require us to analyze, for example, how these changes affect employment, business and the organizational changes that we are facing.

Based on these circumstances, we have been developing strategic initiatives which are changing the profile of our group on how we work. We are promoting multichannel development as a solid guarantee for growth and reaching new goals. For intermediaries, it's not only about technology. In other words, digital distribution and service, which is not necessarily a threat following (02:48:04). Digital means to have a more effective sales plan, to be more professional and also to offer the client new opportunities and easier interaction gateways.

We have also reinforced the internal structure with three dimensions; the local country, the regional, it's the geographical grouping of countries and the corporate level. We have strengthened self governance, so we have now agile and flexible decision making organizational structures, but which also guarantees strict control at all levels. Global corporations such as MAPFRE in such a regulated industry can't afford to leave anything out. The information system and professional behavior of our teams must be excellent. The 2016-2018 strategic plan has been adapted to include the following new strategic initiatives that will enable us to accelerate our transformation.

Firstly, SAM 3.0, automobile insurance 3.0 that we are working on that, and the new reality of auto, including connected vehicles and even autonomous ones with innovative insurance solutions. Secondly, smart predictive models will reinforce our efforts in the analysis of information to automated processes and determine trends and behavior patterns. Thirdly, our large cities plan. The great urban centers are becoming increasingly more and more important because of the concentration of population and wealth.

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Insurance distribution, product, services solution sometimes need to be different for this environment. And fourthly, digital health, strongly linked to what I said before in the previous slide, believe that in some countries, we need to offer simple and digital solutions for health insurance. And the last but not least, the digital challenge, which involves an important transformation process for the internal structure, neutrally (02:50:40) working in each of these, schedule flexibility, shared knowledge, new forms of remuneration, et cetera. Our people need to be ready for the new digital war.

We are already working on the first phase of these initiatives with management and workgroups composed of experts from different countries, skills and with the aim of producing solutions every six months and achieving the core targets by the spring of 2019. And finally, it's time to wrap things up. We are sustaining revenue growth across every geographic area in all of our main products. The programs we have already implemented to enhance efficiency, increase automation and reduce costs are transforming the group and helping us to increase savings. In turn, we are investing most of these savings in digitalizing operations to produce a greater return in the medium term.

Our finance - financial returns are also beating our peers, thanks to a highly professional management of our investments. The MAPFRE business model and the strategy of focusing on profitable growth accompanied by a very high solvency margin at a very low level of debt will guarantee healthy growth in the coming years. Thank you for your participation and active attention in this event. I hope that you have a news weakened (02:52:22). But before that, now Natalia will lead the Q&A session now. Thank you very much.

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

Thank you very much, Antonio. So as we said before, we are going to recover some last-minute questions that have come from the different presentations that we have had today.

First one comes from (02:52:52) from Banco Sabadell and it's regarding Eurasia. He wants to know what are the synergies that could be expected by integrating two regions with so many differences, Asia and EMEA.

A - Jaime Ibañez Tamayo

Well, I'll take this one and as I explained before, the synergies are related essentially to the different levels of speeds that we have in our strategies in Europe and versus Asia. We see our European strategy as an immediate short-term strategy, whereas we have a much mid-to-long-term view in Asia.

In that sense, we believe by integrating APAC or Asia into EMEA, the level of efficiency of resources, the allocation of resources in order to support the Asian operation will be certainly increased. The difference inside - in size, sorry, which was outlined in my presentation before, I clearly showed the need for this integration. At the end of the third quarter of this current year, total premiums for the APAC region amounted to €56 million, which is a kind of immaterial at this point, so.

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

Thank you very much, Jaime. Another one for you, I guess, from - it's for Italy - it's regarding Italy. Claims ratio is heavily up in 2017 by 5 percentage points. Could you elaborate, what's behind please acquisitions, because ratio is down by 50%, why?

A - Jaime Ibañez Tamayo

In regards to the claims ratio, the main impact justifying or explaining in this increase is whether we've had more weather, essentially rain and hail in our Italian operations. So, this is a question of increased frequency in our business in Italy. In regards to acquisition costs, it's down, and it's down somehow by design, in the sense that we have an upcoming rebranding next year into VERTI. So we have decided to slow down our investments in marketing in order to continue the business. Also, there is another component of this impact, which is that we're getting much improved reinsurance commissions from our core subsidiaries. So, this would be the explanation.

