

## Q4 2017 Earnings Call

### Company Participants

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

### MANAGEMENT DISCUSSION SECTION

#### Natalia Núñez Arana {BIO 19480994 <GO>}

Good morning, and welcome to MAPFRE's Results Presentation for Full-Year 2017. On this occasion, it's a great pleasure to have Mr. Antonio Huertas, our Chairman and CEO, here with us. He will start providing us with a brief review of the main highlights of the year. And at the end of the presentation, he will also participate in the Q&A session. It's also a pleasure to present our CFO and Member of the Board, Mr. Fernando Mata, who will take you through the main trends of this period as in previous quarters.

As usual, during the final Q&A, all questions received in the specified email address will be answered by our speakers, and the Investor Relations team will be available to answer any further questions you may have after that.

And now, let me hand the call over to our CEO.

#### Antonio Huertas Mejías

Thank you, Natalia, and good morning, everyone. Before we run through the numbers, I would like to go over the main highlights of 2017. The fourth quarter results have been excellent in the wake of the catastrophic events occurred during the year. We are happy to announce that our initial loss estimates have been revised downwards, thanks to our effective reinsurance program. Fernando will give you more detail later.

I'd like to make a special mention of two units that are performing extremely well: IBERIA; MAPFRE RE, where our profitable growth strategy is proving to be a great success. LATAM NORTH, LATAM SOUTH and EURASIA have also shown exceptional results. Other core units for us, Brazil and United States, need more time to reflect in their accounts the effect of the measures that are being already implemented.

Regarding to the fourth quarter results, I'd like to highlight that the NatCat losses were lower than our initial estimated, supported by an effective reinsurance policy; secondly, the extraordinary income in U.S.A. and Brazil; thirdly, significant progress made in cost reduction program; and lastly, successful management of our investment portfolio.

Overall, 2016 (sic) [217] (00:02:38) results exceed €700 million, allowing us to propose a total dividend of €0.145 per share, the same of the last year.

Moving to slide 4. Here, we are presenting the breakdown of shareholder remuneration for the last six years. At this point, I'd also like to highlight MAPFRE's commitment to stable and growing shareholder remuneration.

For the year 2016(sic) [2017] (00:03:10), the final dividend to be proposed to the AGM stands at €0.085, equivalent to a 63.7% payout ratio, which is within our target range. Therefore, the total dividend for the year will amount to €0.145. I'd like to stress that this high dividend shows our strong commitment to our shareholders, especially in such a difficult year in terms of cat events.

Let's move to slide 5. Going into more detail, let me give you a brief summary by business unit. Spain, we have grown in our line of business with an excellent technical result. Thanks to our prudent underwriting guidelines and gaining market share in the majority of business lines.

In Brazil, one of MAPFRE main features is our business diversification. And in this country, this has helped us offset the effects of strong competition in Motor business with outstanding results in other lines. We are confident that the improvement of the economic environment of the country is underway. In addition, we have just announced the signing of a memorandum of understanding with our partner, Banco do Brasil, to update our bancassurance agreement after six years of success.

According to this new agreement, MAPFRE will allow 100% of the business generated by the agent network and the motor and large risk assessments in BB, Banco do Brasil bancassurance channel. However, it won't affect Life and Agro business. We are very happy with our partnership with Banco do Brasil, and we are laying the foundations to make it more efficient and profitable. Both groups think the same. We have now more opportunities to increase business and profits.

Now, let me talk about the U.S. markets where the Northeast region continues to be a key to MAPFRE. As we announced during our last Investor Day, we have already implemented a new strategic plan for this country and expect to see a result soon. As far as I know, we are closer to exit from the states where we have always decided. Also, we have benefited from the recent tax reform, which has have a €38 million on attributable result.

As we also announced during the Investor Day, we have already joined the former EMEA and APAC regions together into EURASIA, and our figures have been reported accordingly as you will see during the presentation. In Germany, the rebranding of our direct business into VERTI has been a great success. In Italy, we will start with the rebranding in a few weeks. In this country, we are starting to see premium increases and good improvement of the business. Malta and Turkey have also reported spectacular increases in results. All in all, they give us healthy growth in EURASIA.

