

Q1 2017 Earnings Call

Company Participants

- Fernando Mata Verdejo, Chief Financial Officer and Director
- José Manuel Inchausti, CEO of the IBERIA Regional Area
- Natalia Núñez Arana, Director-Capital Markets & Head-IR

MANAGEMENT DISCUSSION SECTION

Natalia Núñez Arana {BIO 19480994 <GO>}

Good afternoon, ladies and gentlemen. Welcome to the presentation of MAPFRE's Result for the First Quarter of 2017. It's a blessing to have here with us Mr. Mata, Mafre's CFO and member of the board. He will go through the key highlights of the quarter and will give you an overview of these essential main figures and business trends during this quarter.

Today, we also have the honor to have here with us Mr. José Manuel Inchausti, CEO of the Iberia unit. He will give us some details of his business and also participate in the Q&A session afterwards, if you need further information.

In order to improve our financial disclosure and respond to the feedback we have received over the last few months, this quarter we have introduced a series of improvements to increase the quality and transparency. We hope this more detailed analysis helps you gain better insight into our businesses. If you have any difficulties finding any information, the Investor Relation team is available to help with whatever you need.

Along with this document, the result presentation and MD&A report and an Excel spreadsheet have been made available for all of you in our webpage. According to this new structure, in-depth information on our businesses has been provided with the presentation only showing the key highlights.

As usual, at the end of the presentation, as time permits, we will answer all the questions that were sent to the specified e-mail address. The Investor Relation team will contact you later on to answer pending questions, if any.

Fernando, the floor is yours.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Natalia, and good afternoon, everyone. And good afternoon, José Manuel Inchausti. It's a pleasure for us to have you here.

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And regarding the new set of information, we hope it will be extremely helpful for you. This is a new set of documents and this is well-framed in the new increase of transparency, the transparency plan implemented by the Chairman, and also to increase our communication with stakeholders.

Let me take you through the highlights for the first quarter. During this period, we have seen an increase of over 9% in premiums due to an impressive 34% rise in the Life business and nearly 4% growth in Non-Life premiums.

Revenue shows a similar trend with 9% growth. We saw positive developments in the majority of the regions and business units, with outstanding performance of MAPFRE three largest operations as well as MAPFRE.

I would like to point out the excellent performance of the Life business in Spain thanks to the successful launch of new products and sales promotions, especially in RED MAPFRE, our agent channel. We have also seen a pickup in production in Non-Life, which is noteworthy when considering the ongoing process of canceling non-profitable portfolios.

Currency conversion have also had a positive impact on top-line figures thanks to the appreciation of the U.S. dollars and the Brazilian real. Finally, there was a slight fall in financial income, but is still proving quite resilient given the low interest rate environment in Europe.

Let's move to the next page. Regarding the combined ratio, it stood at 97.5% at the close of the first quarter. Expense ratio improved by 70 basis points to 26.7%, thanks to strict cost containment policies. And the claims ratio stood at 70.8% at the close of March.

These reflect improvements in the loss ratio that have been taking place in several markets, including; first, motor lines in Spain and Turkey; second, general P&C lines in Brazil; and finally, homeowner insurance in the United States. On the other hand, adverse weather condition in Southern Spain, heavy rain and winds and in Peru the coastal Niño phenomenon also impacted our operations.

We estimate both events costs are 1.2 p.p. loss ratio increase. Those are relevant, but there were also several large industrial claims at MAPFRE Global Risk. The net result down the page grew by 7.5% reaching €206 million with an ROE of slightly over 9%. This reflects higher profit in the Life business in Brazil and Spain, in part affected by the reversal of some provisions in the bank as well as business. Finally, Non-Life results continued to be quite solid in key regions.

Please turn to slide 6. Looking at shareholders' equity, we can see that it has been quite stable in the period on the back of lower market volatility and currency movement, with a slight decrease of €74 million, mainly due to the deduction of the final dividend to be paid this June and approved at the recent AGM.

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Assets under management have grown by almost 3% year-to-date, supported by, first, the Life business acquired by BANKINTER VIDA in Portugal; second, a positive evolution of the mutual and pension fund businesses with over 6% growth, framing in MAPFRE's strategy to grow in AM, asset management; third the rally in equity markets during the period; and finally, the appreciation of the Brazilian real 2.5% more or less.

Let's turn to slide number 7. I would like to point out MAPFRE's dividend policy, very well known by you, which is focused on creating shareholder value, with net results as the main driver for growing dividends. As you already know, our final dividend of €0.085 was approved at the AGM, taking the total dividend proposed against 2016 results to €0.0145 per share. Finally, the final dividend will be paid on June 20.

Let's turn to next page. And on this slide, we can see the overall distribution of our business by regional area. Just as a reminder, regional areas include business for an insurance unit as well as the business from MAPFRE Global Risk and MAPFRE ASISTENCIA, corresponding to each region. Assistance business comes mainly from EMEA and North America, while LatAm and Iberia are the most significant regions for Global Risk. As you can see, MAPFRE continues benefiting from a very well diversified business profile and with a good balance between mature and emerging countries.

