

Q4 2018 Earnings Call

Company Participants

- Antonio Huertas Mejías, Chairman & Chief Executive Officer
- Fernando Mata Verdejo, Director & Group Chief Finance Officer
- Natalia Núñez Arana, Investor Relations & Capital Markets Director

MANAGEMENT DISCUSSION SECTION

Natalia Núñez Arana {BIO 19480994 <GO>}

Good morning. This is Natalia Núñez, Head of Investor Relations of MAPFRE. We would like to welcome you to MAPFRE's Result Presentation for Full Year 2018. On this occasion, it's a pleasure to have Mr. Antonio Huertas here with us, our Chairman and CEO. He will give us a brief review of the main highlights of the 2016 to 2018 strategic plan as well as comment on the recent developments in our bancassurance agreements. At the end of the presentation, he will also participate in the Q&A session.

It's also pleasure to introduce our CFO and Member of the Board, Mr. Fernando Mata. He will take you through the main trends and figures of the year as in previous quarter.

Just as a reminder, during the Q&A, we will answer all questions received at the Investor Relation department, the e-mail address that we have available for you. The IR team will be available afterwards to answer any further questions you may have at the end of the presentation.

With no further ado, let me hand the call over to our CEO.

Antonio Huertas Mejías

Thank you, Natalia, and good morning, everyone. We appreciate you joining us today. I would like to begin the presentation by sharing a few reflections on what MAPFRE has accomplished throughout the last three years. First of all, we've been working hard to confirm MAPFRE's business model in a complex market, which will better position MAPFRE to meet the challenges of the coming years. The main focus of our strategy is profitable growth, as you know.

The drivers of profitability are the focus on core businesses, streamlining and downsizing by eliminating loss-making business, while the drivers of our growth are bancassurance and digital transformation.

I'd like to highlight first Iberia, which is the perfect example of the outcome of a successful profitable growth strategy, where we now have a best-in-class combined ratio under 91%

in Motor, well below our peers. Second, the success of our 80/20 plan. It has been successfully implemented across regions and over €1.3 billion in unprofitable business premiums were cancelled over the last three years.

Also in the U.S., the exit plan was carried out quickly and with the limited impact on our P&L accounts. In addition to that, we have streamlined our organizational structure and simplified operations in the U.S. as well as at the GLOBAL and ASISTENCIA while strictly monitoring cost across all geographies.

Moreover, on the growth side, we have enhanced our bancassurance footprint through our agreements with Banco do Brasil, Bankia and Banco Santander, Spain, which I will discuss later on. Finally, we are very committed to investing in innovation and our digital transformation. We are adapting our business to changing markets and client needs. For instance, last year the digital business in Spain was up 56% in Spain.

Please turn to slide 3. We faced several headwinds during the last three years. Firstly, foreign exchange movements. For example, the dollar was down 6% over the three-year period. The Brazilian real was down 14% and the Turkish lira 45%. On average, FX movements lowered our annual premiums by €0.8 billion per year.

Secondly, capital markets have also been a drag on results. We saw a strong fall in yields in Spain as well as in Brazil with yields down over 700 basis points. Also equity markets have been highly volatile. Finally, there was a higher frequency of natural catastrophes. In 2017, hurricanes, earthquakes and the Coastal Niño had a net impact of €184 million in our accounts. This year, we faced a €108 million loss from the typhoons in Japan and U.S. winter weather.

Please turn to the next slide. Despite these headwinds, we continue demonstrating our strong commitment to shareholders. For 2018, the final dividend to be proposed to our AGM stands at €0.085. Therefore, the total dividend for the year will amount to \$0.145, which is equivalent to an 84% payout ratio or 64% when adjusting for goodwill write-downs. Our financial strength and capacity to pay dividends remains unaffected by these write-downs, which are non-cash items.

The 5.5% dividend yield for 2018 results is based on an average annual price of €2.65 per share.

Please turn to slide 5. I'd like to briefly comment on the recent developments in our bancassurance agreements. Last November, we formalized the reorganization of our agreement with Banco do Brasil. This reinforces the existing agreement with our partner. It enables us to leverage MAPFRE's expertise and proven track record in the Motor business.

At the same time, we are simplifying business strategy execution. The consideration was €519 million. In Spain, MAPFRE VIDA will acquire 51% of the insurance entities formerly belonging to BMN, now owned by Bankia for €110 million. The scope of the current alliance for Non-Life will be extended to BMN network with a payment of a little over €51 million.

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This strengthens our distribution footprint in Spain, bringing in 400 branches more in exclusive agreement with MAPFRE.

Finally, we recently announced a new exclusive distribution agreement in Non-Life in Spain with Banco Santander that establishes a new company in which MAPFRE will hold 50.01%. This company will distribute Motor, Commercial and SME Multirisk and TPL products through Santander's network in Spain with over 4,000 branches. The payment for this deal will be €82 million and operations are expected to begin by the last quarter of 2019. With these bancassurance agreements, now we have more than 10,000 bank branches selling our products, probably is the most extensive bancassurance network in Spain selling insurance products.

Please turn to slide 6. As a summary of the main figures for the three-year period, I'd like to remark. The technical account has affected by NatCat in 2016 (sic) [2017] and 2018, which hurt our combined ratio considerably with an impact of over 1 percentage points in 2018 and 1.75 percentage points in 2017. The expense ratio has surpassed the target. We have managed to maintain the ratio within the targeted limit while, at the same time, reinforcing investment in innovation and digital transformation.

