

Q4 2016 Earnings Call

Company Participants

- Antonio Huertas Mejías, Chairman & Chief Executive Officer
- Fernando Mata Verdejo, Director of MAPFRE and Chief Financial Office
- José Luis Jiménez Guajardo-Fajardo, General Manager-Investment Area
- Natalia Núñez Arana, Director-Capital Markets & Head-IR

MANAGEMENT DISCUSSION SECTION

Natalia Núñez Arana {BIO 19480994 <GO>}

Good morning, ladies and gentlemen. Welcome to the presentation of Mapfre's Result for 2016. On this occasion, it's a great honor to have Mr. Antonio Huertas, Mapfre's Chairman and CEO, here with us today. He will lead the opening speech with the key highlights of the results. And then Mr. Fernando Mata, our CFO, and I will provide you with an overview of main figures and business trends.

We have included new information in this presentation, thanks to questions we have received from investors and analysts over the last few months, and we trust you will find interesting. From now on, different executives from the company will join us during this presentation in order to give you more details about the areas. Today, we have the pleasure to have here with us Mr. José Luis Jiménez, Mapfre's Chief Investment Officer, who will participate in the Q&A session afterwards if you need further information.

As usual, at the end of the presentation, the first part, as time permits, we will answer all the questions that were sent to the specific e-mail address. The Investor Relation team will contact you later to answer any questions we don't have time for today. At the end of the Q&A session, Mr. Antonio Huertas will give you the final remarks.

So, now please let me introduce our Chairman, Antonio Huertas.

Antonio Huertas Mejías

Thank you, Natalia. Good morning, everybody. I am delighted to have the opportunity to share the highlights of Mapfre 2016 results with you. I can say that we are still in progress, improving little by little.

The summary is, I think, with the main figures, I can say that based on our plan, the results obtained the year were good, very good, I would point out, in terms of both revenues and earnings. Total revenues reached €27.1 billion, up 1.5%, while premiums increased by 2.2% to €22.8 billion. Consolidated earnings after taxes and non-controlling interest were €775.5 billion (sic) [€775 million] up 9.4% more than in 2015.

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As you know, 2016 was the first year of implementation of Mapfre's Three-Year Strategic Plan, with a slogan focus on profitable growth and I can say that we are actually on track doing - completing this objective. In other words, the following ratios achieved as a result of our management over the course of the year.

The ROE was 8.8%, an increase of 80 basis points. Improved efficiency helped us reach an expense ratio of 27% (sic) [27.4%], that's improvement of 120 basis points. And the combined ratio of 97.4%, down by 120 basis points. Solid technical management made it possible for the loss ratio to remain stable at 70%.

Other balance sheet highlights of the year are the total assets amounting to €67.8 billion, an increase of 6.9% and consolidated shareholders' equity rose by €553 million to €9.1 billion. Given these results, I'd like to mention that MAPFRE has sustained excellent results in Iberia in terms of both growth and profit. Focusing on profitable growth was the management driver in the group's principal geographical business units where improvements were seen across all technical and operating indicators.

Revenue is up 6% to €9.2 billion and net profit of €592 million are clear evidence of a brilliant, brilliant year, achieved as a result of intensive efforts in pursuit of improved efficiency and profitability. The positive performance of the economic situation in Spain with an overall increase in activity also serve as a tailwind to power the group's growth. There was outstandingly strong growth in life products, thanks to the development of new saving investment products as unit-linked.

The reinsurance unit performed exceptionally as well in what was again the best year in its history with over €4 billion in premiums with an increase of 13.5% and a net profit of €196 million, up by 20%. This unit has become the group's second biggest net earnings contributor accounting for 20% of the total.

Global risk as well did well too, but suffered at the end of the year an increase of frequency in the second half of the year. The North America unit returned to producing positive results after the extraordinary losses are rising from the winter storms in 2015. The plan to improve of the model lower ratio outside Massachusetts is under way and will contribute to the continuous improvement of these results in 2016 and beyond.

Talking about Brazil, this company is showing an excellent performance and a strong resilience despite the tough economic conditions. The results of LATAM North were good although slightly lower than last year due to Mexico. In LATAM South, we have strengthened our balance sheet. We increased technical results in Colombia and settled on outstanding liabilities in Argentina regarding the sale 4 years ago of the workers' compensation portfolio. Also, we experienced an increase of catastrophe losses in Chile.

The results in ASISTENCIA in EMEA were poor. I can say that. In the case of assistance unit, the process of writing down of collectible accounts and other impairments continued. And there was further strengthening of reserves with the aim of concentrating the units' strategic positioning in more profitable and sustainable businesses.

Of the EMEA countries, Italy's performance was as well particularly poor. The first full year of this operation integration within MAPFRE very prudent decisions were taken to write down goodwill amounting to €40 million. The workforce was also restructured in order to gain efficiency at the cost of almost €20 million.

