

Q4 2015 Earnings Call

Company Participants

- Esteban Tejera Montalvo, First Vice-Chairman, Managing Director & Chief Executive Officer
- Natalia Núñez Arana, Deputy Director-Capital Markets & Head-IR

MANAGEMENT DISCUSSION SECTION

Esteban Tejera Montalvo {BIO 3910673 <GO>}

Good morning, ladies and gentlemen. Welcome to the Presentation of MAPFRE Results For The Full Year 2015. As usual, I'll give an overview of the results and the main business development. And later, Mrs. Natalia Núñez will explain the financials in greater detail.

We will answer the questions that have been submitted at the end of the presentation. And if any further questions arise during the call, please send them to the specified e-mail address and we will answer them if the time permits.

Let's now turn please to Slide 3. As you can see from the figures, MAPFRE continues growing thanks to the Non-Life business coming from its international units, but has also benefited from the improved demands in the Spanish market where I would like to point out the return to growth in Motor.

In addition, the consolidation of DIRECT LINE and the strength of the U.S. dollar contributed to offset the impact of the depreciation of the Venezuelan Bolivar that is one of the main impacts of the year and the Brazilian real during the year.

The combined ratio increased to 2.8 percentage points due to a seasonally strong snowstorms in the United States that we reported during the year and this explains almost half of this increase.

The Life business has contributed positively to results, thanks to improvement in both the underwriting result and the financial income in Brazil as well as the resilience of the profitability in the Spanish business despite the fall in premiums we have suffered in this market.

The attributable result of €708.8 million includes a net gain of €155 million from the sale of CATALUNYACAIXA's insurance business as well as several extraordinary negative impacts stemming from an increase in reserves and the identification of unprofitable business segments mainly MAPFRE ASISTENCIA in the last quarter. We are placing a special emphasis on underwriting policy and in line with MAPFRE's profitable growth status.

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Funds under management fell slightly due to CATALUNYACAIXA operation, but if we exclude this effect, managed savings would have increased slightly by 0.3%, which is quite noteworthy in the midst of a very difficult market environment.

Shareholders' equity has fallen during the year mainly due to the reduction in the market value of the financial investment portfolio and the depreciation of our main currencies against the euro, except for the U.S. dollar, although we did see some improvement in the fourth quarter.

The Board of Directors has agreed to propose to the Annual General Meeting a final dividend of €0.07 per share, thus, taking the total dividend proposed against 2015 results to €0.13 per share.

Please let's move on to Slide 5. Here, you can see several measures we have been taking to pave the way for profitable growth in the near future. The measures included alignment of underwriting standards mainly in MAPFRE ASISTENCIA; increases in reserves with the special mention of the Motor and General TPL business in Spain as well as in Turkey, Colombia and Mexico; identification and cancellation of unprofitable business segments especially of MAPFRE ASISTENCIA; optimization of cost structures; implementation of the regulatory changes; tariff increases in key markets; and the adaptation of the current economic context, which can be seen in the lower level of realized gains compared to 2014. These extraordinary measures have had an impact of roughly €185 million on the results of this year.

Please move to Slide 6 where we saw how is evolving the MAPFRE BRAZIL business. If we look at our business in Brazil, we can see that we have a leading market position and resilient underlying growth. Even with that economic backdrop, we are still seeing growth in local currency terms. Motor is growing by 1.1%, and the total premiums are growing by 3.6%. We saw a recovery in our business, which witnessed a year-on-year growth of 13.2% in local currency compared to a decrease of 38.1% at June despite the delay in the federal subsidy program.

As you can see on slide 7, MAPFRE BRAZIL has a proven track record in profitability with solid combined ratios, less than 94%, and excellent return on equity higher than 15%. The net result increased by 16.9% in 2015. And we also saw a strong growth in the client base, which increased by 12.2% in the year reaching 11.3 million customers.

As you can see on the next slide, the outlook for the insurance market in Brazil is still positive despite the macroeconomic slowdown thanks to the low levels of insurance penetration in the growing middle class. According to Sesian Seguros (07:22), the Brazilian Insurance Association, expectation of growth continue in the main lines of the business, especially in Life Risk and in Motor and in Other P&C, where we have a strong presence.

In addition, measures have been implemented at MAPFRE to increase the already high levels of profitability. And these measures include cost reduction plans, increase distribution platforms, increase client penetration and cross-selling initiatives.