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In LATAM NORTH, Dominican Republic and Central American countries are doing very well with outstanding performance. Mexico is still in transition, as has implemented many measures to improve. LATAM SOUTH is showing an excellent improvement in many countries like Colombia and Argentina. Furthermore, Peru and other countries present great results as well.

Going to slide 6, MAPFRE RE, we are very proud for our insurance unit. MAPFRE RE's performance has been outstanding in a difficult year. Thanks to its excellence in underwriting and effective reinsurance program, which have allowed it to successfully manage the impact of the catastrophes. Additionally, we have seen the benefits of diversification, both geographically and by business mix.

MAPFRE Global Risks suffered heavily the cat events. Also during the year, had a few number of losses, which affected dramatically its results. And finally, ASISTENCIA units is being very closely monitored and improvements are expected, thanks to the strict underwriting, cost-cutting, and restructuring processes implemented.

Let's move to slide 7, where you can see the main figures for the quarter. Revenues went up to €28 billion with an increase of 3.3%. Life Insurance shows a better performance with 4.2% of growth. P&C represents 77% of our total premiums and grew by 2.6%. In the middle of the slide, you can see premium growth excluding foreign exchange rate effects, which shows a premium growth of 4.1% without this effect.

Combined ratio stood at 98.1%, and expenses remained stable. Loss ratio went up mainly due to the weather-related losses. The column on the right shows data excluding the NatCat events that affected MAPFRE's primary insurance business during 2017. The result stood at over €700 million with nearly €256 million during the fourth quarter.

Excluding these cat events, the result would have increased by 6.5% to €826 million, a reduction of 1.2 percentage points on the combined ratio. The ROE would have reached over 9%. Finally, I'd like to highlight the excellent solvency ratio, which was 189% by September 2017.

Now, I will hand the call over to Fernando Mata.

**Fernando Mata Verdejo** {BIO 19676348 <GO>}

Thank you, Antonio. Good morning, everybody, especially those early birds connected from the states and not too early. Happy to have this opportunity to be here with you again. Before going into the details of our annual accounts, let's take a look at the impact of exceptional catastrophic losses on MAPFRE's results in 2017. These events were the largest accumulation of cat events in a three-week period in all MAPFRE's history. We were very accurate in our initial loss estimates, releasing figures ahead of our peers.

The gross loss is now estimated just over €1 billion with €100 million reduction compared to the initial estimate. Of this €1 billion at year end, €189 million correspond to claims paid, €552 million of outstanding claims, and the remaining €306 million of IBNR reserves.

The total net loss is €183.8 million, including the Coastal Niño, of which €125.6 million correspond to losses at primary insurance units, the remainder at MAPFRE RE. During the last quarter, the main variations were a significant reduction in losses at MAPFRE RE and Global Risks, which was slightly offset by an increase in losses in Puerto Rico.

MAPFRE's strict underwriting policy and our reinsurance protection has helped mitigate the impact. Also, we have implemented the necessary processes in each of the affected countries to handle and settle all claims as quickly as possible.

However, settlement will go on for months and some of this adjustment could be quite complex.

On this slide, you had the breakdown of premiums and results by region and business unit. You can see that MAPFRE's proper geographic mix has also helped our resilient results. Insurance unit represents 75% of business volume and MAPFRE RE represents over 16% with the remainder of premiums at Global Risks and MAPFRE ASISTENCIA.

Regarding insurance units, IBERIA represents nearly 27% of total premiums followed by Brazil with 18.6% and the rest of LATAM with over 13%. North America contributes nearly 10% of business volume and Eurasia also has a strong share with 7%.

On the right, you can see the evolution by business unit, which we will discuss in more detail in the following slides. Regarding attributable result, IBERIA stands out with over €500 million, by far the largest contributor. I would also like to point out the strong recovery in EURASIA with an over €100 million increase in net result, as well as an over €50 million improvement in LATAM SOUTH.

These are both clear example of the success of the restructuring processes that have been implemented in both regions during the last two years. Furthermore, the results in Brazil have proven very resilient, taking into account the market context. MAPFRE RE has performed very well too, especially considering NatCat events. Finally, IBERIA's result excluding real estate transactions grew by almost €27 million.