Now, let me say a word about dividend. The Board yesterday approved the final dividend that amounted to €0.145 per share, including the interim and the final dividend versus the €0.13 paid out against 2015's results, which is an increase of 12.7%, higher than the rise of - in net earnings. It's actually 9.4%.

The payout at 57.6% is higher than the last year, which was 56.5%. Taking the average price over the course of the year, the shares are returning 5.8%. Again, that continues to be one of the highest on the Spanish market and which is paid completely by cash.

So, now to recap. As you can see in the slide, the - let's move on to this - yeah. Only in the page 3. Remarkable performance of the three largest direct operations with a focus on underwriting management and cost containment, Spain, Brazil and USA. Double-digit growth in premiums and profit at MAPFRE RE, losses in EMEA stemming from business transformation and restructuring of MAPFRE ASISTENCIA, conservative impairment of goodwill and other intangibles from Italy and Spain, and active balance sheet management.

In conclusion, we are pleased with the progress of the group plan growth, strong and profitable. There is room for improvement in several business areas and undergoing restructuring. The progress for improved efficiency automation and cost reduction and transforming the group and helping us to exceed the target of annual savings of €50 million, a large portion of which is being invested in the utilization of operations which, in the medium term, will deliver a greater return.

Now, to conclude, it's a great pleasure to me to talk about the new CFO, but as you know, as you already know that Esteban Tejera, our former First Vice Chairman is already retired. Now Fernando Mata, the new CFO, is leading this area, and Fernando has an extensive experience leading many areas in MAPFRE both in Spain and abroad with a strong financial background. Fernando has also recently been appointed as a member of MAPFRE's board. And I am totally sure that Fernando will be a very successful - will be very successful in these new responsibilities leading an excellent team.

Thank you very much. Fernando, now you have the floor, please.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you very much, Antonio, and good morning, everybody. First of all, it's a great pleasure and honor for me to be here with you today in my first investors and analyst meeting as MAPFRE CFO.

Let's move to page number 4. In 2016, we have seen a 1.5% increase in revenues due to a 5% rise in the life business and a 1.5% growth in Non-Life premiums. This stems from

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MAPFRE's 3 largest direct operations which had an outstanding performance. First, Spain, due to a strong contribution from MAPFRE's agent network, RED MAPFRE, and a pickup of life sales. Second, MAPFRE RE with double-digit growth. And last, a positive development at MAPFRE USA

Regarding the combined ratio, our stricter underwriting guidelines and cost-containing initiative resulted in a 1.2 percentage point decrease, bringing the ratio down to 97.4%. Strong improvements have taken place in Spain, particularly in Motor; in Brazil, with a plan to reduce expenses was implemented; And MAPFRE RE, which has benefited from an absence of CAT losses; and in the U.S., with a combined ratio, has recovered after the 2015 losses. All these improvements have led to an extraordinary 9.4% increase in profits and have ROE of nearly 9% despite the losses in EMEA from the restructuring of MAPFRE ASSISTANCE and Italy's direct insurance business.

There was also a €50 million impact on results from the impairment of goodwill and other intangibles mainly from Italy and Spain. It is also important to mention that we have benefited from the current financial market scenario and the recovery of the real estate market in Spain, incurring lower financial expenses and actively realizing gains on our investment portfolio, including, as Antonio mentioned, an €88 million net gain from the partial sale of the MAPFRE Tower in Barcelona in the fourth quarter.

On page 5, looking at shareholder equity, we can see a significant increase of 6.4%, equivalent to €553 million due to a strong net result, together with the appreciation of the main currencies, especially the Brazilian real and the U.S. dollar. Assets under management have also grown by 7.6%, supported by the rally in fixed income market during the year, a positive evolution of the mutual and pension fund business with over 10% growth, the appreciation of the Brazilian real, plus 25.8%, and the Life business acquired by BANKINTER VIDA in Portugal.

Please let's now turn to slide number 6. Let's move on to one of the more significant topics for the shareholders, dividends. I would like to point out MAPFRE's dividend policy which is focused on creating shareholder value with net results of the main driver for growing dividends.

So, the board of directors yesterday agreed to propose a final dividend of €0.085 per share to the AGM, taking the total dividend proposed against 2016 results to \$0.145 per share. This will bring total dividends paid against results in 2016 to over €446 million. Adjusting for treasury stock, shareholder remuneration will increase by 12.7%. In absolute terms, it is the largest dividend in the last 5 years. If I remember well, I think it's the largest since 2011. This year, payout amounts to 57.6%, slightly higher than last year and in the middle of the agreed payout range of 50% to 65%.

And now Mrs. Núñez will continue with the next slide explaining the key highlights from the P&L accounting.