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

Thank you very much, Jaime.

A - Jaime Ibañez Tamayo

You're welcome.

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

Next one comes from Juan Cánovas with Fidentiis and it's regarding, can you provide detail about the provision release potential in real estate?

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

Yeah, I'll take it. Thank you, Juan. Perhaps I was too optimistic during my presentation. What I mentioned is that we've seen a positive trend, particularly in commercial units and also an increase in France. There are more - we've seen more appetite for Latin units as well. But let me say that we've got a huge investment in real estate over €2.2 billion and any small release in the real estate provision will be significant. But it's extremely difficult to foresee at the right - at the moment. If - I mean, the schedule of releases and whether or not it will take place in 2019. But we are more optimistic than in previous year. But it's too early to conclude on this.

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

Thank you very much, Fernando. And now we have another one from Michael Httner in JPMorgan. He wants to know what's the outlook for the ASISTENCIA in 2018.

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

Yeah. Thank you, Michael. I take it as well. And let me elaborate a little bit about ASISTENCIA and first of all, let me say that there are no promises, and this is the third year of losses. The first was a small loss. The second year, where we did a lot of restricted in our business with a lot of cancellation of loss making portfolios on. And this year, let's say,

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we're cleaning up our assets and writing down a lot of intangibles, goodwill, software and also changing some of the income recognition as well in order to have a more solid robust balance sheet.

Also, we are reducing as well our overheads and closing down some operations. For sure, 2018 will be a more positive contribution in terms of a significant reduction in losses. There are still some minor fine tuning to be done in 2018, but it's too early to predict the turnaround point will be in 2018 or perhaps 2019. But the loss will be significant lower than the - if any loss in 2018 than this current year.

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

Thank you very much. Next one comes from Silvia Rigol from BBVA, Michael Huttner from JPMorgan, Niccolo Dalla Palma from Exane, (02:58:45). So it has a lot of interest. And the question is regarding how do you expect to achieve ROE of 11% in 2018, net profit expected for the consensus is around €850 million. So shareholders' equity should drop by €1.1 billion to reach this ROE, relative this ROE you're already meeting combined ratio target, impact of reinsurance on ROE targets, so it's everything about the ROE target?

A - Antonio Huertas Mejías

Thank you all of you for the question. There is an unanimous most interest to know how we are preparing the next year. So, next year, 2018, will be very, very challenging for us. We have already said that we could expect to reach an 11% ROE during at the end - by the end of 2018 and we have to work hard.

We expect that units, that they are now getting excellent result, will continue doing the same thing next year. And units on the recovery plan, they are doing their best to improve the results and they can contribute with very positive results next year. And we have already implemented a new cost contingent plan to reduce expenses and to improve the general amount of our internal expenses.

We are still very positive. We think that we have to do our best, but we think that there are many factors, many, many elements ahead of us that come help us, like the tailwinds in order to reach these objective. In terms of the reinsurance pricing, as Eduardo said before, it's earlier to have a clear opinion about that. But we think that we can combine our - we can combine our both businesses that are primary insurance and reinsurance as well, and we can assume transfer the differences in prices that we can get with a newer renewal of contracts mainly in the Caribbean area. We are still - as a conclusion, we are still very positive with our ROE target for the next year.

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

Thank you very much, Antonio. Thank you so much. Now our next question comes from Securities Investment, and it's about what is your plan on the Life business in EMEA?

A - Jaime Ibañez Tamayo

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Well, in EMEA, we have essentially three operations. Life insurance operations one which is in terms of size, the more material one is in Malta. And in Malta we will – the idea or plan is to continue building on our competitive position in this market. As I mentioned before, we enjoy a very strong partnership with Bank of Valletta, not just from a distribution standpoint, but also from a product – production standpoint, and the shareholder agreement in the joint venture that we share with them. So, on the savings side of thing of the house, we will continue in Malta of building on our competitive position in that market.

Germany is just the start up. Germany has a different strategy. The distribution we do not have a bancassurance agreement there. Distribution is purely online and the product that we have currently in the market is a small face value or a low face value product, just on the risk side of the coverage site.