On this slide, you can see that revenue was up over 3%, supported by the positive evolution of premiums while financial income is still being affected by lower reinvestment yields across LATAM basically and Europe. Other income grew substantially stemming from positive currency differences. The Life business grew by over 4% and Non-Life by 2.6% despite the cancellation of more than €528 million of loss-making portfolios, in line with profitable growth strategy that started two years ago. Growth was positively affected by a multiyear policy in Mexico for nearly €500 million issued in June 2017, already mentioned in previous quarters.

In addition, I would like to highlight the following: in Spain, the Life business is performing extremely well, especially in unit linked with outstanding performance in the bancassurance channel. Retail Motor and Health are also growing, thanks to new campaigns and fine-tuning of some products. In Brazil, we seen some green shoots with a

slight pick-up in premiums in local currency, but the appreciation of the Brazilian real is still the main growth driver.

Let's move on to the next page. Slide 11, I would like to take a look at the extraordinary impacts that have affected MAPFRE's net result. 2017 was a special year in terms of complexity and one-offs.

We have already mentioned the largest effect has been NatCat losses, with a net impact of around €126 million. Net realized gains were also €75 million lower than 2016, comprising both financial investment and real estate. The decrease is mainly due to the sale of MAPFRE Tower in 2016 and lower realized gains in the fourth quarter of this year.

On the other hand, we booked two nonrecurring positive events in December this year. The first impact is related to the write-down of intangibles. As you may recall, last year, we wrote down goodwill by over €46 million, mainly in Italy.

In 2017, the positive net impact of €28 million is the result of write-downs with goodwill and other intangible for €75 million, offset by the cancellation of a provision amounting to €103 million. With these cancellations, we have aligned balance sheet valuations with the current economic context and distribution structure in Brazil.

Second, there is an extraordinary income of €38 million at MAPFRE USA as a result of the decrease in deferred tax liabilities from the U.S. tax reform. And last, a €27 million positive impact due to the reversal of a provision for bancassurance made in the first quarter of 2017 that you already know.

On the screen, you can see the breakdown of key Non-Life figures by region and unit. The result of Non-Life was impacted by, first, the fall in underlying financial result, mainly due to a decline in yields and inflation in Brazil and the rest of LATAM, as well as the low interest rate environment in Europe. Second, the already mentioned cat losses of the period affecting mainly North America, MAPFRE RE and Global Risks.

I would like to emphasize the following positive trends in combined ratio. The improvements in IBERIA, which I will cover in more detail later, the 6.3 percentage point improvement in the combined ratio in EURASIA. Thanks to successful restructuring and better claims experience. And LATAM NORTH, minus 4.2 PP, and LATAM SOUTH, minus 2.2 PP, are reaping the benefits of profitability initiatives.

On this slide, I would like to comment more in depth on the result of the Non-Life business, which has proven quite resilient excluding the impacts of NatCat events and other nonrecurring events already mentioned. Please keep in mind that the extraordinary events disclosed in this chart are before taxes and minorities.

As you can see, the underlying result decreased by €69 million, with two opposing factors. First, there is an improvement in the technical result of €62 million; and second, a decrease in the financial result of €131 million due to the already mentioned reduction in

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yields. On the right, you have the combined ratio information, which stood at 98.1%, 96.9% excluding cat events.

While we're talking about Non-Life, I want to discuss the extraordinary Non-Life results in Spain. The implementation of the Non-Life transformation process that began in 2015 focused on profitable growth is delivering results in Spain. You can see on the left, pre-tax profit grew from €235 million to €427 million in two years. This outstanding performance was achieved, mainly thanks to the reduction of the combined ratio, which improved from 97% to 94% (sic) [98%] (00:20:20).

On the right, you can see the Motor premium growth reaching 3.9% in retail lines, while fleets are still decreasing. Total Motor premium growth was 3.5% compared to 3.4% for the market. MAPFRE España is outperforming the market despite the cancellation of underperforming business segments.

In the year 2017, MAPFRE has continued reinforcing its leading position in the Non-Life Spanish market and has increased its market share in Motor, Commercial and Health business. MAPFRE's growth is based on profitability and average Motor premium growth is well above the market.