Regarding income, the headwinds from currency movements and the volatility in capital markets have been a drag on the top line figures. Despite consistent local currency growth, depreciation of the majority of currencies has hurt euro figures. The ROE reflects the previously mentioned headwinds. So, it has been tough to reach such a challenging target.

Despite all these headwinds, our commitment to shareholders is firm and we have managed to pay almost €1.4 billion in dividends during the last three year period.

Thank you. I will now hand the call over to Fernando Mata.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Antonio. Good morning, everybody, and thank you all for being here today. Let's begin on the slide 7, where I will run through the main figures.

First of all, I would like to highlight that our annual key figures show that we are still facing significant drag from currency movements, especially for our two largest exposures, the U.S. dollar and the Brazilian real, but to a lesser extent during the fourth quarter. Premiums are down 4%, but are up 2% at constant exchange rates.

The net result stood at around €529 million, down over 24%, driven by goodwill write-downs. Excluding this effect, the net result, we have exceeded €700 million. Shareholders' equity is down 7% year-to-date as a result of market volatility affecting currencies and the financial investment portfolio and also, the impact of the Banco do Brasil agreement.

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Our combined ratio closed at 97.6% and reflects the strong contribution of the business in Iberia as well as the impacts from typhoons in Japan, U.S. snowstorms and balance sheet adjustment in Brazil. The ROE was 8.4%, excluding goodwill write-downs.

Please turn to next slide and I will comment on the goodwill write-downs. The current macroeconomic context is creating uncertainty and volatility in the market. The main factors are, first, volatility in emerging countries; second, social and political instability, especially in Europe; third, a gradual slowdown in global economic growth; and last, an increase in frequency in catastrophic events.

We believe that these factors will continue affecting the business in the future. And in this context, we have slightly lowered the medium and long-term outlook for some of our units. And consequently, we wrote down €173 million of goodwill from MAPFRE USA, VERTI Italy and ABDA at year-end.

The details are on this slide. Finally I would like to highlight the €1.3 billion reduction of intangibles since 2012 following MAPFRE's prudent approach. These reductions have left our balance sheet in a healthier position for the future.

Please turn to slide 9. Currencies had a relevant impact from January to September, but the good news is that the Turkish lira, the Brazilian real and the U.S. dollar were up in the last quarter of the year. We expect the drag from ForEx movements to be lower in the coming months. The restructuring process is gaining momentum this year in the U.S. and Brazil. In Brazil, the appointment of a new CEO and the implementation of MAPFRE's Non-Life business model will be important catalyst for improving results in Motor.

In North America, Puerto Rico is performing well after 2017 NatCat events, while we are still closely monitoring loss-making states in the non-Northeast region. We expect this year to be a turning point for both the U.S. and Brazil business.

Iberia, LATAM North and South and also MAPFRE RE maintained excellent profitability levels. ASISTENCIA and GLOBAL RISKS have improved significantly with pre-tax results at ASISTENCIA now near breakeven.

Trends are improving in the Life business with underlying profitability in the Spain growing. Life-Savings premiums in Spain have also been excellent even when excluding a large group policy issued in the third quarter.

In Brazil, has been a modest return to growth in Life Protection, but profitability is still catching up. Our capital position remains quite strong with a Solvency II ratio at almost 208% at the end of September, and a pro-forma ratio of nearly a 196% adjusted for the closing of the new agreement with Banco do Brasil that took place in November. I would also like to mention that MAPFRE's strong financial position and outlook have been confirmed or upgraded by the main rating agencies. All of this has allowed us to deliver dividend stability, reaffirming our commitment to shareholders with a final dividend proposed to the AGM of €0.085.

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Please turn to the next page. On the right side you can see the main drivers of results by region and business unit. Iberia continues being a strong profit contributor with a €481 million net result and solid underlying performance. As you remember, last year's result included extraordinary profit from the cancellation of a bancassurance provision and also the sale of the Union Duero business.

MAPFRE RE was the second largest contributor with €149 million net profit with a strong performance despite NatCat events. LATAM North and South continued contributing significantly to the group results, while it is still too soon to see the results from restructuring measures in Brazil. Finally, the turnaround at MAPFRE ASISTENCIA and GLOBAL RISKS has also helped support results this year.

Please turn to slide 11. In Iberia, we've seen excellent growth levels both in Non-Life up 7% and Life up 5%. And we are outperforming the market in our main lines of business. The combined ratio is under 94% with an outstanding 90.8% in Motor, well below the market average. In Brazil, we're beginning to see a pick-up in local currency growth, 4% in Life, 6% in General P&C, while Motor growth is still flat as a result of our stricter underwriting approach.

Regarding profitability, the Motor business is still underperforming, but we expect profitability measures to deliver in the coming quarters. And we reaffirm the combined ratio target of below 100% in three years. At year-end, certain Non-Life balance sheet adjustments were reclassified from P&L to reserves, to be consistent with local accounting standards, with a positive net impact of €27 million on results. Finally, lower financial income and higher acquisition expenses are also still weighing on results, especially in the Life business.

In LATAM North and South, there are positive premiums trends in Mexico up 9% in local currency, in Peru up 10%, and there is a solid growth across Central America. Premiums in Chile are still down due to the cancellation of unprofitable business, which is having a positive impact on results. In addition, the sale of a building had a €25 million net impact on group results. Finally, in Colombia, additional provisions have been made in annuity and workers' compensation run-off portfolios as a result of updating long-term financial assumptions.