And then Turkey, in Turkey, we have a life insurance company which is small at this point and our idea in Turkey is to continue growing above inflation, that is important for us and given the size and materiality of that operation in that market.

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

Thank you very much, Jaime. Now the next set of questions are regarding the dividend upstreaming. Ivan Bokhmat from Barclays; Andrew Sinclair from Bank of America Merrill Lynch. (03:03:30) from Banco Sabadell wanted to know about this upstreaming. And what level of cash remittance would you expect to repay it from your subsidiaries to MAPFRE Group in average a year as a proportion of net earnings? Also is bear in mind the small net profit that MAPFRE will generate this year, what could be expected for the dividend upstream for 2018? Is it in the same line? Where could GLOBAL RISKS be included in terms of dividend upstreaming, and again, what's the outlook in general for 2018?

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

Yeah. I take the remaining. First, I mean, we're quite happy I mean with the contribution of dividends from the international business, one of the lesson we learnt is that we should aim for a better diversification among the regions. Otherwise, I mean MAPFRE Spain and MAPFRE RE will remain as the cash cow – as the only entities paying dividends. So we're happy with this 2017 distribution.

Regarding the dividend, the increased growth in 2017 and as part of the policy I mentioned and the subsidiaries should upstream enough dividends for dividends to shareholders also overheads and interest expenses which is important is any additional capital injection in other subsidiaries because we had to reinforce the capital structure because we had to compensate on the losses of the current year. This is that will happen in 2017 and now large part of the dividend were allocated for – increase the capital position of Direct Line Italy and also MAPFRE ASISTENCIA. So if there is no – any significant loss in any unit in 2018, we expect the upstream flow from subsidiaries to be reduced compared to 2017.

Regarding MAPFRE, you mentioned a small contribution. We believe and we expect a strong net income contribution from MAPFRE. So, so far, we expect the same level of

dividends for MAPFRE of last year. Global Risks what we did is - as you know, Global Risks has small stake in MAPFRE ESPAÑA is the worst part of restructuring the business. So, MAPFRE - Global Risks is doing its retaining part of the dividend pay for MAPFRE ESPAÑA in order to rebuild part of the capital structure. We don't see a strong contribution from Global Risks in 2010 since they had to rebuild again the capital structure in order to maintain its current rating. By the way, MAPFRE Global Risks needs it for commercial purposes.

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

Thank you very much, Fernando. Now, we have a question regarding the investment in the Direct Line Italy business. Silvia Rigol from BBVA ask what's the return on investment of the purchase of Direct Line. Why is so low, almost three years after the acquisition, the capital invested was €550 million and the net income in 2017 expected could be in the region of minus €40 million, and for the next year is still expected a low income - net income?

A - Jaime Ibañez Tamayo

Yeah. Well, the ROI of our Italian - essentially our Italian operation obviously is negative. We are posting, expecting an important loss still for this year, improved - much improved from prior year in the range of €14 million, but that you have to bear in mind that we're coming from a loss of €54 million in the prior year. We have been managing the company, this would be the - will be the second full-year of management of our Italian operations. We take a long-term view in our operation in Italy. We believe that our entry into the Italian market in one of the largest automobile markets within the European Union is a major step forward in our international strategy. We have a sizable market share on the direct digital side of things and we really will strive to, if not break the breakeven, be very close to breakeven in 2018. But again, our view is long-term in terms of our presence in Italy.

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

Thank you very much, Jaime. This one comes from (03:08:49) and it's regarding the 2020 combined ratio target in MAPFRE Insurance. This target is - we have set is 97% and that's not include VERTI. Could we expect a similar impact that the one we have seen in MAPFRE's Spanish motor business line from VERTI Spain.

A - Alfredo Castelo {BIO 20056777 <GO>}

I'll take this one. As you can imagine, VERTI USA is on a startup operation with higher costs. We have to make some investments in this new operation. But I want to highlight that we are going to be having a very cautious approach to our investment, our strategy in VERTI, in VERTI in the U.S. I mentioned before that we are targeting to have a 97% combined ratio for MAPFRE Insurance in 2020. If we include VERTI in this number, meaning to say MAPFRE USA, both VERTI and MAPFRE Insurance, the combined ratio will go up by 1 percentage point. This is our projection for VERTI by 2020.