Continuing with the strategy for profitable growth, MAPFRE España has implemented a series of measures to control and reduce claims and expenses in Motor lines. All of these measures have significantly lowered the combined ratio, which stood 5 points below the market and has continued improving.

At the close of 2017, MAPFRE's Motor combined ratio stood at an extraordinary 90%. I'm going to skip the two following slides, which contain the main highlights for Non-Life by region and unit.

Moving on to information regarding the Life business, we will take a look at premiums which are up over 4%, thanks to the outstanding performance in the bancassurance channel in IBERIA, as well as positive developments in Mexico, Colombia, Peru and MAPFRE RE. In Brazil, Life premiums are down 2% as a result of lower lending activity. The result of the Life business is down slightly largely driven by the decline in financial income in Brazil due to the sharp fall in interest rates and inflation. This was mitigated by strong results in Colombia and Peru, as well as the gains in IBERIA from the cancellation of the provision for continuous liabilities in the bancassurance channel already mentioned.

Shareholders' equity decreased by over 5% in the year, mainly as a result of the depreciation of all of our main currencies, and I repeat it, all our main currencies especially the Brazilian real, nearly 14%; the U.S. dollar around 12%; and the Turkish lira, over 18%. All the Latin American currencies have also fallen in value against the euro.

Assets under management continue to grow steadily, thanks to the strong performance of equity markets during the year. This positive trend was partially offset by the decrease in the value of the bond portfolio due to an uptick in rates in Europe, especially at the longer end of the curve. Finally, the mutual and pension fund businesses continue with a

strong growth, nearly 10%, thanks to MAPFRE's successful strategy to foster the Asset Management business.

Next, please. As you can see on this slide, our investment strategy has been stable throughout the year with a slight reduction in fixed income assets mainly reinvesting in equity and mutual funds, but also in alternative assets. We took advantage of higher volatility of the year to make changes in our portfolio.

Please turn to the next slide. Realized gains in Non-Life are lower than the previous year's figure mainly as a result of the sale of the MAPFRE Tower last year. I would like to point out the high level of unrealized gains on our equity and mutual fund portfolios in Europe, around €130 million. These give us a leverage to take advantage of. And finally, it's worth pointing out the high-accounting deals in in our portfolios, 2.6% in Non-Life, and over 4% in Life, well above market deals and quite stable during the year.

Next, please. Yeah. On the left side, you can see the breakdown of our capital structure at year end, which amounted to €12.8 billion. Its largest component is equity with 82% of the total and you can see its breakdown on the chart on the bottom left. The majority is capital, retained earnings, and reserves. They're over €600 million in net unrealized capital gains, which remain, as you can see, quite stable for the last three years even after realizing over €100 million in 2017. Finally, these gains are offset by over €700 million in negative foreign exchange differences.

The right side, you can see the evolution of the shareholders' equity, which has fallen by over €500 million during the year to €8.6 billion. The decline was largely driven by the depreciation of our main currencies, which we have already mentioned, resulting in a €639 million decrease in equity. On the other hand, there was a decrease in financial assets available for sale, which was partially offset by a shadow accounting.

On the next slide, we will present the Solvency II information, which was already given at the Investor Day, so there are no further details to discuss now. Just as a reminder, we will release the full-year Solvency II figures with the first quarter 2018 results, which will include the annual solvency capital requirement calculation.

That's all for me. As I said, 2017 was a complex year in terms of one-offs and cat events, but we were more than happy with the final outcome. We hope the information disclosed has been interesting for you.

And now, Antonio Huertas is going to discuss the MAPFRE-Banco do Brazil alliance and wrap up the presentation. Thank you.

### **Antonio Huertas Mejías**

Thank you. Thank you, Fernando. At this point, I would like to go back over our new scenario in Brazil. As you know, we have just announced a Memorandum of Understanding to update our agreement with Banco Do Brasil. According to that, MAPFRE will control 100% of BB MAPFRE's agency channel.