In North America, stable premium trends in the Northeast USA are helping mitigate the fall in other states, while premiums in Puerto Rico are up 23% in dollars as a result of higher tariffs in commercial lines.

Please turn to slide 12. In EURASIA, Italy continues growing with an improvement in the technical result. Turkey is facing a reduction in its Motor portfolio, which has a higher combined ratio due to both the 2017 MTPL regulation and high inflation. In Malta, premiums are up 11% year-on-year, thanks mainly to Life-Savings. Profitability is excellent at MAPFRE RE, despite large NatCat claims in the second half of the year. The typhoons in Japan and U.S. winter weather-related claims had a total impact of €97 million. Again, business diversification and effective risk management have been key to maintaining consistent performance.

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Finally, ASISTENCIA and GLOBAL RISKS continue reducing premiums as a result of ongoing business restructuring. As you can see, the improvement in underlying results in ASISTENCIA was nearly €60 million and profit before tax is now very close to breakeven. The turnaround at GLOBAL RISKS was also impressive with an improvement of €90 million in absence of relevant cat loss this year.

Please turn to slide 13. Here I would like to summarize the extraordinary impact that affected results this year. Losses from weather-related and NatCat claims are €75 million lower compared to the previous year. Hurricanes and earthquakes affected direct insurance, MAPFRE RE and GLOBAL RISKS in 2017. This year, there have been severe winter storms in the U.S. in the first quarter with an €11.7 million net loss for MAPFRE USA and another €9 million approximately for MAPFRE RE.

Also typhoons in Japan in the second half of the year, mainly Jebi, had an €87 million net impact on MAPFRE RE accounts. There were several corporate transaction in 2017, disclosed on this slide, with a positive net impact of around €14 million. This year, corporate transactions include a negative €7 million impact from the U.S. exit plan and a €9.4 million hit from the restructuring of GLOBAL RISKS offices in Europe.

Realized gains are slightly up year-on-year. Real estate increased as a result of the sale of a building in Chile, as well as other real estate gains, mainly in Iberia. Gains from financial investments are down in a volatile market context. Finally, 2017 figures reflect extraordinary income from the U.S., Brazil and Spain for a total of €93 million. You can see the breakdown on this slide. Taking into account all these impacts, the adjusted net result, you see the last lane, is up over 5%.

Please turn to slide 20 where I will briefly comment on the balance sheet and solvency. Shareholders' equity has fallen this year by over €600 million to around €8 billion. The two main reasons behind this change apart from results and dividends are first, market movements, mainly the fall in the value of the available-for-sale portfolio as a result of the drop in equity markets at year-end and rising yields in the U.S. and Italy, as well as currency conversion differences. And second, around €200 million are due to the reorganization of our agreement with Banco do Brasil.

I will also like to highlight the important role that the U.S. dollar has played as a natural hedge on our balance sheet. As you can see on the chart on the right, the U.S. dollar appreciation has helped offset other negative currency movements from Brazil and Turkey.

Please turn to slide 21. On the right, you can see that assets under management are down slightly since the beginning of the year. This is driven by volatility in the stock markets and peripheral bonds as well as currency movements, mainly the Brazilian real. The breakdown of the investment portfolio is on the left. Asset allocation has been relatively stable throughout the year, and our cash position is up from €1.9 billion to €2.2 billion at year-end, mainly as a result of temporary cash balances at operating units, mainly Iberia. The largest exposures correspond to a Spanish sovereign debt with €16 billion similar to last quarter. In Italian sovies, our exposure is €2.9 billion, close to the €3 billion limit recently approved

by the board. It's worth highlighting that over two-thirds of these positions are located in immunized portfolios as you can see at the bottom-right chart.

On slide 22nd, we will look at our actively managed investment portfolio. Our portfolio yields are still quite high, 2.1% in Non-Life and nearly 4% in Life, well above market yields. Duration in Non-Life has slightly increased throughout the year to keep accounting yields stable. Realized gains in the euro area reach €144 million during the year with outstanding performance given the current challenging context. Again, we highlight the flexibility of MAPFRE's portfolios to generate gains even in an adverse financial scenario.

Please turn to next slide. On the left you can see the breakdown of the capital structure, which amounted to €11.9 billion. Our credit metrics remained quite strong with leverage under 23% and interest coverage of 18 times earnings before interest and tax. Our financial strength continues to be affirmed by the main credit agencies. Fitch just recently affirmed MAPFRE's issue rating at A-, while upgrading the financial strength rating of our subsidiaries in Spain from A to A+. We now have €510 million undrawn on our credit facility, which gives us significant financial flexibility.

On the next slide we will take a look at our solvency figures. The Solvency II ratio stood at almost 208% at September 30, above our 200% target range, confirming MAPFRE's strong and stable solvency position even in a year marked by high volatility in capital markets. These figures include €500 million of subordinated debt issued last September within Tier 2 funds. The reorganization of our agreement with Banco do Brasil will have a 12 percentage point impact on year-end solvency ratio, which pro forma stands at 196%, 177% fully loaded with 89% of eligible own funds in Tier 1.

Thanks. That's all from me for now. And I hand the call back to Antonio Huertas for the closing remarks.

Antonio Huertas Mejías

Thank you, Fernando. Before the beginning of the Q&A session, I would like to reflect again on the achievements of the last few years. Firstly, we have managed to transform MAPFRE's business model in a highly complex market. Secondly, we have continued with a focus on profitable growth with relevant regions contributing significantly to results. Iberia, MAPFRE RE, LATAM North and LATAM South are the best.