The following slide we'll take a closer look at the results by business units and also by region. As you can see in the chart of the left, the insurance unit represent over 17% of the MAPFRE's business, another 16% approximately comes from MAPFRE RE and the remainder is split between Global Risk and Assistance.

Focusing on our territorial areas and business units, I would like to point out the following. First, the Iberia accounts for over 32% of the total premiums as a result of the continued pickup in production in main lines of businesses. Second, LatAm accounts for 27% of total premiums, which have grown by over 18% thanks to the Brazilian local currency growth in Brazil, and also the appreciation of the real.

And national with around 17% of premiums is growing thanks to a positive development in Massachusetts, our core market in the United States, and also with an additional push from the appreciation of the dollar.

Next, MAPFRE RE represents around 16% of the total premiums and continues growing and nearly 7%. Performance of the non-group business remains quite stable.

And finally, Global Risk is also growing at steady rates and MAPFRE ASISTENCIA has seen a fall in premiums due to, you know very well as well, the current assorting (9:47) in process that we're carrying out in this unit.

Let's turn to the next slide to look at the main movements in attributable results. It is worth pointing out the notable improvement in profit in Iberia where the positive developments in motor together with the reversal provision for contingent payments in the bancassurance channel. Both contributed to offset the bad weather conditions in Southern Spain during the quarter, mainly January and February.

In international, the improvement in the net result is due to the outstanding performance in Turkey, business are doing very well there, and to a lesser extent an improvement in the United States.

And third, Global Risk experienced a fall in profit during the year as a result of several large industrial claims and some concentration of (10:46) claims. This was a oil refinery in Abu Dhabi and also other significant losses in EMEA. MAPFRE ASISTENCIA continues with business restructuring and losses are mainly coming from operations in the U.K.

Please now turn to slide 11 when José Manuel Inchausti, CEO of Iberia, will present the information for the business unit he runs.

José Manuel Inchausti

Thank you, Fernando, and good morning everybody. It's a pleasure to be here today with you.

Going to my first slide, we are in page 11. I have to say that MAPFRE Iberia result in the first quarter has grown by 27%. This extraordinary growth reflects an important improvement, primarily as a result of the cancelation of a reserve for contingent payments in the bancassurance channel totaling €27 million after taxes.

We have had an increase in loss ratio going for weather-related events in the property lines that were compensated by the positive development of the combined ratio in other lines, especially motor.

The company, MAPFRE Iberia, MAPFRE Spain is implementing transformation process based in a number of initiatives. I would like to highlight a better customer value proposition focused on what we call the platinum customer, including free phone line for this type of customers, personalized services and preferred renewal conditions.

We are in the process of implementation a new broker segmentation with their corresponding value proposition. We have divided, splitted our brokers depending on criteria regarding size, relationship with MAPFRE and, of course, profitability.

We are starting a very deep digitalization of our claim processes. We have called e-claim these number of projects within these big objectives; modification on the reimbursement processes for medical and pharmaceutical services; enable online appointments in the customer area in MAPFRE clinics and also in our app; implementation of claims monitoring, et cetera.

We are launching new mobilized solutions for pricing policy writing, especially in motor, homeowners and health, and we are having succeed in these developments.

Regarding the - going to the next slide - sorry, going to the next part of the life insurance premiums. We have to say that we have a good growth of about 46%. MAPFRE growth in

the Spain is about 8 points above the average market growth, with a special emphasis on growth in savings, both in MAPFRE network that has climbed to 52% and also in Portugal, in which we are collecting very good results.

As I have said, weather-related events going to the combined ratio analyzed. Weather-related events in the first quarter have had a very important impact – significant impact on the combined ratio. We have about 60,000 claims out of the business as usual, with a total cost of €16 million, which implies 4 points in the general insurance business combined ratio.

In the next slide, page number 12, you will find more in-depth analyze on the Spanish motor business. Our premium growth in retail, speaking about retail, grew by 1.7%. This is impact by the cancelation of our basic product that is not longer being sold as a result of its high loss ratio.

MAPFRE growth is based on profitability. So, you can see by the average premium growth, which is from 2015, constantly up than the market average. Continuing with this strategy for profitable growth, MAPFRE Spain has implemented a series of measures to control and to reduce claims and expenses.

All of these measures altogether has going to drop 2 points our combined ratio, which is 2 points below the market. At the close of the first quarter of 2017, we have this motor insurance combined ratio improved by 2.7 points compared to March 2016. So now we have the combined ratio in 91.5%, which is a very good number for us.

We have reduced cost in property damage about 6.5% and we are still reviewing our non-profitable business, mainly fleets, professional third-party liability and group accident in our project that we call internally Project 80/20. We are working on that since 2015.

We are in a process, as I have said, of digitalization of some of our main claim processes. And this is giving us an improvement on the cost ratio associated with these processes. Finally, as I have said, we have a better and improving 2.1 points below the market.