Natalia Núñez Arana {BIO 19480994 <GO>}

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Thank you very much, Fernando. It's worth highlighting. Now, I will explain the main business developments by region. But first of all, on page 7, I would like to mention that the economic scenario has been quite different in each region. We have seen an economic recovery in Spain and the U.S. and a difficult scenario in LatAm particularly in Brazil. Iberia accounts for nearly 30% of total premiums as a result of continued pick-up in production in the main Non-Life business lines, and increasing life sales in the agent network. Once again, RED MAPFRE proves to be a very valuable distribution channel.

Brazil contributes 18.5% of total premiums. Despite resilient local currency growth, premiums have been impacted by the depreciation of their real. North America is growing, thanks to positive developments both in Massachusetts and elsewhere in our main lines of business. EMEA now represents over 10% of premiums with an increase of nearly 30% stemming from the full consolidation of the direct business in Italy and Germany, tariff increases in Motor in Turkey and the good performance in the Life production in Malta.

MAPFRE RE shows remarkable growth of 13.5% in most lines and represents 17% of total premiums and continues benefiting from the solid performance of the non-group business. The positive trends have offset the falls in the rest of LATAM, where unprofitable contracts have been canceled in all regions, the most significant being in Mexico and Colombia.

Please, let's turn now to the next slide to look at the main movements in attributable result by region. It's worth highlighting the strong profitability in Iberia. Excluding the impact of CatalunyaCaixa businesses in 2015, the attributable results would have increased by 68%. Brazil is down as a result of the economic slowdown. We are also impacted by lower lending activity in the bancassurance channel and depreciation of its currency. We are seeing a return to profitability in North America. Thanks to improvement in technical management as well as lower weather-related losses.

MAPFRE RE is benefiting from the absence of catastrophic losses and other large claims and higher realization gains too. On the other hand, EMEA has suffered from extraordinary losses. The most significant being the following. First, negative run offs and results from multiyear contracts in ASISTENCIA. Second, several large corporate claims at Global Risks. And third, higher integration costs and claims experienced in the guided business in Italy as well as a write-down of goodwill and other intangibles. Finally, in APAC, results were impacted by the Taiwan earthquake in the first quarter of the year as well as expenses related to licensing and set up of operations in China.

The result of the Non-Life business grew by 34% driven by a solid underwriting result which almost doubled compared to the previous year and brought the combined ratio to 97.4% as our chairman mentioned before. It's important to mention the 1.2 percentage point improvement in the loss ratio.

A stricter underwriting guidelines, tariff increases adjustments improved claims handling, cost containment and digitalization of process in main markets were the main drivers.

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In Iberia, these improvements have played an important role in offsetting the impact of the new Baremo a higher frequency from an increase in car use, with a sharp increase during the holiday season. In Brazil, cost containment initiatives are helping to mitigate the increasing claims resulting from the economic context and weather conditions. We have already commented on the deterioration of results in EMEA, but it is worth mentioning the higher underwriting result in the Motor segment in Turkey due to important tariff increases. Regarding North America, together with improved technical management, lower weather-related claims are boosting results.

Please turn to slide 10, so we can take a closer look at the financial result. The financial result of the Non-Life business has grown by 18% and really coming from an increase in realized gains, especially in Iberia from the sale of the MAPFRE Tower in Barcelona, which generated €117 million pre-tax gain. In LATAM, we have seen higher financial income translation, linked investments in Colombia and U.S. dollar linked investments in Argentina. There was also a €53 million negative impact from the write-down of goodwill and other intangibles from Italy and Spain.

Slide 11 shows the result of the Life business, which rose by 6.8%, mainly thanks to the contribution from Iberia and Brazil. In Iberia, the Life segment continues to perform positively, recording an increase in sales through the RED MAPFRE channel and the issuance of corporate savings policies. The first quarter was especially positive thanks to new product launches and specific sales campaign moving from traditional selling products to unit-linked products with a higher investment component. In the case of Brazil, results remain stable despite the lower trade activity and the depreciation of the Brazilian real.

Please turn to slide 12. Financial expenses at the holding company have decreased significantly, going from €107 million in 2017 to €64 million in 2016. On the other hand, the negative impact from multiyear contracts and extraordinary costs from the reorganization of MAPFRE ASISTENCIA have led to a fall in net operating revenues and expenses. The effective tax rate reached over 30% of results, relatively stable compared to the previous year since increases in corporate tax in Brazil were offset by a decrease in Spain. Finally, lower profit in Brazil led to a decrease in the result attributable to non-controlling interests.

Now, Mr. Mata will analyze in more detail the evolution of net profit.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Natalia. And this is a new slide we're including in our presentation. At this point, I would like to take a closer look at the main drivers of profit this year. The first column on the left is last year's result. In the second column or the first box in grey is the Non-Life underwriting result which has increased by €184 million, thanks to the improvements in technical management and the cost containment initiatives that we have already mentioned mainly in Spain.

The second column or second box in gray, the underlying financial results in Non-Life has increased by €19 million. Higher financial results in LATAM offset the decrease in yields in the Eurozone.