Thirdly, we have also strengthened our distribution capacity by enhancing our bancassurance footprint. Moreover, we are confident in the future of Brazil. The economic and political situation is improving and we will be able to optimize the new agreement with BB in a more favorable environment. On top of that, U.S., we are now beginning to see the effectiveness of the profitability initiatives already implemented, and we are carefully monitoring profitability in underperforming states. Finally, MAPFRE has delivered dividend stability in a challenging year, proof of our strong commitment with our shareholders.

That's all from my side. Thank you for being here with us today. I will now hand the call over to Natalia to begin the Q&A session.

Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you very much, Antonio. We can start with a Q&A.

Q&A

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

The first question comes from Rahul Parekh of JPMorgan and Andrew Sinclair at Bank of America Merrill Lynch. They ask about MAPFRE's exposure to the Vale event in Brazil, and how much it is reinsured?

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

Thank you both of you. First of all, I would like to say it was a horrible claim loss and with a lot of fatalities. We feel quite sorry for those guys and for people that passed away due to the loss. But the claim, let's say even being on the headlines and the news, the claim is part of our ordinary claims experience. As you very well know, MAPFRE has low appetite for these large industrial risks and we have low retention levels for this type of risks. In any case, we haven't had a proper estimation so far, but in any case, according to our retention, the worst case scenario will be one single digit loss for this loss.

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

Okay. Thank you very much. Also, Andrew Sinclair at Bank of America Merrill Lynch has sent us the following questions on MAPFRE RE. Can you provide color on the NatCat losses in Q4? And how much of the losses were from wildfires versus Japan loss-creep?

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

Thank you, Andrew, again. We have disclosed the most relevant losses in both our analyst presentation and also the financial – the Management Discussion and Analysis report, which is available at the CNMV Files website. It has not been an easy year and nor an easy quarter, last quarter, with a lots of medium-sized catastrophe events, but fortunately we've been able to manage and to handle the situation.

Let's say that those catastrophe events that we haven't disclosed in our report, they were not material for MAPFRE RE as a whole. And we're quite happy with MAPFRE RE's results. In a very adverse situation and very challenging context that we're going to report €149 million net profit this year. We wouldn't like to blame bad luck for those recurrence of cat losses. As we mentioned during our presentation, what we've seen is an increase in the frequency in cat loss and the group and MAPFRE RE has to be prepared and they are prepared in order to handle this situation.

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

Okay. Thank you. Ivan Bokhmat at Barclays mentions that MAPFRE's loss from 2017 NatCat events has gone down to €155 million from €164 million as of 2Q 2018. At the same time, other primary companies and reinsurers continued to experience loss-creep. Can you please comment on this?

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

Yeah. Thank you, Ivan. After one year and a quarter, we released our first estimation of the 2017 NatCat losses in the Caribbean area and we're extremely proud of the estimation we made. Last year, we reported a positive loss development of retention loss. And this year, our gross losses have been increased somehow with - but only €2 million, again positive runoff in net losses. And it's basically thanks to our reinsurance protection. As I mentioned as well during the three quarter presentation, we are extremely prudent in our cat coverage. And we bought last year and we still have significant excess reinsurance capacity to cover any further potential deviation. And the net retained losses are not expected to change. So, all-in-all, for those losses, it was a deviation in the gross estimation, but in terms of retention, it was negligible.

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

Okay. Thank you, Fernando. This one comes from Paco Riquel at Alantra Equities, it's regarding USA business. Can you update on the restructuring plan made in the U.S. to-date? What would be the clean combined ratio on profits in 2018 with the pro forma perimeter that you will keep in 2019? What are the new initiatives for 2019?

And also in this line, Ivan Bokhmat at Barclays would like to know the following. You have mentioned U.S. geographic footprint is still being monitored. Should we expect more transactions in 2019?

A - Antonio Huertas Mejías

Thank you, Paco and Ivan. Many questions about the U.S. It's really important to clarify our position about the U.S. Now, we are happier than we used to be a couple of years before. Actually, we are executing our plan with great success. As you know, last year we executed the exit plan quickly, exiting from five states, and with a limited impact in our P&L. In the last quarter of the year, we received the regulatory approvals for the two transactions that were still pending from registration, New York and New Jersey.

Last year, the exited states had net losses of €11 million, of which €7 million were related to the cost of the exit plan, and lower than the €18 million loss in 2017. Looking forward, we must take into consideration that in these states where the exit was by the sale of renewal rights, for example, in the case of New Jersey, it will still take some time to see results as the policy will reach renewal and roll out our books.

In terms of the future, and our presence in the states, we are monitoring very carefully the loss-making states. And regarding new initiatives and guidance for 2019, we plan to offer you further details at the AGM and our Investor Day. Nevertheless, I have to maintain our commitment with the operation in U.S. We think we have to work with more rigor, with more technical discipline, and trying to reach out our main goals. I know that it is very

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difficult to working in many states where we don't have enough scale, but we are doing our best to improve our presence in some of them. You know our privilege presence in Northeast region is very relevant. We are getting excellent results from this region and we expect to copy or to translate our best practices to other states where we are doing better. For example, California, California is a state where we had a couple of years ago huge losses, and we implemented a plan to get over from this situation in Motor mainly, and actually - and nowadays we have - we are closing - we are close to reach the breakeven point in this operation. We think that we have excellent knowledge about the American market, and we have to do our best to reach this goal.