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Secondly, MAPFRE will also control 100% of Motor and Large Risk business in the bancassurance channel. Next, MAPFRE will maintain exclusively, both in Life and Non-Life, for the distribution of products in the Banco Do Brasil channel. And finally, BB MAPFRE will focus on Life, Agricultural, SME and Homeowners insurance for Banco Do Brasil customers.

Please to the next slide to see the main advantages of our new agreement. What will this argument bring to MAPFRE? In my own evaluation, firstly, it significantly increases our shareholding in Brazil. Secondly, it increases the profit contribution, expanding its consolidation scope from Brazil. Also, it will simplify MAPFRE's strategy execution in Brazil and eliminate shared management restrictions, giving us even more freedom to make management decisions. Moreover, leveraging the MAPFRE brand in Brazil, becoming along the second largest non-life insurer in the country. And last but not the least, exclusivity, exclusivity in the Banco Do Brasil channel is maintained.

To draw the presentation to a close, I would like to outline some conclusions regarding 2017 MAPFRE performance. Firstly, MAPFRE has delivered solid results in an extremely complicated year. Secondly, we continue demonstrating our financial strength, conservative management strategy and a continuous commitment to our shareholders. Also, after the successful implementation in IBERIA, the focus on profitable growth is beginning to bear fruit in other regions. To wrap things up, we are satisfied with the results of a well-defined and well-executed strategy.

Thank you. And now, we will let Natalia begin with the Q&A session.

### **Natalia Núñez Arana** {BIO 19480994 <GO>}

Thank you, Antonio. Thank you, Fernando. We hope that you have found this presentation useful and that we were able to cover the main topics of your interest.

And now, as in other quarters, we will try to answer all the questions you have sent, time permitting. If there are any remaining question after this call, please feel free to contact the Investor Relations team, who will be more than happy to help you with whatever you may need. Now, let us start with the Q&A session.

## **Q&A**

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

First question, regarding Brazil, coming from Paco Riquel, Alantra Equities, is regarding the reorganization of the JV in Brazil and the buyout of the Non-Life business. Is this a deal that you can finance with that or would you consider raising equity at all?

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

Thank you, Paco. First of all and, as you know, I'm pretty happy to answer question regarding Brazil, but there is not yet a deal and what we have signed is a non-binding agreement. And we have to still - to wait still probably a couple of three months in order to wait and have the final contract. But anyway, I mean, let me say that with this current



non-binding agreement, there is no change in the risk that we are taking in Brazil. I mean, solvency capital requirement will be quite similar and also total assets as well. But you are right. I mean, the only change that we have to replace, some of them are minorities because the acquisition will be in cash, and we have to replace minorities by some sort of a capital instrument.

At that point, we haven't decided yet. It could be both. I mean debt or, well, right issue, we haven't decided yet. And also, you have to bear in mind as well that there is an excess of cash currently in Brazil that we can use for this potential acquisition.

Regarding our capital Solvency II ratio, capital levels are currently excellent and within the target range of 175% to 225%. So, overall, we do not expect a significant impact on our capital position.

### **A - Antonio Huertas Mejías**

I would like to add to Paco information about your question if we are able to get any synergy or efficiency gain from this acquisition. It's - indeed, we don't have any doubt about that. You know that, usually, when you run a company alone, it's better than doing that with inside a joint venture.

As well, MAPFRE has a strong knowledge of P&C business. And, usually, in all the Latin American countries, we run these companies alone doing our best, getting excellent results. In terms of our business in Brazil for years, we have had good returns. And we know that managing this business, both business coming from the agent channel and the Banco do Brasil channel, we can increase the efficiency, mixing the themes, using one-single platform, and trying to make the most out of our knowledge. We haven't yet quantified the savings, but we know that we will do better managing this business in the new scenario.

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

Thank you very much. The next question is also regarding Brazil, also comes from Paco Riquel. And the question is, what is the financial criteria that MAPFRE will follow when assessing such an acquisition?

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

Thank you, Natalia. Back to our commitment regarding this deal. As we said, we focus on our current footprint and we were more than happy, I mean, to expand and also our current strategic operations. And obviously, Brazil has been and will be for sure, I mean, a strategic operation and country for MAPFRE. It's a quite attractive market with an excellent growth potential. And as you know, is moving out of the recession, the current macro figures, I mean, look much better. Regarding insurance, it's a country with a still low insurance penetration. So, it gives a lot of opportunities in order to expand our premium volume in Brazil.