Regarding my last slide, we are in page 15 now. Talking a little bit about Baremo implementation, we have to update our prices in 2015. And also we considered a sufficient reserve, a solid reserve for the new criterias about in an order of €35 million. A little over a year has passed since the new Baremo came into force and we have some conclusions. We think that the majority of the cost increases happened in 2016. We registered about 12.5%. So we think that in 2017 it can still continue to rise but in a lesser extent. In the first quarter, we measured about 1.6%.

We carried out rate increases in previous years. And I think we have increased our rates in 2015 and 2016 enough. We believe that the Baremo should not impact our rate increases anymore or not in a significant way.

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There are no changes in our reserve. We are make revision of that reserve on a quarterly basis and didn't think that we should need any further development on that reserves. And the reserves established for IBNR and for worst case claims were calculated and updated with the latest information available and always with a criteria of prudence required by MAPFRE.

Thank you. That is all the formation regarding Iberia.

And now I give the floor back to Fernando Mata. Thank you very much.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Okay. Thanks, José Manuel. Very interesting. On page 15, I would like to take a closer look at the main drivers of the net result, the changes compared to the previous year and also non-recurring items, extraordinary items.

The chart on the top shows variation for the net result for both periods €192 million and €206 million net result for each period. First, I will explain the change in Non-Life. There was a €4 million increase in the underlying Non-Life technical results, thanks to improvements in technical management and the already mentioned cost containment initiatives.

Second column, the €5 million reduction in the financial results is in line with the low interest rate environment in Europe. And finally, for Non-Life, there was a €27 million decrease mainly due to the coastal Niño phenomenon. There is a full disclosure of all the extraordinary events at the bottom of the page.

I would like to point out a typo at the bottom of the page. Life extraordinary impacts 2016. There is a typo. The current year is 2017.

Second, let's move to Life. Life business profit increased by €55 million due to improvements across the board, Iberia and Brazil being the most relevant. Additionally, there was a reversal of provisions to the bancassurance channel in Spain totaling €29 million.

Third, taxes had decreased as a result of different business mix. Spain is the largest contributor and also the country with one of the lowest tax rate. And now reduction of taxes paid in Brazil, in that case is due to the agricultural business which has tax reliefs. And lastly, the increasing non-controlling interest is due to the increase in Life profit in Brazil, largely driven by the currency appreciation in Spain.

On the next page, we'll see the information about Non-life premiums. Non-life premiums have grown by 3.8%, again driven by growth in our main markets. In Brazil, we've seen solid local currency growth, especially in Industrial Risk and agro business lines, as well as the impact of the appreciation of the Brazilian real. Second, the health line in Spain is performing very well and keeping the same trend from last year's.

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And third, in the United States, we've seen growth in motor premiums in Massachusetts, mainly supported by tariff rises. Global Risk is mainly growing in Iberia, Brazil and LatAm North. And finally, MAPFRE RE also continues growing at a healthy rate as a result of the positive evolution of the Non-Group business.

Please turn to the next slide, page 17. We'll take a look at the combined ratio. First, strict cost containment strategies continued showing results, especially in Iberia, LatAm North and EMEA.

There was a positive claims experience in our main markets during the quarter. First, in the Spanish motor, we are seeing lower frequency and a positive evolution of VERTI's business. Agricultural and Multiperil lines in Brazil have been positively impacted by mild weather.

Third, the homeowner insurance in the United States, mainly in Massachusetts, also affected MAPFRE RE because of the quota share reinsurance treaty. Tariff increases and underwriting improvements introduced in 2016 in motor in Turkey. And finally, MAPFRE RE, which is benefiting from a reduction in the expense ratio. In that case, due to a lower trading (24:11) commission that offset some increases in the loss ratio.

As I already explained, the increase in the claims ratio is due to adverse weather conditions in Southern Spain and the effects of the coastal Niño in Peru. And second, several large industrial claims at MAPFRE Global Risks. And last, higher claims in motor in Brazil and Mexico is the same trend that we already discussed in last year.

On page 18, as you can see in the chart, the financial result on Non-Life fell by around €23 million compared to March of the previous year and this fall reflects the following; first, low interest rate environment; second, we also seen a fall in financial income in Brazil due to lower interest rate and inflation, which was partially mitigated by depreciation of the real; third, there were also lower foreign exchange differences. It was minus €10 million compared to the previous year, which were positive in 2016 and slightly negative in 2017.

And finally, higher realized gains and we took advantage of the rally in equities in the first quarter of the year, mainly in Spain. Gains reached around €31 million, compared to €21 million the previous year. The largest increase as I mentioned took place in MAPFRE RE and Iberia.

Slight 19 shows the premiums and result of the Life business. In Iberia, premiums grew by almost 46%, thanks to successful launch of new savings products and sales campaigns in Iberia, especially unit-linked products.

Once again, RED MAPFRE proves to be a very valuable distribution channel for MAPFRE. We are also seeing resilient local currency growth in Brazil, nearly 1%, despite the complicated economic counters that are living (26:32) in the country.