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

Okay. Thank you very much. Now, the following set of questions is with regards to a strategy and guidance. Ivan Bokhmat at Barclays had a question regarding premium guidance. What premium growth do you consider sustainable with the current footprint at constant FX rates?

A - Antonio Huertas Mejías

Yeah. Thank you, Ivan, for your question. But I think it could be better answered to at our AGM and Investor Day where we'll reveal the details of our strategic plan and financial targets. We do not expect any major deviation from our current strategy. But there will be a greater focus on transformation and innovation in order to adapt the company to new markets. We are looking at where we want MAPFRE to be in the longer term, not only in a three-year plan. Regarding a specific financial target, it's still soon to discuss, but we must take into consideration the current market context. There are already strong signs of slowdown in the global economy. Political uncertainty in Europe should continue in the short to medium-term, and there is uncertainty and volatility still in emerging countries. Furthermore, we are expecting a pickup - we aren't - sorry, we aren't expecting a pickup in yields anytime soon, as Fernando said.

In addition to these external factor, our new strategy will continue to be focused on profitable growth, stricter underwriting and back to basics which is what will allows us to continue to be a state-of-the-art insurance company together with our investment in innovation and digital transformation.

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

Okay. Thank you very much. Next question also regarding the strategy and outcome is from Niccolo Dalla Palma. What level of financial gains and losses would you expect in the coming years, particularly on financial investments? Are the €85 million, €100 million of the last two years a good guide for the future? And I guess €85 million to €100 million is realized gains.

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

Yeah. Thank you, Niccolo. This is Fernando. This is a permanent, let's say, question and discussion within MAPFRE as well. And sometimes, we said that the realized gains and extraordinary for us is part of our recurrent business. We have a lot of money, I mean, put in the equity portfolio and we should get a relevant gain out of this risk. Difficult anyway,

because the outcome is not – the outlook is not very positive but, let's say, that the financial portfolio and also our real estate portfolio, I mean, is quite flexible. And even in a very challenging situation, we've been able, I mean, to keep the same pace, a recurrent and stable pace of capital gains.

Regarding real estate, we still have a quite comfortable cushion, approximately €800 million before taxes, like €600 million of unrealized gains. Most of the time they are concentrated in units in Spain. We believe that the real estate market is still quite active, and we have some units in the market, and we believe we will be able to sell some of them.

Regarding financial investment, which is your main – or, let's say, this is the main point, first question. Last year, we made gains both in fixed income and also in equities. At year-end, the market was extremely difficult with a significant drop in December. We are a little bit more optimistic regarding the equity markets. The first quarter – or the first month is quite promising. And we'll do our best and we are trying to repeat since for MAPFRE it's a recurrent flow of business, and we're trying to keep the same pace of realized gains in 2019. But, it is not a promise, I mean, not our commitment, but let's say that the history shows that we made it, and we can repeat it as well next year.

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

Okay. Thank you very much. And the next question is from Michael Huttner at JPMorgan. He had a question regarding the business units affected by the goodwill write-downs. Does the big goodwill write-down in the U.S. and the low profits of the U.S. operations an opportunity for MAPFRE to continue its strategy of exiting loss-making units? Does the goodwill write-down on ABDA and on VERTI Italy suggest you could also reduce your exposures there? And finally, from Paco Riquel that also had a question regarding the Italian operations, what are the plans for the Italian operations after writing down the outstanding goodwill?

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

Go ahead.

A - Antonio Huertas Mejías

Thank you, Fernando. I have to say that we have – we have already taken a very brave decision about the write-downs in U.S., Italy and Indonesia. Starting with the U.S., as I said, for us U.S. is a strategic market. We know that we haven't reached our goals in the last three, four years due to many, many factors. We have taken into account that we acquired the operations more than 10 years ago and the markets – and the market context has changed significantly and quickly since then. The write-downs carried out this year reflect a lower economic and profitable outlook for these units for the medium and longer term and reflect a revised business plan.

Regarding reductions in exposure in a specific estate or market, MAPFRE is constantly analyzing its profitability across the markets and when necessary, we have proven our flexibility to quickly exit non-profitable segments like we did in the U.S. and well as in the Life business in Peru and other markets. Specifically, regarding Italy, we are seeing

relevant improvements with a strong reduction in losses. I said in the presentation that we are - we have reduced our losses in the country and we are closer to the breakeven point. And the combined ratio is lowering little by little.

The restructuring processes were harder, probably more than we initially thought at the time of acquisition. And after a tough and prudent review of this business, we have already implemented the measures needed to see the foundations for profitable growth. Italy is in a very difficult situation as a country, as you know, just recently entered in recession. Therefore, we have updated our medium and long-term outlook reflecting the goodwill write-down that took place at year-end. We will still need some time to reach optimal profitability level in this market, but the turning point is just around the corner.

About - Indonesia it's a market where we entered three years ago. We are still knowing the market and we need more time to adapt the business model to MAPFRE business model and to get the most out of the market. We think that we can learn a lot about the Indonesian market and we are trying to be more prudent because it's a difficult market. The situation with the emerging countries is not easy and we should be very prudent doing business there. But at the same time, we think that it's a promising market and in the future it can be a very profitable business unit.

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

If I may add something regarding probably you know my opinion regarding - regarding the goodwill accounting standards. You know that IFRS accounting standard regarding goodwill are pro-cyclical. This means that the adverse economic cycle with a decrease on future performance expectation bring about the goodwill impairment. So the difficult year reflects the, in P&L both lower underlying results and also the goodwill write-downs.