Turning to the next slide, we can see how we have to manage the business during the last three-year period. During this period, MAPFRE has continued creating value for its shareholders. And as you can see, the average share price from 2010 to 2012 was €2.35, whereas the average during the 2013 to 2015 increased to €2.85, which implies a 6.6% increase. The payout has been consistently above the 50% target with 5.6% annual average dividend yield, and the shareholders' equity has increased by close to 10% since 2012.

On the next slide you can see that the last three-year period has been an important stage of MAPFRE's development as a global company. A new global corporate structure has been fully implemented and it has allowed us for decentralized management with a homogeneous operational framework, strong management and supervisory teams at the head of each regional area. And this structure is helping us to achieve higher levels of monitoring and supervision while allocating resources more efficiently and leveraging synergies within the group.

On the next slide, we take a look of the MAPFRE's next three-year strategic plan, which is based on four pillars: excellence in technical management, digital transformation, client orientation and culture and human talent management.

Regarding technical management, we will continue with a special focus on underwriting, pricing and claims management and we aim to outperform the market in technical profitability in all products.

Regarding digital transformation, there are over 200 projects in process. In this area, VERTI will be the brand for the digital direct business worldwide and we will continue with the integration of DIRECT LINE Italy and Germany.

In client segmentation projects, projects have been rolled out to our main markets in Spain, Brazil and the USA among others and the Net Promoter Score will be implemented for every country in the next year. MAPFRE will also continue with its strong focus on human talent and fostering geographic and internal mobility.

On Slide 12, we continue to reaffirm our key strategic objectives. The combined ratio finished 2015 above the target due to the extraordinary losses in MAPFRE USA, as I mentioned before, as well as the increase in research during the year. But we continue with our target of being at the end of this year in 96% combined ratio.

The payout ratio has exceeded target at 56.5%, and this shows the MAPFRE's commitment to our shareholders. This expense ratio has fallen 0.5 from the 29.1% since the announcement of the strategic objectives, leaving another 0.5 to be reduced to reach the target during this year. And finally, the €30 billion revenue target was heavily impacted by currency movement that implied more than €2 billion in this period, especially due to deterioration of the currency in Venezuela and in Brazil.

On Slide 13, we can see how MAPFRE continues to maintain a balance between mature and growing markets. During 2015, we have seen the following variations in the premium

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distribution: a reduction in Iberia from 29.4% in 2014 due to the sale of CATALUNYACAIXA to roughly 28% which is a small reduction and as we can see later in homogenous terms, we have registered growth in Iberia; a fall in the contribution in Brazil of 3.7 percentage points and 3.8 percentage in LATAM SOUTH mainly due to the depreciation of the real and the bolivar, respectively; increases in LATAM NORTH and increases in EMEA due to the consolidation in DIRECT LINE and the organic growth of the business; and an increase in North America thanks to the development of the business and appreciation of the U.S. dollar. And I would like to remark the increase in MAPFRE RE in 14% to 15.6% this year.

With regards to attributable results, the distribution has experienced large variations due to the net losses in North America and EMEA and the falling profits in LATAM SOUTH and we registered an increase in the weight of the attributable results of Iberia by 13 percentage points; Brazil by 4 percentage points and MAPFRE RE by 3 percentage points.

Now, I would give the place to Mrs. Núñez that will explain the figures a bit further. Natalia?

Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you, Esteban. Good morning, everyone. Please let's move to Slide 15 to take a look in-depth at the Non-Life account. On a yearly basis, Non-Life premiums have grown at a healthy 6.5%. We are seeing the following trend there. Growth in EMEA, thanks to the consolidation of DIRECT LINE which implies €374 million in premiums; an increase in LATAM NORTH in Industrial Risks and Transportation due to the issuance of the PEMEX policy, which was of €387 million in Mexico in the second quarter; Improvement in Iberia, which was a return to growth in Motor, as well as a positive evolution of Home and Burial business lines. Overall, good organic growth in North America, mainly outside of Massachusetts, as well as in Turkey, Peru, Chile, Colombia, Argentina and Central America.

A positive year of MAPFRE RE, thanks to resilient performance of Non-Group business despite the difficult market environment. These improvements offset the strong decline in LATAM SOUTH due to the deterioration of the exchange rate in Venezuela especially in the quarter.

We have seen also healthy local currency growth in Brazil with total premiums increasing by 3.6%, Motor increasing 1.1%, Other P&C increasing 11% with Agroinsurance going up 13.2%, although premiums fell €405 million due to depreciation of the Brazilian real.