Next box starting out in Non-Life, financial results has improved by €131 million and reflects the following events. In 2015, net realized gains amounted to €119 million. And in 2016, net realized gains of €137 million as well as €117 million in gains from the partial sale of MAPFRE Tower as we mentioned before.

Next column, the Life result has added €48 million to the result due to the positive development in Iberia already mentioned. And finally, the €240 million decrease comprised the profit from CatalunyaCaixa insurance business in 2015 amounting to €187 million and write-downs of goodwill in 2016 of €53 million, this amount is before taxes.

Next page shows the evolution of our capital base. On the left, you can see that shareholder's equity amounted to over €9 billion at the end of 2016, a 6.4% increase. This is due to the strong result from the period and a positive development of currency conversion differences.

Regarding our equity structure, as we mentioned during the Investor Day, I would like to highlight two main factors generating volatility in our equity base, as you can see in the chart on the right. First, is the unrealized gains on available for sale investments; and second are the currency conversion differences. As you can see on the chart, there is a negative correlation between both variables which helps us to mitigate the impact of volatility.

As you can see during the fourth quarter, there is a reduction of unrealized gains, mainly due to the rise of interest rates while the negative currency conversion reserves decreased in the same period due to a reevaluation of the Brazilian real and the U.S. dollar.

On slide 15, we will take a closer look at our capital base. On the left side, you can see the breakdown of the capital structure as of December 2016 which amounts to over €13.6 billion. The largest part is equity with 84% of the total. Despite a slight increase in leverage, this year, with a €1 billion senior debt issuance in May, leverage is still very low at 16%, among the lowest in the European insurance sector. Last but not least, interest coverage improved significantly due to the reduction of financial expenses already mentioned.

Please turn to slide 16 where we'll take a look at our Solvency II numbers. Solvency II figures as of September 30, 2016, since the year-end figures are not available yet, confirm MAPFRE's strong solvency position. The 200% Solvency II ratio is based on a high quality capital structure of more than €8.5 billion in eligible own funds, of which 93% is unrestricted Tier 1 capital, and the remaining 7% is subordinated debt. As you can see, our solvency margin has been quite stable throughout the year despite market volatility. Solvency requirements haven't changed as they are calculated on a yearly basis, as we explained during the Investor Day, according to Solvency II Regulation.

Now, Natalia will give the final details regarding the investment portfolio.

Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you, Fernando. Now, before our Q&A session starts, let me give you some figures about our investment portfolio. During 2016, the 10-year Spanish government bonds yield fell over 50 bps to 1.4% and the Brazilian real recovered nearly 26%. MAPFRE took advantage of the market environment to actively manage its fixed income portfolio and optimize ALM strategy, as well as market corrections, for example, U.S. election, Brexit, to increase its equity exposure. Our fixed income portfolios are very well-positioned to weather the low-rate environment in Europe. Around 60% of the fixed income portfolio is actively managed. The remainder are mainly in managed portfolios, with limited low investment risk.

On the next slide, we will take a look at our largest actively managed portfolios in Iberia, MAPFRE RE and Global Risks which represent over 80% of the unrealized gains in our balance sheet. On this slide, you can see the combined portfolios of Non-Life Iberia, MAPFRE RE and Global Risks are over €7.5 billion with duration around 6 years and the current yield around 2.7%. The actively managed portfolio in Iberia amount to almost €7 billion. The duration is around 7 years, and the current yield is over 4%.

Regarding strategy, we expect rates in Europe to remain low, and we are adapting our investment strategy to mitigate this impact. This includes an increase in exposure to equity markets, as well as alternative investments, including private equity, private debt and real estate. Our asset management business is doing very well and grew by 10% in 2016.

We continue strengthening MAPFRE AM through various initiatives, the setup of Luxembourg Sicav, partnerships with Carmignac with new pension funds, and the launch of MAPFRE Gestión Patrimonial.

This is all from my side, and now we will move on to the Q&A session to answer the question that you have sent to us through the morning. If any other issues arise during this time, please send us an e-mail, and we will be delighted to respond if time permits.

Antonio Huertas Mejías

Thank you, Natalia. As you mentioned at the beginning of this presentation, we're going to have our guest to give some presentation from the top executives of MAPFRE. Today, joining us José Luis Jiménez. He's our Chief Investment Officer, and he would be more than happy to answer any question regarding MAPFRE's investment strategy or any portfolio in detail.

Q&A

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

This first question is with regard to the evolution of the business at MAPFRE USA Paco Riquel from Alantra Equities asks the following. The combined ratio in USA has increased quarter-on-quarter to 101.6%. Can you comment on the evolution of the fourth quarter and if you are still confident in reaching your target of below 98%?

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

Yeah. Thank you, Paco. And as you already know, I mean, the seasonality impacted both claims and expense ratio, has been a trend that has affected all the industry during the fourth quarter. And as has been said and published, distractions and other weather-related claims has affected this increase of frequency. Also, higher bodily injuries as well. And regarding our target below 98%, I think it's still in place. So, we believe we can achieve it.