And following our prudent policy, accounting policy, we have moderated expectations in some of our regions with a partial goodwill impairment in our profit and loss account in order to avoid the pro-cyclicality, difficult word in English, I already mentioned. So, what we're trying is to smooth this perhaps big bang or big shot that other companies are reflecting in the P&L, when they don't apply a partial impairment or write-downs, and what they do is just a write off of the entire goodwill.

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

Okay, thank you. Next question is from Maripaz Ojeda at Banco Sabadell. You have undergone an intense restructuring process during 2018, but there is still weak evolution at some businesses like U.S., Motor in Brazil, Verti Italy and Argentina. Do you think all adjustments have been made, or should we expect further adjustments going further?

A - Antonio Huertas Mejías

Thank you, Paz. Actually, we have done what we know now. We have information about the evolution of the economies and our business in some countries, and we have lowered our expectation in these markets. The write-downs carried out this year already reflect a lower economy and profitability outlook for the affected units for the medium and long term - and reflect a revised business plan.

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Within our prudent balance sheet approach, we consider that this adequately reflect the new scenario. About Brazil, as I already said, we are very confident in our ability to leverage our expertise in this business within the new agreement, as well as take advantage of the improving macro scenario. You have to think that a couple of years ago, we had ahead of us many uncertainties. The Brazilian economy was in recession. The political uncertainties were high and we didn't have a clear scenario. But now, the majority of the uncertainties have been cleared and we are very positive. We have made many changes in our technical management approach. We have also changed our main executives in the country and we are reaching new - we are opening new avenues for profitable growth in the country.

Finally, regarding Argentina, we have to accept that the current economic scenario in the country is very, very complicated. The participation of the IMF might contribute to a stabilization in the medium term. We expect the country to recover progressively. We know well Argentina. We have been working in Argentina since 1986 and we have seen all types in this country, we have seen all types of economic and political situations, even worse than the present scenario. We are fully committed with the country and we will stay in this country because we think that we can grow in a very safe perimeter. We have a defensive operating model in Argentina and we are - we are in a very moderate way, optimistic with our future in the country.

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

Great. Thank you very much. Next set of questions are regarding Brazil, and these questions have been sent by Francisco Riquel at Alantra, Niccolo Dalla Palma at Exane, Andrew Sinclair at Bank of America Merrill Lynch, Michael Huttner at JPMorgan. First one is, can you explain the €197 million charge directly against equity related to the Banco do Brasil deal and the impact on Solvency II ratios?

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

Yeah. Thank you all of you. The agreement with Banco do Brasil implied a payment of approximately 520 - €519 million, and practically there's two components to this amount. First is the net equity bought from the shareholdings, which is approximately equivalent to €330 million. The other is the excess paid over this net equity, which is €197 million and then the remaining is currency conversion differences.

So, let's say, that this virtual goodwill paid of €197 million according to IFRS, was booked against reserves because the - it was subsidiaries already included in the consolidated accounts, so an increase in the shareholding has to be an increase - sorry, our goodwill - the amount paid in excess of the equity has to be booked against reserves rather than recognized, rather than booked a goodwill in our assets.

Impact on Solvency II has been disclosed both in the Management Discussion and Analysis report and also the presentation. Fully loaded is - the Solvency II ratio would be 177% and the Solvency II ratio is 195%, more or less.

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

Thank you. Next one is, can you update on the restructuring plan for Brazil? How rapid will you get to the 12% ROE target, given that the combined ratio has already fallen to 85% in the Q4 standalone? What is an underlying run rate for the combined ratio in this region?

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

Yeah. Thank you. This has been an improvement in the last quarter, thanks to better margins in new business, particularly in Motor. And as I mentioned in several occasions, we are re-implementing (sic) [implementing] initiatives to streamline the organizational structure and also processes, mainly in Motor, but also in other lines of business as well.

We are confident with the three-year targets we announced for Brazil, we haven't changed. And how far and how fast we are trying to do it (00:53:10). I mean as far as we can and also the faster we would - we can as well. But the important thing is we don't want to make mistakes and also we're going to do it step-by-step in order to be sure that all the initiatives are implemented in the right directions and in order to deliver as soon as possible.

The targets announced, if I can remind you, the combined ratio below 96% in Non-Life and below 100% in Motor line in three years. And we guess that the improvement of results in this period will allow achieving the level of ROI, return on investment, that we unveiled as well, which is, if I remember well, 12%.

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

Thank you, Fernando. Next one is regarding Brasil Life. Brasil Life had very weak Q4, what were the main causes of this quarter-on-quarter drop?

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

Yeah. It was - the most relevant accounting during the fourth quarter, it was the variable commissions booked at December as a result of the bancassurance agreement with Banco do Brasil. This variable commission is linked to the fulfillment of the business plan and is applicable from January 1 to December 31.

The thing is, we couldn't book before, because we were waiting in order to have the contract fully formalized and it happened November 30. So, the entire variable commission was booked in December. Obviously in 2019, the commission will be spread all over 2019 without this fluctuation in the acquisition expense ratio.

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

Okay. Thank you very much. Next one comes from Paz Ojeda at Banco Sabadell. She asked about ASISTENCIA. Regarding the improvement, ASISTENCIA is still far from breakeven. What alternatives do you have for this business? Could you take any similar measures to those applied to GLOBAL RISKS measures?