Finally, there has been a positive impact of the appreciation of the U.S. dollar on North America MAPFRE ASISTENCIA, MAPFRE RE and MAPFRE GLOBAL RISKS.

Regarding the fourth quarter, premiums fell 11.6% due to lower volumes in Brazil, €202 million less, driven by the decline in our insurance production in the quarter after the strong performance in the third quarter of 2015. There have been also seasonality effects on issuance at MAPFRE RE and positive development in Iberia, EMEA, LATAM NORTH and Chile. Colombia and Peru helps to mitigate these declines.

The combined ratio increased from 95.8% to 98.7% for the reasons we will now discuss on slide 18. The claims ratio has increased 2 percentage points in the year as a consequence of exceptional claims in Homeowner insurance in North America as we have said during the former quarters due to the strong snowstorms in the U.S. This added 1.3 percentage points to the loss ratio.

In Iberia, there was a large claim in Commercial insurance in the third quarter, an increase in Burial technical reserves, higher frequency in Motor, Home and Commercial General Liability, as well as increases in reserves in Motor and Commercial General Liability.

There has been also deterioration in the loss ratios in EMEA as a result of unprofitable contracts at ASISTENCIA especially in France and an increase in severity and frequency in Turkey. Deterioration also in loss ratios in LATAM NORTH, in Mass Market Multi-Peril lines in Mexico. Increases in losses in APAC due to Motor lines at MAPFRE INSULAR, as well as MAPFRE ASISTENCIA.

On a positive note, we have seen an improvement in the loss ratios in LATAM SOUTH specifically in Argentina and Chile, and a relatively benign loss experience at MAPFRE GLOBAL RISKS.

Please let's move on to Slide 19 where we can see the main drivers of the quarter. In the quarter, the loss ratio has increased 1.9 percentage points mainly as a result of the following trends: a higher ratio in Spain due to reserve increases and higher frequency; in EMEA due to the unprofitable contract in ASISTENCIA especially in France as well as higher reserves in Turkey; deterioration of the loss ratio in Brazil due to a large industrial claim at GLOBAL RISKS, and an increase in losses at MAPFRE ASISTENCIA. Also, has been higher losses from industrial events at MAPFRE RE. These increases were partially offset by improvement in loss ratios in Chile and Peru.

Please let's turn to Slide 20. The 0.8 percentage point increase reflects rising expenses, reflects rising acquisition cost in Spain, Mexico, Argentina, Colombia and Chile. The consolidation of DIRECT LINE has also impacted the expense ratio.

The €25 million decrease in financial income mainly reflects a lower level of realized gains and reinvestment yields in Europe, which is consistent with the current market environment. This decline was partially mitigated by the high interest rate environment in Brazil. The positive impact of the strength of the U.S. dollar on exchange rate gains has also contributed to the financial result.

Please, let's move on to the Life account on Slide 21. The result of the Life business has increased by 5.9% despite the falling premiums. And this is mainly driven by Spain.

The 10.6% decrease in premiums volume has been affected by three main movements: a decline in Iberia in Life Savings insurance due to the low interest rate environment; a corporate policy in the bancassurance channel of €75 million in the first quarter 2014, which has not repeated this year; and the consolidation of ASEVAL and LAIETANA VIDA

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since the first of November 2014, which contributed €90.8 million to total premiums in 2015.

In Brazil, we have seen also a slight decrease in Life business in local currency, minus 0.4%, due to weaker production in the fourth quarter of 2014-2015 compared to the previous year. A contract in issuance in LATAM SOUTH as a result of the cancellation of unprofitable contracts in Colombia, partly offset by continued strong growth in Peru.

We are also seeing the following positive trends: growth in LATAM North due to a large Life Protection policy in Mexico, over 44% growth in Life Savings products in Malta; new business at MAPFRE RE; and increases of 9% in mutual funds and 6.9% in pension funds in the agents' channel in Iberia.

In the fourth quarter, the significant growth in business volumes implies an increase of 27.9% and reflects the good performance in Iberia due to the agents' channels and the recovery of BANKIA channels in the fourth quarter and increases in Brazil resulting from Banco do Brasil's sales campaigns.

Please, let's move on to Slide 24 where we'll see the result of other business activities. The result of this slide for other business activities has been impacted by lower net operating revenues in MAPFRE ASISTENCIA due to the identification of unprofitable contracts and optimization of the structure, especially in EMEA, North America and Brazil as well as higher expenses at the holding companies due to the implementation of the regional structure and expenses related to the integration of DIRECT LINE.