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

The next question is from Paz Ojeda at JB Capital Markets, and she asks the following. Digitalization. What is the current status of VERTI USA? What is your strategy and what is the amount of investment you plan to make?

A - Antonio Huertas Mejías

Antonio speaking. About digitalization, we are on track with our announced plans to be one of the global leaders in the digital distribution. In terms of our new operations, talking about VERTI in U.S. and VERTI in China, we are still in progress; more better in the States because we expect that in the second half of the year - by the second half of the year, we will be ready to launch in Pennsylvania the first operations of this new company.

In China, we are still waiting for. But, in any case, our plans are very limited. We know that we have to be very conservative in development of this business and as well, we would like to take advantage of synergies of the businesses in different geographies: Spain, Brazil and the States. We are developing inside MAPFRE, not only in VERTI developing, complete digitalization strategy in order to have a better approach to the customers and to reduce cost and be more efficient. All of our plans are on track.

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

Thank you. The next set of questions comes from Michael Huttner from JPMorgan. And he mentions that the Investor Day suggested that 9% ROE is attainable from operating profit and 11% with realized gains from real estate. Is that's still the current thinking, what could be the run rate of realized gains from real estate?

And regarding the ROE target, Paz Ojeda from JB Capital Markets would also like to know the ROE in 2016 with 8.9%. Will the target for average ROE in 2016 to 2018 be maintained at 11%?

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

Thank you, Michael and Paz. If I remember well, we suggested at the Investor Day regarding ROE is that the average 11% was one of the toughest targets including the 3-

year strategic plan. But, I didn't remember any mention between where we split 9% and 11%.

And after one year of the 3-year strategic plan, I think there is still 2 years ahead, and it's still too early just to qualify the current 3-year 11%, average 11% ROE.

Regarding the real estate portfolio, a couple of things I would like to mention. First, MAPFRE has been extremely active always in this market and realize - and [also] as a market has been quite cyclical. Between 2006 and 2011, almost €300 million was realized in real estate gains. What happened is during the real estate crisis between 2011 and 2015, I mean, MAPFRE took a big hit and also the shareholders and almost €250 million were provisions allocated in our balance sheet and write-downs.

We believe and with the booming of the real estate market in Spain it's time to come back to realization, and I think MAPFRE deserve it and also our shareholders. And it was the right moment, I mean, to have inflow cash in our balance sheet. So, we're back to this current situation, and we believe that perhaps in the future and market condition permit it, we will be able to realize more gains on real estate.

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

Thank you very much. The next question is from Andrew Sinclair from Merrill Lynch Bank of America, and he asks the following question about mergers and acquisitions. Your capital position looks strong. Are you considering deploying capital through acquisitions?

Michael Huttner from JPMorgan also asks, MAPFRE's peers are looking more at deals in order to grow. Is that also the thinking of MAPFRE? And where could the funding from deals come from? What is the debt capacity of the group?

A - Antonio Huertas Mejías

Okay. Actually, we should say that our slow - I mean, in the current bank should be focused on profitable organic growth. We are not actively looking for new acquisitions and we are totally focused on our current business. So, for that, we don't have real concerns about futures funding of new operations. Our strategy is clear. We are always looking for opportunities but we are not an active player doing that.

We have enough food in our plate and we think that we have to consolidate to get maturity of our businesses coming from States, from Europe and to reinforce our market presence in our strategic main operations like in Spain, Brazil and the States.

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

Regarding debt, as you know, MAPFRE as a an organization, we're quite comfortable with our current leverage. It is among the lowest - I mean, among the largest insurance European entities, but the board of MAPFRE, we are quite comfortable at this percentage.

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

Thank you very much. The group has done its first Investor Day and is opening up more to investors. Can you say what the tangible benefits are? Is it quicker or cheaper, for example, to raise debt funding?

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

Yeah. Transparency is a plan that is being implemented across the board in MAPFRE, and one is for investors as well. Our first Investor Day was just one of the several initiative focused on improving transparency.

Obviously, this transparency has many intangible benefits for all the stakeholders which are, in my view, difficult to quantify. And as we saw in our senior debt issued in May, there are always opportunities for MAPFRE to issue at attractive levels, given our strong credit quality and also as we are a non-frequent issuer.

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

Thank you. Farquhar Murray from Autonomous asked the following on realized gains. Please, could you explain why you have not included the slide including the net realization gains' total as in previous quarters, specifically slide 61 from the 9-month 2016 presentation? Please, could you provide the total realized gains for the full year 2016 that tallies to the €152.3 million reported for 9 months?

And Paco Riquel from Alantra Equities also has a question regarding the extraordinary results. Can you please comment on the extraordinary in the fourth quarter results? I can see a cap gain from the sale of the MAPFRE Tower in Barcelona for €117 million and the write-down of intangibles for €53 million. Are there other negative one-offs?