A - Antonio Huertas Mejías

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Thank you, Paz. Now, I have a more positive view about MAPFRE ASISTENCIA. Actually, if we exclude taxes in 2018, MAPFRE ASISTENCIA got positive results, because it was closer to the breakeven. We think we are closer to the new development in a positive way of the company. And we think - we expect to reach profitability soon.

As far as we know, probably in 2019, MAPFRE ASISTENCIA will get into positive figures. We are now working in a new business strategic plan. In the last three years, we have made in ASISTENCIA many changes. We have rolled (sic) [ruled] out many operations in some non-strategic countries and we have made many new - we have started many initiatives to back to the basics in order to have a more technical discipline and to have more control of the business.

Now, we are more focused on profitable markets and we are continuing closing businesses if they are not positive and we expect to continue exiting other markets and segments in the next few years, but we consider that MAPFRE ASISTENCIA is business - an important business unit for MAPFRE.

We use MAPFRE ASISTENCIA as an innovation unit and for development of products, not only for MAPFRE as well for other - for general markets. So, that's the reason we believe that MAPFRE ASISTENCIA is going to have a very positive development in the next three years and in the new strategic plan MAPFRE ASISTENCIA will have a very relevant place for us.

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

Thank you very much. Next set of questions are regarding Iberia. These questions have been sent by Francisco Riquel, Michael Huttner, Niccolo Dalla Palma, Ivan Bokhmat, Mari Paz Ojeda and Sofia Barallat at Caixabank. What are you observing in terms of pricing in Spanish Motor for MAPFRE and for competitors?

A - Antonio Huertas Mejías

Spain Motor is again in a very competitive situation. Many companies are trying to increase its market share and it's common in MAPFRE to be very prudent when we observe these kinds of market practices. In 2018, you know we had an excellent year in Motor. We closed the year with 20% market share, outperforming the market with a 2.2% premium growth compared to 1.9% for the market as a whole.

I personally think that MAPFRE has a very competitive position. We are beating the market, but as well we are doing many new things to improve our competitiveness. We work with new sophisticated market pricing tools and we have an excellent network distribution service as you know and we recently have increased this network with a new agreement with Banco Santander in Spain.

It's not, every year we have to think about the possibility of increase of the combined ratio in Motor insurance in Spain, it's true, because to get a 90% is really, really impressive. But we know probably it's not sustainable, but we think we're very comfortable to think about target of 92% as an average for the coming years in terms of Motor. The market is still

under pressure for competitiveness. It is very challenging, but we are increasing our market share even in big cities.

Madrid and Barcelona are very relevant markets for us and we think that we are beating our main competitors in these markets because of our strategy trying to get into these sophisticated markets. We are opening new sort of branches, trying to get the advantages of digital transformation, trying to have a more direct and relevant approach to our customers and creating new services and new advantages for them.

The loyalty of our customers is high and we are increasing this loyalty, reducing the turnover every year. We still maintain a gap with the market in the combined ratio - the market at September in Spain had 95% of combined ratio, 5 points higher than MAPFRE. And with our reduced spend (sic) [expense] ratio in Spain, we can continue doing more things to increase this market share.

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

Okay. Thank you very much. There has been an updating of Baremo. Have you included the impact of inflation in estimate for outstanding claims reserves?

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

Yeah. It looks like there is again noise in Spain regarding Baremo, but there is no changes. As you know Baremo homework was made in MAPFRE three years ago. I mean what we're doing is just releasing those complimentary reserves we booked in the past and particularly last year and also this year.

In 2018 again, MAPFRE has booked gradually the updating of Baremo compensation, but this is based on the inflation rate increase. That's it. So, there is no relevant effect in this year, because there is no change on the indemnities included in the Baremo. Having said that, in year 2019, the expected inflation rate is 1.6% and this is what we apply to tariffs and also the technical provisions update at year-end. That's all.

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

Okay. Thank you. Also regarding Spain, despite a lower impact of weather-related events in Q4 versus Q3, the combined ratio of general P&C doesn't show an improvement, why?

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

Yes, just one thing, just one comment and Q4 wasn't that good. What was extremely good was December, with no Cat events in the whole month. Obviously, Q4 was more benign than Q3 and also better than last year, but there were adverse weather conditions, particularly in September and November as well. September was the run off and primarily it was hailstorms August and September and usually I mean affecting agricultural business and the way we book is usually one month after the storm. And also flooding as well, there were floods all over Spain in September and October and November.

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

Okay. Thank you. Next one is regarding the impact on Solvency II from the two bancassurance transactions.

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

Yeah, regarding this question, I'm going to improvise, because we made the calculation for both the units in Spain, for Non-Life and Life, both transactions, it will affect like a 5 points reduction on Solvency II ratio for MAPFRE Life and MAPFRE Spain. We extrapolate this to the Solvency II ratio for the group as a whole, let's say that the impact should be negligible, I mean negligible, between 1% and 2% decrease on Solvency II ratio. So, nothing relevant.

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

Okay. Now is regarding the agreement with Santander, what shall we expect from the bancassurance agreement with Santander? Aren't you worried of some cannibalization with your core business?

A - Antonio Huertas Mejías

Good question. Probably we could be worried 10 years ago when we started doing business with other bancassurance agreements and when we started to do digital business with VERTI. Now, we have already answered this question, we are able to share different channels offering the possibility for customers to choose. It's important to work – now, it's important to work on omni-channel environment offering to our customers the possibility to choose themselves. For that reason, we don't know that new agreement with Santander could be sort of cannibalism for our channels.