On slide 27, we will look at the main drivers of the consolidated results. The year-on-year contraction in the bottom line has been due to three main causes: exceptionally large weather-related losses, especially in North America; the extraordinary measures that Esteban explained in the beginning of the presentation regarding reserve increases; and a lower level of realized gains in both Life and Non-Life.

We have also seen an increase in income tax when compared to the previous year due to a reduction in 2014 from the impact of deferred taxes in Spain after the decrease in the corporate tax rate.

Profit was supported by a strong result in the Life business in Brazil as well as the resilient result in Iberia despite a low interest rate environment and a gain of €155 million from the sale of CATALUNYACAIXA insurance business.

Now, we will take a look at the balance sheet on Slide 28. In 2015, the main movements of the balance sheet include: the sale of CATALUNYACAIXA's insurance business; the consolidation of DIRECT LINE; a decrease in the market value of the investment portfolio in Europe as a result of market turbulences despite improvement in this fourth quarter. And currency movement have had a strong negative impact especially in Brazilian real which has fallen 25% in the year and the Venezuelan Bolivar, too.

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Let's move on to slide next to take the – see to the investment portfolio. Here you can see the breakdown of the investment portfolio. Total investment decreased around €306 million since June, the last time the portfolio was presented, which is mainly explained the falling investment at MAPFRE BRAZIL due to the depreciation of the real. There are no material changes in the asset mix compared to June 2015 save for the reduction in the weight (27:03) Latin America in the government bond portfolio which was driven mainly by currency movements.

The movements also reflect a fall in market prices due to market tensions in Europe, the reinvest of maturing corporate bonds into higher yielding and more liquid public debt in Spain, and the appreciation of the U.S. dollar.

It's also worth mentioning that real estate investments are booked at cost value and that our real estate portfolio has around €975 million in unrealized gains at year-end.

In the quarter, totally equity – total equity increased by over €76 million, whereas shareholders' equity fell by €46 million. There were two positive impacts on equity in the quarter: lower negative currency conversion differences, mainly due to the positive evolution of the Brazilian real as well as the Turkish lira and improvement in the market value of the financial investment portfolio after the market turbulences we experienced in Europe in the second quarter of the year. And other important change during the year was the sale of CATALUNYACAIXA, which especially impacted non-controlling interest.

Now we can turn on to Slide 32 for a review of the capital structure. The variations in the capital structure during the year are mainly explained by the reduction in shareholders' equity as we have seen on the previous slide. There was also the maturity of November 2015 senior bond of €1 billion which was refinanced with credit facilities. As you can see, we've increased in banking financing from 1.4% to 9.6%. Our coverage and leverage ratios continue to be very much consistent with AA rating levels and are among the strongest of any European insurance group.

On page 33, you can see our financial unsubordinated debt structure. It's worth pointing out that the maturity of the syndicated credit facility was extended from December 2019 to December 2020 as stipulated by contract, which gives MAPFRE a high level of financial flexibility.

I will now hand back the call to Mr. Tejera to start with the Q&A session. As you are aware, we will answer the questions that most of you have sent us throughout the morning. If any other issues arise during the Q&A session, please send us an e-mail, and we will be delighted to respond if time permits.

Q&A

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

Thank you, Natalia. Well, I will start with the Q&A session. Please, you have the first question.

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Thank you. The first set of question is with regards to Solvency II. Niccolo Dalla Palma from Exane BNP Paribas, Avinash Singh from Nomura, and Paz Ojeda at JB Capital Markets ask the following questions. Could you please provide an update on where you stand on Solvency II?

Why have you chosen not to disclose it when you have already provided the guidance? When do you expect approval? Would you still guide to Solvency II ratio slightly above 160%? What kind of impacts on Solvency II has resulted from Brazilian ratings downgrade to junk?

Thank you. Well, taking into account that we are among the first insurance companies to report the full-year results, we have preferred not to disclose the figure in Solvency II due to the fact that we are yet in the - reviewing the calculation methodology and the review of the last figure. In any case, I will reassure you that our position is very comfortable.

As we saw in previous presentation, I remember it was in June, we released the figures of Solvency II that was higher than 160%. We have reported to EIOPA as of September 2015 and the ratio of Solvency II was 168%. And even the final figures of Solvency II will be released in the first quarter result and with newer guidance.