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

Thank you very much, Alfredo. Now, we have a question from Javier Bernat. He would like to know if we can give him an outlook for the 2018 (03:10:12) business and specifically for

life insurance business?

A - Antonio Huertas Mejías

Thank you. As you know, the life insurance in Spain is passing a very volatile situation. The low interest rate environment has led the market to be very conservative selling different products, several products coming from the general distribution of bancassurance are more weaker and now all the companies, even the bancassurance companies, are trying to sell unit-linked products, where we can get better returns and to offer better products to our customer. It's very difficult now to see or to forecast what's going to happen with the life insurance. We expect an increase of protection products is always a very, very interest in the customer to buy these kind of products. But as well, the unit-linked are well received by the customers and we are creating new products with a very, very interesting return and as well with a mix of coverage that could be very, very interesting for them. For that, we are putting all of our efforts to sell these kind of products and trying to make the most of our network, even the traditional agents and our bancassurance agreements.

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

Thank you very much, Antonio. Now the next one is regarding ROE, 11% target. Andrew Sinclair wants to know or want us to clarify if this ratio is a headline ROE target or a return on tangible equity target.

A - Antonio Huertas Mejías

Yeah. Thank you, Andrew. It's the pure vanilla ROE, it's not adjusted by tangible - or intangible fixed assets.

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

So we have two more questions. We are ahead of time, so we have two more questions, one comes from Paco Riquel from Alantra. He wants to know if we can update on the outlook for Brazil in 2018. Do you see premium income growth resuming now that the economy is turning around? Do you expect to offset lower financial income with an improving combined ratio? Any specification to improve the high combined ratio in motor insurance?

A - Antonio Huertas Mejías

Thank you. Absolutely yes, about the three questions. Brazil has lived in very difficult conditions for the last three years. But now, every figures about the economy is showing good recovery. As you already know, Brazil is living in the recession, in its economy and the forecast for the development of the country, it's more positive about the next year. The correlation between the economy, the growth of the GDP and the insurance is clear, but in Brazil is less than the others because of the lack of penetration of insurance in the maturity of society in the country. For that, we are very positive. We think that living apart, the situation occurred during the last three years. The next future is very positive in terms of growth and we expect that.

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About the second question, if the decrease of a low - of financial income if we - it could be offset by the improving of the combined ratio. I am very positive as well. We think that it's - even it's a must, we need to do it and we have to live with lower interest rates and improving as well at the same time the combined ratio, mainly motor (03:14:51) you ask in the third question, motor insurance has enough room to improve it and we are doing our best to do it. We are reinforcing our things (03:15:03). We are introducing new control measures and we are trying to be more efficient in the motor unit reducing expenses, getting better with our agents, trying to improve the underwriting and claims processes. For that second question, we are very positive, we will get better increases in Nigeria and Brazil and we think we can maintain the margins in the mainlines but as well improving in auto due to the measures that I have already commented.

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

Thank you very much. And there's just one last question, that's just come in - is coming in another one from (03:13:54). But this question is we have to ask you. Do you have M&A opportunities or do you see M&A opportunities on the horizon for the next 12 months?

A - Antonio Huertas Mejías

Always, always. We are very positive because it's natural for MAPFRE to be alert about new options, new opportunities in other markets, but as well we are very conservative. We have defined our strategic markets and we are - that we are not in a rush to do adequate operations, but always it should be an opportunity for our group, but now we don't have any specific operations over our table.

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

Thank you very much. Very clear. So that's all from Q&A session. I would like to thank you, all the questions that you have sent us. We have answered more than 50 questions, I think. The participation has been great. Also I would like if it's possible for you to fulfill the survey we have given to you at the end of the screen you have. And if you fulfill that it could help us to improve in the next editions. Thank you very much. And I don't know if our Chairman wants to say goodbye.

A - Antonio Huertas Mejías

I would like to thank you for attending this meeting and we appreciate your attention and I expect - I hope you have had the opportunity to know better our group. Now I wish you a nice weekend and I'll see you soon. Thank you very much.

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

Thank you.

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