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And also we have seen some improvements in margins in the products sold through the bancassurance channel as well as the positive impact from the appreciation of the Brazilian real.

It's important to mention as well the bancassurance channel in Malta that continues performing well. And MAPFRE RE continues showing strong growth as well and profitability, in part due to higher realized gains. We're also seeing higher realized gains in Iberia as well as the already commented €29 million impact from bancassurance contingent payments.

Turn to next slide please. This slide shows the evolution of our capital base. On the left, you can see the shareholders' equity amounted to over €9 billion at the end of 2016. And market volatility affected our financial assets. It was offset by shadow accounting and currency movements were reduced as well.

In summary, the reduction is due to the dividend distribution approved by the AGM to be paid in June. Since revaluation, unrealized gains are practically fully offset net of shadow accounting as fully offset by currency conversion differences.

On page 21, we will take a look at the investment portfolio. In the first quarter of the year, the investment strategy has continued to be marked by a low interest rate environment in mainly Europe, despite the fact that the increase of political risk in some countries caused the pickups in interest rates for peripheral debt, mainly Spanish debt affecting the MAPFRE.

In this context, a greater economical growth and improved expectations for company profits, investment in fixed income has been reduced, quite limited, little-by-little and position have been taken in equities, and to a lesser extent, on the alternative assets, mainly (28:46) and the right positions in real estate.

Therefore exposure to national and corporate debt in the investment portfolio has gone from 57.2% and 20.2% to 54.8% and 19.2% of the portfolios respectively.

Now turn to page 22, please. Here we'll take a moment to analyze our capital structure and debt position. On the left side, you can see the composition of the capital structure as of March 2017 amounts to over €14 billion, and the largest of which is equity with 80% percent of the total. 20% is our leverage.

On the right side, you can see that leverage is low compared to peers, 20%, as I mentioned, increased during the quarter due to the issuance of the €600 million subordinated debt in March, with a fixed interest rate set at 4.375% for the first 10 years and a call option at 10 years. Finally, interest coverage also compared favorable to peers, 23 times earnings before interest and tax.

On the next few slides, we'll take a closer look at our Solvency II information, which is referred to December 31, 2016.

On page 23, Solvency II figures confirm MAPFRE's strong solvency position. The 210% Solvency II ratio is based on a high-quality capital structure of more than €9.6 billion and eligible own funds of which 94% is under CT Tier 1 capital, the remaining 6% is through ordinary debt. As you can see, our solvency margin has been quite stable throughout the year despite certain market volatility.

Please turn to next slide. Here we can take a look at the capital generated on the Solvency II during 2016. the MAPFRE Group had a solvency margin of €4.2 billion at the end of 2015, which increased by over €800 million to €5 billion at the end of 2016.

Main drivers of this improvement were as follows: first, a €578 million increase in IFRS equity, excluding retained earnings. It means that these movements are mainly due to the growth in unrealized gains of the available-for-sale portfolio as well as positive currency conversion differences. So let's say that those are non-organic growth and they're mainly caused by market conditions.

Second, €457 million increase in IFRS retained earnings, thus organic growth. And finally, a change in the solvency capital requirement, mainly in market risk, driven by larger sponsors to equities and an increasing value of other assets.

In conclusion, we're pretty happy. Change is driven by the central formula we're not relevant (32:14) and mainly organic.

In the three following pages you have more detailed information regarding Solvency II, which show limited changes in trends and also sensitivity analysis, but very, very few changes compared to previous years.

That's all for me. And thank you for your attention. And now Natalia will begin with, if there is nothing to say, with the Q&A session.

Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you. Fernando, and thank you, José Manuel. Thank you everyone for your attention too. We will now move to the Q&A session. Fernando Mata, José Manuel Inchausti and myself will be answering the questions you already sent.

And just as a reminder if you, if there are any questions we didn't have time to answer, the Investor Relations team will get back to you as soon as possible. So we can start with the Q&A session.

Q&A

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

The first question is with regards to Iberia's operations. These questions are from Niccolo Dalla Palma from Exane BNP, Andrew Sinclair from Bank of America Merrill Lynch, Paz

Ojeda from JB and Ivan Bokhmat from Barclays.

How do you explain the degree of improvement in the combined ratio for Spanish motor? You explained Baremo has increased average claims by 12% in 2006 and 2% so far this year. But we can't see any of the impacts in your numbers?

A - José Manuel Inchausti

Thank you very much. It is true that finally over the increase in the Baremo, we didn't took it to add an effect in our combined ratio. And this is because we have worked on other aspect of our combined ratio in motor insurance, especially in the profitable growth strategy. We are working on the 80/20 project. In fact, our fleet businesses we took about 20 points down in our combined ratio going from the fleet businesses. We improved cost in claims with property damage. And finally, we are working on digitalization of our processes and that makes our internal expense ratio comes down.

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

The next question is about the top-line Spanish motor. How much fleet business do you still have in the books? How worried are you about your loss of market share that continues in the retail motor business?