Now, the Solvency I figures for the whole year 2015 was 255%, and I hope that the figures of the full year will be higher around the figure we delivered to EIOPA as of September in the - near 170%. But the final figures will be released in the first quarter results.

In terms of what kind of impact on Solvency II had resulted from the Brazilian rating downgrade to junk, the impact is insignificant in our accounts due to the fact that we have our investment in Brazil fully matching our liabilities there, as you know very well.

Thank you, Mr. Tejera. The next set of questions is with regards to the (33:22) business. Carlos Peixoto at BPI and Paz Ojeda at JB capital markets had the following questions. What happened at MAPFRE ASISTENCIA? The combined ratio went up significantly in the quarter. Can we expect further provisioning in 2016?

Well, we started (33:43) at a full review of the MAPFRE ASISTENCIA operations in the second half of the year. And we have find some surprises especially in our operations in Europe due to very specific operations, especially in France where we are acting rapidly, and that has impacted mainly in the travel assistance lines. This includes higher frequency and severity in the operations in France and the UK in travel assistance.

But we have also introduced a special provision in order to restructure the business in Venezuela, Brazil and the USA where several big contracts have been cancelled due to the high frequency in road assistance and where we have cut cost in order to reduce our structure (35:18) there due to the fact that we have now less business there and we adapted quickly in order to reduce the structural cost that we have to provide service for these (35:38).

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This is one thing that we have done and we don't expect (35:46) further provisioning for 2016 and we expect to recover profitability during the year or in the – during the year. I think that this is – most of the deterioration we have included were one-off deteriorations.

Thank you. Niccolo Dalla Palma from Exane BNP Paribas asks the following question. At MAPFRE U.S. profitability has been terrible (36:23). As you saw on Slide 72 and in seven years, you only got back 31% of your initial investment, as you saw on Slide 70. Why don't you exit and allocate the capital to something else?

Well, this is a question that we have answered several times to you. The position of MAPFRE in the USA is a position that started in this way, in this strong way in 2008 with the acquisition of Commerce. When we acquired Commerce, the main concern was, how we will be able to maintain our position in Massachusetts when and there is a – there will be the liberalization of the market. We take the position there. We maintain combined ratios in Massachusetts that are good, as you can see in our presentation in a statistical appendix we have made.

And from the point of view of profitability, we have repaid the debt the company had. We have upstreamed dividends since the acquisition for 31% of the investment, and we have funded the expansion in other segments of the business and especially in other territorial areas where as we are starting the business there, the combined ratios are higher than the combined ratio we have in Massachusetts.

This is a process where we have the control, and we can monitor and that we expect to keep in control during next year. And the special losses of this year due to the fact that the snowstorms were extraordinary and out of the initial coverage of (38:48) insurance and that we have to change with the increasing tariffs, increasing deductibles and changing our reinsurance program allow us to continue with our strategic approach to the USA that is to keep our position there and continue to grow organically with greater diversification.

Thank you. Silvia Rigol from BBVA asks the following. Will you have to write down the goodwill at MAPFRE USA?

For the time being, there is no reason to do so and we submit this business (39:40) to the stress test of the – this goodwill. And the business plan allows us to keep in the same position we have.

Paz Ojeda from JB Capital Markets has the following question on MAPFRE USA. What is the reason behind the worsening of the combined ratio during the fourth quarter?

This is due to the combination of several factors was the worsening loss experience in personal auto (40:14) of the State of Massachusetts. And one-off impairment of the investment in a key assistance we have done. Standalone MAPFRE ratio for MAPFRE USA has improved during the quarter.

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Thank you, Mr. Tejera. Paco Riquel (40:44), Silvia Rigol and Andrew Sinclair from Merrill Lynch and Avinash from Nomura ask about the sales increases in Spain in 2015. The variable impact in 2016 was estimated at around 5 percentage points in terms of combined ratios. How much of this impact, if any, will you say that it has been frontloaded to 2015? Why did you not communicate earlier that you were doing reserve strengthening? Are there more reserve strengthening to come in 2016?

Well, the effect of the provision increase we have to take into account the difference between the appropriation (41:28) of the incurred but not reported reserves in 2015 and 2014.

MAPFRE FAMILIAR and MAPFRE EMPRESAS have allocated a bigger amount of the IBNR in 2015 for increases in frequency. And we have reinforced our already strict policy on technical reserves. In this year, we had go ahead in the sense that as you know during the last years, we make special provisions in order to increase in the provisions and to be comfortable when the Baremo will come. Now, the Baremo is here and we have to reinforce our position, our prudent position in this area.