Okay. We have decided this time in the disclosure we have given to you to focus exclusively on the actively manage portfolio. This truly reflect our ability to realize gains and this realization gains are in portfolios that are normally a consequence of sales to meet liquidity needs. These portfolios include Iberia Non-Life, MAPFRE RE and Global Risks.

In September, we were over €30 million in non-active portfolios mainly in international and America which were not included in December. If you need any further information reconciling the figures, our Investor Relation team will be available after the call to answer any question. In any case, perhaps, Mr. Jiménez want to add to something important to the question regarding the strategy.

A - José Luis Jiménez Guajardo-Fajardo

Sure. Thank you, and good morning to everyone. Regarding capital gains, probably as we have heard in our actively managed portfolios, we took profit loss here about interest rates, if you remember by the mid-year, the 10-year Spanish bond which is almost 0.9, which was a record low, and right now it's 1.7. So, this is one of the reasons that we actively manage that portfolio in order to do some gains. But, it is something that we are doing on a regular basis as part of our activities.

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

Thank you very much, Mr. Jiménez.

Thank you very much. Regarding dividend, Farquhar Murray asks, the dividend of €0.145 was slightly better than expected. Should we regard this as the nominal base level from which MAPFRE commits to increase in the future? And also on the dividend, Andrew Sinclair from Merrill Lynch asks, can we expect to see your payout ratio increasing further or would we aim to sit in the middle of your payout ratio?

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

Yes. Thank you. A couple of things here, Farquhar and Andrew, the increase in dividends was based mainly as the main driver is growing profits. So, we consider a couple of things as well. First, the cash - the excess of cash in our balance sheet, since the €50 million was expensed in the goodwill amortization, is a non-cash transaction. So, effectively, I mean, in terms of cash, the profit is approximately €825 million.

And the second is also our current capital structure, our Solvency II margin which is about 200%. So, both things, I mean, allow us to be a little bit more generous in terms of dividend.

And regarding the range, I mean, we sit just in the middle by chance. I mean, we did enforce it, but we would like to emphasize that the range between 50% and 65% is still enforced and we'll try to keep it during the 3-year strategic period.

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

Thank you very much. These next questions are concerning the developments in Brazil. Paz Ojeda from JB Capital asks, very positive evolution in Brazil, but there's deterioration in claims ratio in motor, even though MAPFRE is not decreasing tariffs. What's the outlook for 2017?

Paz, regarding this question, obviously we have seen worse combined ratio in motor, and this is due to frequency linked to delinquency and the theft. And there's also the effect on claims costs. This is due mainly as we have explained during the presentation to the slowdown in the economy in Brazil. But anyway, we feel optimistic for next year and we expect a better economic environment in 2017 and lower level of inflation. So, we expect this will have led to a better level of combined ratio.

A - Antonio Huertas Mejías

Antonio speaking. I'd like to add some ideas about the situation in Brazil. You know, we know better. We know very well Brazil, and its economy and how Brazil is embracing the current environment. Our forecast for 2017 is very positive. Could be the first year leaving back the recession and the beginning of the new era in this country. Brazil is one of the largest economy in the world, and we are very confident with the evolution. It's true that they are still ahead of us several uncertainties about the political situation, but Brazil can

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deal with that, and we believe some of that evolution – the evolution of the economy should be very, very positive.

In terms of lending, banking operations, insurance distributions and insurance penetration as well, we have a lot of opportunities ahead of us, our partner who is very, very confident, Banco do Brasil with a positive forecast of the economy, and MAPFRE has a very, very relevant market position to take the opportunity to continue being the leading company in the country. For that, we don't see any uncertainty in the evolution of our operation in this country, and we can say that we will get more successful businesses in upcoming years in this country.

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

Thank you very much. This set of questions is with regards to the evolution of the business at MAPFRE ASISTENCIA. Paz Ojeda at JB Capital Markets asks the following question on ASISTENCIA in Italy. It seems that the operating result has not improved in 2016 versus 2015. Could you please provide an outlook for 2017 and also indicate that you expect additional restructuring costs in 2017?

And Juan Cánovas from Fidentiis would like to know, can you please explain the strong increase in losses in other business activities in the fourth quarter? How much corresponds to ASISTENCIA and how much to multiyear contracts? Why did these multiyear contracts have such high losses?

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

Yeah. Thank you. And first of all, I would like to point out that the net losses for ASISTENCIA in 2016 amounted to €55 million. Both – I mean, I don't have the disclose with me, but I'm sure Natalia will give you details next week. ASISTENCIA and multi-year contracts are basically the same. So, the majority of the policies are 2 or 3 years' length. And regarding the disclosure and what we did in ASISTENCIA last year was, first, to reduce our capacity.