A - José Manuel Inchausti

We maintain nowadays less than 10% of our book in the fleet businesses. Our objective is to maintain only the profitable fleet businesses. In fact, we are trying to bring in new fleets but with a smaller size, typically less than 100 cars per fleet. Unfortunately market data do not separate growth in fleet. But we estimate - our best estimation is that the difference that we have with the market growth in the retail business is 1 point or less.

We will start a series of measures aimed at customer with high return on our low combined ratio starting in the 1 of May. We have completely designed all of these measures and we will come to enforce immediately. So we think we will take good results from that measures.

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

The next question is about Spain. The expense ratio improved visibly. Was this something exceptional or do you expect to maintain this rate of improvement throughout 2017?

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

Yeah. Thank you. This is Fernando. First of all, I would like to point out that one year is perhaps I mean is enough experience just for the 2016 accident year. But there is still things to come. But so far and after the first quarter, the development of the 2016 accident year, I mean, is quite neutral. So, as far as we know and according to the information available, we believe that the majority of the 2016 cost related to Baremo we'll book in 2016 accounts. And so our perspective for 2016 is very positive.

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As we disclose and we took a sample of significant claims and we monitor the developments of those claims in 2017 the first quarter and we saw is negative loss development of between 5%, 6%, 6% or less. We consider it quite reasonable, and was covered by the increasing IBNR that we did last year.

So, in summary, I mean the rate increase in 2016 and also the proper appropriation of reserves, both case-by-case and also IBNR, and also the special Baremo reserve, we can conclude that they're enough in order to cover any potential deviation in the future, which at that point we consider won't be in any case material, a significant from up (38:38).

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

Thank you very much, Fernando. Now discussion I think was more focused on expense ratio and improvement. So Mr. Inchausti will answer about this improvement.

A - José Manuel Inchausti

Okay. I will add some specific information about the expense ratio. We do not consider exceptional the improvement on the expense ratio during the first quarter. We are working very hard on the internal and external expenses. And we have slightly decreasing in our internal expenses compared to an increase in our premium income.

So we are constantly looking for this ratio have positive figure and we are working in many fields. And we do not consider extraordinary the results of the first quarter. So we think that more or less we will have good expense ratio during the year.

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

Thank you.

A - José Manuel Inchausti

Next, please.

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

The next question. You mentioned the exceptional weather losses in Iberia. Can you quantify how much of these claims was exceptional versus your normal budget?

A - José Manuel Inchausti

Yes. We have mentioned on page 11 on my presentation. We had 57,000 claims for a total of €16 million, which only implies 4 points of Iberia general insurance combined ratio.

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

Next question is regarding health insurance. Can you explain the worsening combined ratio? Are you carrying out any restructuration in this business?

A - José Manuel Inchausti

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Okay. The first thing to say is that that typically combined ratio in health insurance is higher during the first quarter and then comes down in the next quarter. The second thing is that we have had slightly increase of claims going from group contracts and we are working on it. And we have taken some measures in the 2017 premium renewal.

And the third thing I would like to say is we have reorganized our internal expenses based on our a sophisticated model. And these has result having the same expenses to share with other branches that that new reorganization have resulted in an increase of internal expenses linked with the health insurance businesses. So, generally speaking, we are not worried about this increase on the figure based on these reasons.

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

And the last question regarding Iberia is about Life results. Can you explain the reversion of the contingency payment in the specific bancassurance agreements?

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

Yes. And unfortunately we cannot, I mean, disclose the joint venture and I will explain later what the reason. I mean, we have in our liability side of the balance sheet different contingent payments. Regarding bancassurance channels, they're pretty common in the bancassurance channel in Spain. Some of them, there are additional commissions that's been paid, regarding some long-term goals.

I know there are some announced to be paid and they're coming from some acquisitions. In that case, I mean this €29 million is a reversal of 100 (42:40). But we don't disclose our partner involved, I'm afraid. And we do not speak about the long-term goals, business plan with our partners.

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

Thank you very much. This next set of questions is with regards to the evolution of business at MAPFRE USA. Niccolo Dalla Palma from Exane BNP Paribas would like to know, can you update on your U.S. strategy, which areas are you growing and which ones are you exiting?

Also Ivan Bokhmat from Barclays asks the following. The combined ratio outside Massachusetts remains very high. How much of that is extraordinary loss experience and how much is management actions to take market share?

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

Yeah. Thank you. I mean we are growing around 10% in Massachusetts with positive trends in both motor and homeowners. And basically the results, you say, the tariff increases in motor are quite recent and in homeowners due to the 2015 snowfall.

Going forward, growth will be focused on motor lines and there are several states that we consider core and this topic was very well explained by our Chairman at the AGM in March.

Those are Massachusetts, New York, New Jersey, Connecticut, California and Florida. I am not sure if I'm missing one, but this is the core of the states.

And as we already mentioned before, expansion as a cost and we have had to pay annual business premium. We've been actively monitoring our business in non-core states and will gradually begin to stop underwriting the business in some of them. And for now, we're stopping, I mean, the marketing and sales promotions on those states we do not consider to be core business.