Thank you. Paz Ojeda at JB Capital sends the question about VERTI. Could you give us the net result of VERTI? Are you going to improve on the underwriting policy in this subsidiary?

Well, VERTI has had a net result in 2015 of minus €24 million, but this subsidiary had very good levels of the growth in premiums, is continuously working in order to improve selection and policy holder and tight and extensive control. The problem here is we haven't reached the breakeven size due to the evolution of the prices, but we are in the path of reaching our objectives in the near term.

Andy Sinclair from Merrill Lynch sends a question about Iberia's Non-Life expense base. It seems to be climbing despite lower premiums. Should this high expense base be expected to continue, or will anything be done to cut costs?

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

Hi, Andy. The higher expense ratio in Iberia is due to a change in the portfolio mix. Currently, there is a bigger weight of products with higher acquisition costs. Additionally, there have been some marketing initiatives in Motor segment in the first quarter, like the previously mentioned (44:17). And that's the reason, the main reason for the increase in the expense ratio in the quarter in Iberia.

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

Thank you. Niccolo Dalla Palma from Exane BNP Paribas asks the following. In Brazil, your nominal growth rate is between 4% and 5% in Motor and Life Risk. This compares with 11% inflation in Brazil. Are you losing between 6% from 7% volumes in order to protect your margins?

Well, the business is performing well, but it's true that the country is suffering a lot. And even if there is a - the good thing is that we continue to have and the market in general

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continue to have growth, but it's true that the growth is lower than the inflation. But this is by far register in the impact of the currency. So, I think that the business is doing well and the technical results continue to be very good. The growing lower than the inflation is a normal situation in a so-volatile environment like the volatile environment of Brazil today.

Thank you, Mr. Tejera. Avinash Singh of Nomura asks, in Brazil, you expect partial growth in premium income in 2016 versus 2015, but the economic downturn is getting worse. How do you plan to accelerate this growth, price hikes?

Well, whether we have released were the figures showed the forecast of the whole industry for the sector, not our company figures. We are performing well in this area. We will continue the turn (46:52) of the markets in terms of keeping tariffs. I can say now what will be the evolution of the tariffs in the next two quarters, but we will be, as always, very vigilant with the evolution of the market and keeping our leading position there.

Thank you. Silvia Rigol at BBVA, would like to know, are guidance for premiums in Brazil in local currency for 2016, could rural insurance continue to reduce in premiums, what are the drivers?

Well, in agricultural insurance, there are a lot of situations but at the end of - quarter-by-quarter, but at the end of this year, we had registered a growth of 13% during 2015. In 2016, we expect that if the federal subsidies continue for our farmers in order to buy premium (48:08) to the business, we will keep our position as a leader by far. And in other segments, the evolution is in order to the general forecast of the market.

Thank you, Mr. Tejera. The next set of question is with regards to dividend strategy. Silvia Rigol of BBVA and Andy Sinclair at Merrill Lynch would like to know the following. What is behind the announced dividend cut, and should we expect further reductions in 2016? You cut dividend but the payout ratio remains comfortably above 50%, what is the upper limit? And you appear to be uncomfortable with 60% payout, which would have held the dividend steady.

Well, we have told with the dividend - with policy dividend this year is our commitment to keep the profitability for shareholders. In this area, even if the net result has been reduced about 16%, we have only reduced in the dividend by 7.1%. This means that we have the resilience in terms of solvency, and in terms of liquidity to always maintain our policy of dividends because we are talking about €0.13 against €0.14 last year. So, we are maintaining -practically the dividend. And we maintain our commitment of giving money back to shareholders.

In terms of your question of be uncomfortable with a 60% payout with (50:27) the dividend steady, well, we were not uncomfortable with the 60%. But we felt that €0.13 were dividend that in part reflects the evolution of the company during the year, but shows the resilience of the company for the coming years.

Thank you, sir. On DIRECT LINE, there are various questions on DIRECT LINE coming from Niccolo Dalla Palma at BNP Paribas; Paz Ojeda at JB Capital Markets; Avinash Singh of

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Nomura; and Fernando Gil at Mutuactivos. Could you provide an update on DIRECT LINE? You paid €550 million for these assets and had a small loss in financial year 2015. When do you expect to achieve €50 million in profit, which would ultimately justify the price paid?