We think that we're applying well our rules in order to maintain the competitiveness between all of them, Bankia, Bankinter, now Banco Santander, even CCM. And it's important that all of them are competing in an open market arena and without any specific problem.

In terms of – regarding to the agreement with Banco Santander, we are adding more than 4,000 branches in Spain. And with the omni-channel and omni-product approach, the client is the owner. The client is going to choose. We are strengthening our ability to reach clients with a differentiated offer and distinct strategy.

And we are very confident that we – in a very prudent approach, because you know some – it's usual that banks don't have any strong knowledge about the Non-Life products and they have to work little by little trying to share the sale approach that they have with the good service that companies like MAFRE can give them. For that reason we are very prudent with our business plan with Santander and we think that we now need to work every day trying to approach the synergies between both groups, Santander and MAPFRE.

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

Okay. Thank you. Thank you. Regarding the Spanish market also is the question. Are you interested in the process initiated by BBVA to find bancassurance partner?

A - Antonio Huertas Mejías

Okay. MAPFRE is always open to find out new ways to grow, but I can't say any specific words about this project. BBVA is a great bank as other banks and we have an excellent relationship with them.

In Latin America, we have a close relationship and we have been working with them with a specific distribution agreements for many years. For that reason, we can't say more. It's a relevant operation if it's really in the market, I actually don't know. But we are very confident that that we have the footprint that we know we want and we are trying to get the maturity of our current bancassurance agreements.

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

Okay. Thank you very much. Next one regarding MAPFRE RE, from Sofia Barallat at Caixabank. Could you please elaborate on the evolution of the life insurance gross written premiums of MAPFRE RE in the quarter?

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

Thank you, Sofia. Usually, we see a fluctuation in Life business particularly in our reinsurance business. But first of all, I would like to highlight or to mention to point out that there is no change on the MAPFRE RE strategy regarding Life business. Life is very important for MAPFRE RE, because it's part of the diversification and it's a strong contributor to the profit and loss accounts.

But as I mentioned in the reinsurance business and also when looking at the premium trends, I mean, I think my view is it makes more sense to look at the annual figures rather than quarterly figures. And this is due to the some size of the contracts and also depending on the time of issuance by the cedents, can be some volatility in the quarterly figures.

And also as we mentioned in our financial report, the only relevant fact is that the Life premiums have been impacted in 2018 by the cancellation of a group policy with a European ceding company. It was the only relevant fact regarding Life business.

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

Okay. Thank you very much. We are all now going to answer two more questions, because we are running out of time. You have further questions, the Investor Relation team will be available later. So, the last two questions and after these two questions, Antonio Huertas will do the final remarks for the full year results. These last two questions are regarding LATAM North, South and Brazil. Could you explain the evolution of combined ratio in LATAM North and LATAM South?

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

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Yeah. Thank you, Sofia, Michael, it will take hours, I mean, to explain the evolution of the combined ratio in both regions. We are extremely happy. As I mentioned in previous presentation, we're extremely happy with the evolution - with the development of both regions. Some years ago, it was hard to foresee both regions with combined ratio below 100%.

Some of you and they predicted it when we stay above 100%. Currently for LATAM North, a combined ratio, correct me if I'm wrong, but it stands at 98%, for LATAM South 97%. So, both are outstanding combined ratio for the region and it shows the capacity of MAPFRE to produce wonderful underwriting combined ratios - underwriting results in emerging countries in both regions.

If you have to summarize, in LATAM North, there is improvements in Mexico and in automobile practically across Central America. The only country which is facing difficulties is Panama and we are in the process of fix them. And in LATAM South, there is relevant improvements in Colombia and also in Chile as I mentioned. And we are seeing difficulties in, if I remember, Uruguay and also in Argentina due to the crisis.

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

Okay. Last one is Brazil, the 100% Motor combined ratio target used to be stated for 2020 three years. Is it now a target for 2021?

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

Yes. As we said, day-one for Brazil is January 1, this current year 2019. So, the target should be stated for 2021. That's my view.

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

Thank you very much. Now, the final remarks from Antonio Huertas.

A - Antonio Huertas Mejías

Thank you, Natalia. I do believe that we had a good year in 2018. Actually, we are satisfied with these numbers. They are good and solid in a very difficult and complicated market context, marked by currency depreciation, volatility in capital markets, low yields, higher NatCat events.

The main objective during the year was to maintain the commitment with our shareholders and we have taken the decision to maintain the dividend in this context, which is further proof of our commitment to shareholders. These results also reflect a prudent approach to balance sheet situation. We have preferred to sacrifice profit in the year in order to strengthen the company's position in coming years.

Looking forward, businesses that are performing well will continue to do so and underperforming operations are on the right path to improve.

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For all of these reasons, we think that the new strategic plan will be very positive and we are not doing many changes. In the next AGM and the Investor Day, we will give more, more details. It will be a continuous plan to maintain the transformation of the group trying to maintain the good margins of our business and in the majority of the markets where we do business and we would like to work, to put more focus on the digital agenda, trying to change internally as well and trying to transform the organization being one of the world leader in the digital insurance market.

Thank you for joining us. I expect you can attend to the next MAPFRE Investor Day. I'm happy to stay today with us sharing the MAPFRE 2018 result.

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

Thank you very much.

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

Thank you for joining us and bye-bye.

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

Bye. Thank you.

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