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

Thank you very much. This next set of questions is regarding the evolution of the MAPFRE ASISTENCIA. Niccolo Dalla Palma from Exane BNP Paribas asks: ASISTENCIA had again some unfavorable development. What is driving this? Has growth been too aggressive in recent years?

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

Yeah. There is some question regarding Assistance, and I'd like to elaborate a little bit more about this. And also Michael Huttner already mentioned that last year. We expected 2017 to be break-even more or less. And frankly, I mean, we expected a better result in Assistance, and not that good in Spain that we had. Unfortunately, I mean, good things have bad news. I mean, they are being compensated in MAPFRE and this is the good thing of having a proper diversification of business.

In 2016, we had a bad experience in travel assistance in France, if you remember. We expected more or less a neutral result in the business coming from the UK. But both, I mean, negative development of the run-off of some multi-year policies in the UK and also the Brexit. I mean, different of currency comparisons, we saw multi-year policies in sterling pounds and now we're paying claims in euros and dollar, both I mean degrading (46:26) our loss ratio and combined ratio in ASISTENCIA.

I mean it's difficult to forecast what is going to happen, I mean, in the rest of the year. I mean, we are working hard in order to fix this operation, ASISTENCIA, mainly in the UK. We're trying to reduce losses but at that point we consider it quite challenges, I mean, to break-even in Assistance business in 2017.

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

Thank you. The following question refers to the MAPFRE Global Risks business. Niccolo Dalla Palma from Exane BNP Paribas asks what is your reinsurance strategy in Global Risks?

Hi, Niccolo. Okay. The MAPFRE Global Risk reinsurance strategy is consistent over time. This is the main highlight about that. During the last year, we have maintained exactly the same protection MAPFRE Global Risks. That mainly is due to - MAPFRE Global Risk protects mainly through non-proportional reinsurance. So net claims have aligned with the financial capacity of this unit.

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Given the volatility of this business, sometimes certain accumulation sits and is what has happened during the first quarter of this year. This is reflected in the results. But these doesn't in turn at all risk or threat in the short-term from this business unit.

Thank you very much. Paz Ojeda at JB Capital Markets and Ivan Bokhmat from Barclays ask the following. Global Risks has experienced a very strong performance last year; close to 0% contribution this first quarter. What is the reason for this deterioration? What is the normalized combined ratio for the business and why is it so high right now?

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

I think past deterioration in MAPFRE Global Risk combined ratio is due to the increasing large claims, especially in EMEA and LatAm, so which are resulting in higher loss rate.

I will like to elaborate a little bit longer regarding Niño phenomenon, because from outside you could expect a larger loss in MAPFRE and a smaller in Global Risks. But due to - let's say that it was by chance, but anyway, but the rains affected the power station in Peru that that was covered by Global Risk. So the main effect from the Niño phenomenon is affecting Global Risk. Also it was a blast in oil refinery in Abu Dhabi. We both consider them as an extraordinary event.

And regarding the underlying loss ratio or the combined ratio, currently is well above 100% and we expect to have it lower than 100%, I mean, as we've reported from previous year. We'll keep in the same as truth as the underlying guidelines of those business. But some of those claims sometimes happen and unfortunately it was concentrated in our claims during the first quarter.

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

Thank you very much. This next block of questions is concerning the development in Brazil and Mexico. They're sent by Niccolo Dalla Palma from Exane BNP, Andrew Sinclair from Bank of America Merrill Lynch. Regarding Brazil, in motor your combined ratio keeps creeping up. The same is true in Mexico where you refer to problems in multi-year group policies. What is the outlook?

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

Well, the outlook for those countries is following: Brazil to focus on profitable growth and better economic (50:47) that will allow reduction in combined ratio. As we already mentioned, we're reducing our fleet, there is like a 9% reduction, I'm not sure, we have to confirm this figure with Natalia. But there is a reduction of units in both significant relevant in Brazil and Mexico in order to limit our exposure in this market.

And regarding Mexico, the companies canceling unprofitable contracts. There were some of the multi-year contracts and it is too early as well to give a proper guidance, but we'll see the effect of this strategy probably at the end of this year, and that's all. Reduction of exposure, increase of tariffs and cancelation of non-profitable portfolios. I mean, thus the same receipt that we have in both countries.

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

Thank you. Why did the Life protection result in Brazil not grow as fast as the top-line?.

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

Well, this is due to high level of claims in first quarter 2017 together with lower amount of financial income quarter (51:59).

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

Thank you. Can you provide any more detail on the SUSEP and rate reductions in Brazil and what we can expect for the rest of the year?

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

Yeah, I will cover this topic and also with Turkey as well. We've seen some interventions of the governments in the free market and also the transparency of tariffs in Brazil and Turkey. SUSEP in case of Brazil has implemented a 50% reduction in the tariff, say, for third-party liability across the board. I mean the different percent is according to the race and also the regions. But it's important to take into account that this cover has a quite low weight in MAPFRE Brazil portfolio. We have to confirm this number as well, but I don't think the compulsory insurance in Brazil being larger than 15% of the total order portfolio.