Well, this was our first year in DIRECT LINE in Italy and Germany. And we had various extraordinary charges this year. Eliminating these, the combined ratio is at around breakeven and we expect to achieve profitability in - well, we have profitability now and we think that we can reach this target that you have showed of €50 million, more or less, in less than a couple of years.

We have worked very hard in the integration of the company. We are introducing the digital transformation and the expansion of the digital direct business in Italy and Germany according with our strategic lines I had mentioned at the beginning of the presentation. And we have now two companies that are running in the way MAPFRE run our own companies. But this implies in the first year more expenses than usual that are usually one-off expenses that are reflected in our accounting this year.

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

And also it's important to say that the amortization of the value of business acquired is having a special importance in these figures.

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

Of this year.

And what are the contribution of DIRECT LINE to net results been?

Well, as I mentioned before, the business will be profitable this year. And we think that it could be in the order of between €30 million and €50 million in the year coming and the next year.

Thank you. Silvia Rigol from BBVA asks what is the reason behind such a high combined ratio in EMEA, 102.7% in 2015 or 109.4% in the fourth quarter of 2015 And in Turkey, DIRECT LINE, could you provide us with more information on DIRECT LINE?

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

Hi, Silvia. On page 43, you can see the, combined ratio of EMEA. And it's been 102.6%. Here in EMEA, it's important to say that there has been the strong deterioration of Non-Life loss ratio due to mainly the cancellation of unprofitable contracts in France from the Assistance business. And also there has been - as we have said at the beginning of the presentation, (54:57) increase in Turkey in order to adapt to regulatory changes in that country. So, these are the main items that have affected the combined ratio there in EMEA.

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

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Thank you. Thank you, Mrs. Núñez. Niccolo Dalla Palma at BNP Paribas has a question regarding debt leverage. You are at the low end of debt leverage in the sector. Other companies in your situation have promised to increase the leverage and return the money to investors. Will you consider such an option?

Well, our position in leverage is traditionally very prudent. We will continue in this way. This is true that we are in a position that allow us to increase leverage, but the current conditions of the markets with high volatility are not the better. But even if it is, we will - first of all, will have no necessity of increasing leverage in order to maintain our dividend policy.

On the other hand, as you can see in our structure of capital, we have very low levels of debt, and we can increase that in any case if it's necessary in the short term or the medium term, but the short-term conditions are not the better for this.

Thank you. Esther Castro from Banco Sabadell would like to know the duration of assets and liabilities. Are you considering real estate in the calculation?

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

Our asset duration is slightly under seven years at the end of 2015. Real estate is not included in this calculation. Non-Life duration has remained almost stable throughout the year. And regarding Life portfolios, as you know, over 40% of them are matched. That minimizes the interest rate risk.

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

Thank you, Mrs. Núñez. The following set of questions come from Michele Ballatore at European Insurance Research and Rahul Parekh at JPMorgan. You have released a combined ratio target below 96% I believe in 2018. How and where do you think you will compensate the effects of the new Baremo and the deterioration of the underwriting profitability in Spain?

Can you please give us some details about 2015 total cash generation and its upstream to the holdings by geographical division? Have you planned to do an ad-hoc presentation for your 2016-2018 strategic plan?

Well, in terms of the target of the combined ratio, we keep our target even if the conditions of the combined ratio in Spain, especially in Motor will be tough. We have made a lot of - we have been repeating of a lot of measures in order to keep the combined ratio in Motor insurance in Spain lower than our competitors and in levels that allow us to keep the combined ratio.

The impact of the Baremo is an impact that will be especially strong in the first half of the year. But the increases of tariffs we have made that will be applied - has been applied and we will continue to be applied will allow us to improve dramatically the combined ratio in the second half of the year in Spain. On the other hand, the combined ratio of this year is a combined ratio that is especially high due to the loss ratio also in other countries where

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we foresee an improvement especially in the USA where the tough conditions of the last year are difficult to be repeated.

In terms of upstream of the dividends from the companies, Natalia will - can you give us some details?

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

Yes. Yes. Just to say that today we will release at the end of the day the individual accounts of the holding company, and there you could see the upstream of dividends, but not for regional areas, but for the legal entities that we have. So, you will have the chance to see the upstream of dividends there today at the end of the day.

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

They will have the detail of every company and the dividends that are upstreamed for each company.

Thank you.

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

I think there was another one. I think, sorry I missed out. Have you planned to...

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

Have you planned to do an ad-hoc presentation for your 2016-2018 strategic plan?

In terms of upstream of dividends?

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

About - Yes, we think our president in the general account will give us more color about this. So we think it's much better to wait till then - that moment to a general meeting.