So, there were a number of countries that have stopped operations and so we reduced the capacity in our contact centers. We reviewed our assets in order to allocate provisions in order to cover the bad debts and other intangible assets. And also, I mean, it's difficult to predict, but the loss ratio for these multi-year contracts for next year, we believe that the majority of the losses have been captured in 2016. But perhaps, I mean, certain negative loss development could come up in 2016. We are quite confident that perhaps, I mean, we will have a loss in 2016, but I'm sure they will be just one digit loss.

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

If I may add something regarding – there is another impact in the other activities account in the fourth quarter, which is the Galeno you can find it in our annual accounts is Galeno Group filed an arbitration claim in 2015 against MAPFRE. This claim has been settled down right now. And in conclusion, the amount we have to pay was €14,002,500. And we have already reserved €5 million so, there is an increase of losses of €9 million in the fourth quarter. This can also help you to identify the losses in the other activities account.

Thank you very much. The following question is with regards to Iberia's operations, specifically in Motor and the worsening loss experience in the fourth quarter 2016. In this way, Michael Huttner of JPMorgan, Farquhar Murray of Autonomous, Paco Riquel of Alantra and Juan Cánovas of Fidentiis and Paz Ojeda of JB Capital ask, what was Spanish Motor claims inflation in 2016 and what does MAPFRE expect for claims inflation in 2017? Can you explain the sharp rise in Motor combined ratio in Spain in the fourth quarter and what are the prospects on claims ratio for 2017?

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

Yeah. Thank you. This is Fernando speaking again. What we saw in the fourth quarter is significant increase in both frequency and severity. I'll give you all some figures regarding frequency. There is a 6% increase in the use of vehicle with a peak of almost 25% increase of use of vehicle during the Christmas season, 5.5% increase of gas consumption in November, and also an increase in severity as was an uptick of the cost of basically the death coverage due to the Baremo implementation. We expected something like this because during the first three quarters, and we explained - I mean, it was difficult to adjust those claims regarding severe losses and due to the implementation of the new Baremo. And what happened is regarding death, and it was a significant increase. As of September, the average increase was in the 60%, more or less, and for MAPFRE during the last quarter jumped to the low 90s, 92%, I think, it was, the average cost.

In terms of tariffs, and as we already mentioned, our rate increase in 2016, we consider enough to cover the Baremo increase. And at the year-end, we can confirm that we are between the 80%, 85% of the percentile regarding the tariff increase, so there's like 15% room space for further development perhaps in 2017. So, the first conclusion is that the increase of rates was as, we mentioned, in line with the cost of Baremo.

Also something I would like to point out. Did you see the numbers and the average premium for automobile, for the total sector? Our estimation is 2.5%, the average premium, while MAPFRE's is 3.6%, is basically due because there is a reduction in exposure in the market portfolio while in the total sector increased nearly 720,000 new cars in 2016.

For 2017, we're playing the same strict rules on our rates. And we're proposing an increase of tariffs, higher or the inflation in order to cover basically an increase of frequency since, we believe, our provisions as well regarding Baremo are quite prudent and very well stated at the year-end.

Another thing I would like to point out as well, our IBNR, regarding third liability increased by 18% at year-end. So, we believe that our provisions have been quite prudent and we do not expect any negative development from the Baremo reserves.

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

Thank you very much. This next set of questions is in regards to the evolution of the business at Direct Line. Michael Huttner of JPMorgan, Farquhar Murray of Autonomous, Juan Cánovas of Fidentiis and Paz Ojeda of JB would like to know, what is the experience

of the group with the Direct Line deals in Germany and Italy? How has integration progressed? What is the return on the original investment in those two acquisitions?

A - Antonio Huertas Mejías

Antonio speaking again. Thank you. In fact, we are very happy with the position of Direct Line Italy and Germany. We believe that both were very relevant opportunities to put our feet on Continental Europe, and the most interesting countries for us, Italy and Germany. The reality is different in both operations. The integration has been very, very good in both cases and we have achieved the targets that we already defined for both operations.

In terms of profits and return on equity, we are observing, as you already know, a different evolution. Germany, from day one, has been very positive, and we are making money. Probably it's not in a very full or right position to - at the moment, but Germany is seeing progress in integration and we are taking advantage of the maturity of the Germany market is very, very different and we have a very well trained team working there.

We are a small company. We are working on the niche of the business and digital distribution work where competitors in the country are not totally aware of the positive evolution of this business. For us, to start doing business in Germany has been a very, very positive step to have this platform has been an interesting strategic approach to develop business in the most developed automotive insurance business country.

In terms of Italy, the approach is different. As you know, in Italy, we have made different changes in our first year of integration. We - when you got integration of Italy was very different, very tough. The market environment is very difficult. The labor laws in the countries are different to others, and we have made several changes in this territory in order to have a more efficiency company. For that, we have strengthened our efforts in this operation in Italy to have a more efficient company. We - our P&L in 2016 reflects this situation with important increases of reservice in terms of at risk reinforce or strengthen our balance sheet and the plans that we already made it to have a more simple or efficient structure.