Regarding Turkey, and I will cover this topic as well, it has a full disclosure on our management discussion and analysis. (53:03) recently was approved by the government, reduction as well average 50% across the board. In that case, affecting compulsory insurance and in that case our portfolio has a larger portion of the total fleet.

And it should be like 60%, I am not sure how to confirm. Yeah, Natalia is saying like a 60% more or less. And in that case what we are doing, we're expecting something like this and that will reduce in our fleet and also increase in tariffs. I mean, it probably will have an impact on the short-term. But due to a reduction in fleet and increase of tariffs in other coverage, we believe we could compensate the increase in loss ratio with improvements in combined ratio and other line of business.

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

Thank you. Regarding severe claims and industrial risk in Brazil, can you please quantify this against your budget?

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

I'm sorry, I didn't hear you. Can you repeat it, please?

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

Of course. Regarding severe claims and industrial risk in Brazil, can you please quantify this against your budget?

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

Yeah. There has been a relevant impact on severe claims and industrial risk in Brazil. But we'll have it included in our public information and any quantification on this effect.

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

Thank you. And the final question regarding Brazil, does the first quarter's financial income provide a good run rate for the rest of the year?

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

Well, financial income in Brazil is linked to the evolution of sleek (54:54) rate. And so the inflation is reduced, it's reasonable to expect a further reduction as well in sleek (54:59). And this will have an impact on our financial income.

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

If I may say something, this evolution is mainly because the investments there are floating and are linked to inflation on interest rates. That's why we are seeing perhaps a slight decrease in the financial income coming from Brazil. So, according to the reduction of the sleek (55:35), we could be or could continue be affecting of this reduction.

Thank you very much. We have also received several questions regarding the December 2016 Solvency II figures that were released.

Regarding capital generation, Andrew Sinclair from Bank of America Merrill Lynch asks the following: Thank you for the new disclosure today. Can you confirm how many points of capital you think that MAPFRE organically generates each year? It isn't clear to me from slide 24 how much is organic generation versus how much is due to market moves? Also can you please confirm how much of the capital generated is cash?

And in the same line, Niccolo Dalla Palma from Exane BNP Paribas would like to know: Can you give us your read of the Solvency II movement in quarter one? How much was underlying, how much market movement, and then dividend accrual?

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

Yes. Regarding this three question, on slide 24, and also in the management discussion and analysis there's a full disclosure, you can see the breakdown of the over €800 million increasing our solvency margin.

As we mentioned during the presentation, a large part of this improvement is due to higher IFRS equity on the back of growth in unrealized gains of the available-for-sale portfolio as well as positive currency conversion differences. And this is let's say the capital generation from outside. And there was also a positive contribution from IFRS retained earnings that we consider has been organic.

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We have not provided a disclosure of cash flow generation. For the time being, there is no clear standard criteria on the Solvency II for reporting this concept. I mean, my view is like regarding Solvency II, it's difficult to see your cash generation since you have to – I mean, to change the sector, the part of financial instruments that there much will occur in technical provisions. So, in the end, it's just the free or let's say your financial instruments linked to equity and also your cash linked with equity as well.

And anyway you need assistance going through the breakdown of these numbers, which are fully disclosed and as I said in the presentation and also the management discussion and analysis. Natalia and rest of her team will be available after this call to assist you.

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

Thank you very much. Farquhar Murray from Autonomous also submitted several questions regarding Solvency II. Could you just please explain and ideally decompose the €989 million increase in Solvency II capital quarter-on-quarter between third quarter 2016 and full-year 2016? What precisely drove this material increase in the quarter and how do we tally it to the previously disclosed sensitivities?

Why do the Solvency II sensitivities look to have changed markedly between full-year 2015 and full-year 2016? In particular, the sensitivities to interest rates and corporate bond spreads seem to be notably different. What precisely drove that?

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

Yes. Regarding sensitivities, the reduction in the year is due to smaller duration gap which has led to smaller duration between market moves of assets and liabilities. As we have mentioned before, MAPFRE at here say to very conservative ALM strategy with cash flow margin and duration administration strategies, applying a large share of a large portfolio mainly in Spain, which claim in sensitivity to changes in rates.

And also the change between September and December figures mainly due to movements in the BEL, the best estimate of liability as a result of the application of more consolidated criteria to liabilities on the IFRS which reduce the adjustment necessary on the Solvency II. Again, if you need any help going through, I mean this specific numbers, the IR team will be available after the call.

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

It's still important to highlight regarding the sensitivity to what spreads last year, the sensitivity to corporate sovereign were together and this year we have to separate them. That's why you can see a slight difference. But if you compare both presentations, last year's and this one, you could see that the main impact is in the spreads in making sovereign splits mainly, because the corporate spreads are lower. But you need any further explanation, we will be available for you later on.