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

In any case, there will be an - this year - last year was a year, a special year where there were less dividends coming from the USA obviously and more coming from Spain. In the near future, we will have a more balanced contribution dividends according to the contribution of the net results you can analyze in the presentation in a more normal situation.

In terms of remembering more normal situation, usually, USA represents roughly between 7% and 10% of this and Brazil is contributing well. But LATAM contributes (01:02:30) this year also. The special contribution of this year, and I'm talking about 2015, was due to the extraordinary situation in several countries that we have talked to you (01:02:46) before.

Thank you very much. The following set of questions refers to strategy, Niccolo Dalla Palma asks, in the video on your website you mentioned that you want to generate profits in every business line and market in which you operate. What are your return on equity targets you set yourself for each business line and markets you operate in?

And regarding mergers and acquisitions, do you see opportunities for other acquisitions?

Well, in terms of the setting of (01:03:22) return on equity, I think that the general meeting assembly will be in the framework for the presentation for the next three-year strategic objectives. And we will release the specific figures at that time. This is next month. In any case, we think that the return on equity this year is very low in comparison with the normal return on equity we are planning for the future. But I think that we will release the figures in the next month.

And in terms of is there an acquisition, as you know, we have an approach to the business that is mainly growth - organic growth in the main (01:04:36) in all the markets we have a presence. And we have an approach of merger and acquisitions that is only that merger or acquisitions that complement our strategic positions in strategic markets. In this way, there is no one in the short-term operations that we are looking for. But we analyze everything in the market where we have a presence.

Thank you, Mr. Tejera. Paz Ojeda, JB Capital also has a question on MAPFRE's future strategy. The increasing result in some businesses seems to indicate that there has been a certain relaxation in subscription criteria and provisioning. What measures will you take in to control the subscription policies at these various subsidiaries?

No. This is clearly not. What we have done is to be ahead of the problems as always in MAPFRE. But not we had a release in our traditional control and constant review at our business. This is more an exercise of transparency, and we show the problems when the problems arise.

We have a focus on profitable growth that will be - especially remarked in the strategic objectives for the three years coming. And this is in our core underwriting policy, as always. So, we will continue (01:06:36) putting in the first place the technical underwriting control, the tariff adjustment, and the prudent reserving which is the same that we have done. And the increase of the reserving we have done this year is due to the fact that there are new environments where we must be especially prudent - the Baremo in Spain that is a reality now, the changes in the situation in third-party liability in Turkey and the possible downturns of the economy in other countries. But this shows how MAPFRE acts when the problems arrive, and we have faced the problems immediately, not (01:07:50) the past.

Thank you, Mr. Tejera. We have further question on Brazil from Carlos Peixoto at BPI. What are your expectations on the evolution of the Agriculture insurance business?

Well, the Agriculture insurance business is a business where MAPFRE and Banco do Brasil, we are the leaders by far. And the reality is that is an insurance that is - has had high

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demand and usually is used to guarantee the credit that the farmers get at the beginning of the crop season. We have a market share that is very, very high, and we are the leaders by far, as I mentioned, and we have registered an increase in volumes in the year of 13.6%.

It's true that at the beginning of the year was a seasonality decline due to the fact that there was a lapse in the approval of the several subsidies. But when the federal subsidies finally were approved, the demand of the farmers reacted quickly. So, I think that this is a healthy market and the association of agriculture and insurance in Brazil is forecasting growth of 13% for this year also. So, I think that this is a business, obviously, where we will continue to lead the market and to take advantage of the situation of the high demand.

Thank you. We have another question from Carlos Peixoto of BPI. Should we expect financial income to remain under pressure over coming quarters?

Well, clearly, the low interest rates environment in the eurozone will clearly have an impact on the reinvestment deals. However, in the USA, the interest rate are heading upwards (01:10:20) for the first time in many years and should be a positive. And there is also high-interest rate environment in Brazil. And, well, this could offset the pressure we are suffering in the eurozone.

Michele Ballatore (01:10:45) has the following question. Could you give us some details about 2015 total cash generation and its upstream to the holdings paid by geographical division?

As Natalia said before, this is reported in the Annual Report and you can see it. And now...

Thank you very much. We have no more questions.

As there is no more questions I would like to thank you again for being with us in the presentation of result. And I hope to see you several of us in the coming days in Europe and in London and in any case, in the conference call, in the first quarter results in three months. Thank you again. Bye.

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