From now on, the evolution of Italy business should be more positive. Probably, in 2016, we can't see the total positive effects of the restructuration, but in 2, 3 years' term, we will have a best company working in a very, very flexible environment and being the leading company in direct - in various business in Italy.

To recap, we are happy with both our position, has been a very good opportunity and the strategic options to have an excellent platform in both countries. And we should take advantage of these deals of the companies, integrate it in the digital strategies of the MAPFRE Group.

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

Thank you very much. On goodwill write-offs, what was the rationale for the goodwill write-offs in Italy?

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

Yes. Fernando speaking. I mean, there are two different explanation for this. First was the 2016 result, it wasn't expected in our budget. And also, we update our strategic plan for the next 5 years and also, we update as well projection - P&L projections. So, now, a combination of both, I mean, cost, this goodwill write-down we put in our books.

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

Thank you. And should EMEA reach technical break even in 2017? Could there be more restructurization costs in 2017?

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

Well, we should expect a breakeven in 2017 in EMEA. We haven't spoken about this, but Turkey is performing quite positively and able to offset any perhaps negative deviation in Italy or Assitance. Regarding restructuring cost, the bulk of the effort has been done in 2016, perhaps a small restructuring cost in some places or location. We're still thinking whether or not we'll keep on business in the future. But the majority of the cost has been booked in our profit and loss account.

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

Thank you very much. The next two questions comes Ivan Bokhmat from Barclays. Could you please provide an update on the dividend repatriation from the regional units? Do you anticipate any changes in 2017 or subsequent years?

Hi, Ivan. Regarding the upstreaming of dividends around the regional units, you can see this evening that we will release our individual accounts and they will be publicly available. If you have any other questions regarding these figures, we can answer them in the Investor Relations team. So, I think in this account, we'll see with great detail all the upstreaming from the regions.

Thank you very much. And the last question today, I believe. What impacts will the merger of MAPFRE America and MAPFRE Internacional have on dividend repatriation?

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

Well, Fernando speaking. And there is no any negative impact of the merger of both holdings. If there is any, it's a positive because capital will be more fungible. I mean, more flexibility in terms of dividends.

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

Okay. Thank you very much. I think this is all for today. As you know, you can call or talk to the Investor Relation Department if you have any further questions. And now, our chairman will give the final remarks. Thank you very much.

A - Antonio Huertas Mejías

Thank you, Natalia. Now, it's time to wind up the presentation where we've seen everything that MAPFRE achieved in 2016. For example, sustain business growth in every geographic region and all the main products. Secondly, a significant decrease in cost as a result of our efforts to enhance efficiencies, simplify and automate processes and contain training levels with excellent technical performance. Better financial yields, thanks to the rigorous and highly professional management of our assets.

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All of these have a positive impact in our results with a significant improvement in the ROE and a decrease in the combined ratio. Meanwhile, the high solvency margin enabled us to reinforce our commitment to shareholders. Substantial increase in the dividend in terms of both payout and absolute value per share which has now reached a 5-year high.

Most important of all, is knowledge that we can improve on these results in 2017 and thereafter as well, thanks to our focus on profitable and organic growth, barring the one-off extraordinary items we mentioned earlier, improving total earnings and increased profitability for shareholders will remain a reality in the coming years.

But in relation to that, I would like to show you that the future is already at present at MAPFRE. Everything we anticipate on the immediate horizon [are parts] of the realities that we are immersed in today and which will undoubtedly enable us to consolidate our competitiveness, efficiency and results even more. The context - I am referring, among other things, to, for example, innovation we're currently working on insurance frauds related to connected cars with semi-autonomous vehicle, big data, cloud computing, smartphone homes, et cetera. Automation, with the mechanization of both cars and the elimination of redundant elements in processes and simplification.

New trends and insurance needs like [several] rates, adaptive vehicles and private third party liabilities to move through, we call manufacturer liability. For example, on car sharing and other types of collaborative consumption, everything is focused on the customer, and we think that the customer should be the beneficiary of our transformation. We have to increase its - satisfaction.

So, we're clearly maintaining our public commitment that digital business continues to grow at MAPFRE. But, we are not just talking about initiatives like VERTI in Spain or other similar things that we have put in place in other locations worldwide. This is about something more than that. It's completely transversal - transformational processes are on track, and the group is undertaking that in its main market, which is going to resolve in the successful rollout of new technology-based business model that adequately addresses the changes in consumer habits and new economic and social reality.

So, we are embracing this information and our group, with our multinational and multidisciplinary vision is working on all of this aspects. Many thanks everybody to one of you for following this 2016 MAPFRE results and for following that so closely. Thank you very much and good morning.

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

Thank you very much and bye-bye.

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

Thank you. Thank you for being here.

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