Thank you very much. We've also received one additional question from Michael Huttner. What is the sensitivity to sovereign spreads for Solvency II?

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

Yeah. That has been explained by Natalia.

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

Yeah. it's been also - to answer Michael Huttner of the presentation on page 27. You can see the difference between the last line, which is corporate on sovereign spreads, the line before the last one, the corporate spreads, that difference is the sensitivity to sovereign spreads.

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

That's all.

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

Thank you very much.

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

Yeah. Thank you. I mean, thank you for your question. And we are about to finish. And I would like just to mention was just the last thing that - I'm sorry, there are two more questions coming up. Yeah. We'll try to answer. Yes, please.

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

Sorry. They arrived just now. Sorry, Fernando.

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

Yeah. We have 10 minutes, yes, for both questions. Yeah.

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

Sorry about the confusion. Thank you. Michael Huttner from JPMorgan has also asked the following question. At the Annual General Meeting, you reduced the target ROE from previously 11% on average 2016 to 2018 to now 11% just 2018. Can you say why the change? And given you are still at 9% first quarter 2017, how confident are you of getting to that 11% next year? Where is the improvement to come from?

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

Yes. Thank you, Michael. And if I may partially correct you. I mean, the Chairman at the AGM didn't change the main strategies for the three-year period. And that the goal so is still there. But he also mentioned that the average 11% ROE was pretty challenging, but he has specifically mentioned that we will achieve 11% ROE on 2018.

Let me elaborate a little bit more about this. And we're still seeing a quite strong capital base in MAPRE. We are pretty happy, I mean, with this situation. I mean, our capital is pretty good and also our solvency margin are improving. So how it's deteriorating our

ROE? We believe that this trend will change when the interest rates will rise and also perhaps there's some currency conversion differences.

We have to improve our net result. Basically, the delta will be coming from the fixing of those operations, such as Assistance or we have to improve as well our net result in Italy. And we believe with this improvement in net result the ROE will improve much more for sure.

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

Thank you. Ivan Bokhmat from Barclays has the following question: The reinsurance combined ratio remains low despite a moderately active cat in the quarter, particularly in LatAm? Were there any reserve releases of note?

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

No, there is no reserve releases. As I already mentioned, Niño phenomenon affected mainly Global Risk, and less extent MAPFRE RE. On the other hand, other cat situation has been reported during the first quarter. And also MAPFRE RE is benefiting from the homeowners quota share from the U.S. And that's all.

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

Thank you. Michael Ballitore (1:04:53) from KBW has sent in a question regarding financial income. If his calculations are right, the pure investment income in P&C, including realized gains and FX, decreased by 30% year-on-year. What did drive this negative development? The fall in P&C financial income was €23 million, around 12%. This is very much in line with the underlying, if you exclude...

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

Well, first, let's say – let's answer there. The pure investment income in P&C is reducing because the low interest in Europe. And there are more – I mean, the way we invested the new cash flow and also maturities, I mean, casing in (1:05:40) at lower interest deal. I didn't catch the other question. Sorry.

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

The question is what drove this negative development?

I think it's the right answer. We have talked about the low interest rate environment and this is the main reason, also the forex movements but that compensate the other. And as we have mentioned before in other years, the financial income coming from Brazil was quite notable. And also the slight fall this year is also reflected in our Non-Life financial income account. But this decrease in the interest rate is also compensated for the good development of currency rates. This is the main reason here.

And the last question that we have today is from Niccolo Dalla Palma from Exane BNP. And he asks regarding Spanish Life, will you be able to take over the business of BMN

following the Bankia-BMN merger?

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

Yeah. Thank you, Niccolo. As we already said, we're quite happy with the current relationship with Bankia and also the bancassurance channel, I mean it's key for MAPFRE and we would like to expand our business in this channel.

Regarding your question, will we be able to take over the business? The thing is, there is a contest between the two financial entities and the process is going ahead and once the process is finished and we will sit with Bankia in order to see any potential development of expanding our current agreement with Bankia to outlets coming from the potential future bank merger. But that's all.

And I guess there is no any further questions. So we are finishing and I would like just to point out just a summary and wrap-up. We're pretty happy with the results and also the growth in business. So, summary, I mean, Iberia is performing extraordinarily well and allow us to mitigate to offset some small losses coming from small units, basically Assistance, and also some direct operations in EMEA, mainly in Italy.

There is just a couple of countries with small losses; Mexico, which the losses are coming mainly from currency conversions. We have an excess of financial investment denominated in dollar and due to the increase of the value of the peso, we booked some differences. And also a small loss in Chile due to the wildfires during the first quarter, but we think that we will come back to profits in the rest of the year.

So, as a conclusion, we're quite happy and we're still working on those small units in order to have them fixed as soon as possible. Thank you for your presence and any further questions or for additional information you may require, Natalia is ready to answer any question. Thank you and bye-bye.

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

Thank you. Thank you very much for being here. Thank you, Fernando, and thank you, José Manuel, for being with us today. Bye.

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