Regarding valuation, the assessment of the business that will be acquire both BB Seguridade and MAPFRE both are listed company. So, we together both teams and in

order to get the market price valuation for this transaction, it can't be other way. So, for sure, we'll have an arm's length transaction at the end of the discussions. Obviously, we will look at the potential synergies as Antonio said and future business plans and so on.

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

Thank you very much, Fernando. Next one also on Brazil. What has been the net attributable profit in 2017 of your 50% stake in the Non-Life business in Brazil and was it impacted by any one-offs?

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

Yes. Thank you, Paco. As you know, the stakes of the corporation in Brazil, they're split now into Life and Non-Life, but into bancassurance channel and the agency channels. Majority of the bancassurance channel comprise Life, but there is Non-Life. So, we don't have with me at this point, I mean, the right figure regarding Life and Non-Life. But let me say that the current scenario in Brazil, I mean, is not the best for Non-Life business. Automobile combined ratio stands for MAPFRE currently 108%. Fortunately, further line of business, they're offsetting these bad results. But overall, we are quite happy, I mean, with Brazil performance.

Regarding one-offs, as I mentioned, the most relevant one-off is the €28 million, which is the net effect of the write-downs of intangible assets for Non-Life and also the cancellation of provision for expenses and risks. Both balances were accounted for in 2011 as a result of the bancassurance alliance with Banco that year - with Banco do Brasil, and both have been cancelled.

The provision for €103 million, the liability was established at that year to cover the potential risk for different sort of expenses. And it was cancelled because it was no liability further for MAPFRE.

On the other hand and in that case, there are two main reasons. First is the current economic situation in Brazil, particularly affecting the motor line and also the final outcome of the alliance with Banco do Brasil. So, in the end, we thought that both the environment and the change in the alliance could affect any potential impairment of our goodwill. And we decided as well, the board decided to write off both in all sort of intangibles affecting the agency channel - mainly was a goodwill, but it was a small amount as well of value or book acquired. So basically, this was the one-off separating to assets and liability, income and expenses, and affected more than Non-Life. It affected the agency channel.

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

Okay. I think it's clear. Anyway, if you need further explanation, we are available later on. Next one also from - regarding Brazil, is the question coming from Andrew Sinclair, Bank of America Merrill Lynch. How much is MAPFRE paying up from the extended Banco do Brasil relationship?

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

Well, I will say, this is a non-binding agreement. We haven't set the price, the consideration yet. It will take at least two to three months. The first thing we have to get or we have to complete is the independent review of the financial accounts and get the independent auditors' reports, and also to draw the final contract. But, Andrew, for sure, as I said, the transaction will be at market price. I mean, both are listed companies and, in the end, we'll have an arm's length transaction 100% sure.

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

Thank you. We continue with Andrew Sinclair and Brazil questions. In Brazil, Life premiums are still declining year-on-year in local currency. What signs have you seen of a turnaround?

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

Yeah, you're right. The Life business fell and affected by the drop of Life protection insurance. You very well know that there is no savings business in Brazil. Let's say that the trend is well linked to personal loans from Banco do Brasil. We haven't seen yet a relevant increase in the lending activity. So, the evolution in the next quarter will depend basically to the recovery of the economy. We'll keep the same trend. In the end, it will be on an increase of lending activity. I guess that the process is underway. The recovery on the banking activity, as I said, and also the distribution of personal loans from Banco do Brasil.

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

Great. And next one from Andrew Sinclair also is regarding the Brazilian investment income both in Life and Non-Life that it has been materially lower in Q3. Should we expect further deterioration in Q4 as the SELIC has declined further?

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

You're right. I mean, we're seeing a relevant drop in the yields in Brazil. You still remember those good times with the SELIC rate at above 12%. Last year, at year end, it was nearly 7% the deal. Sometimes, we said and we were right that their portfolio was privileged, but it won't last forever. I mean, we have to obtain the maturities and we're trying to replace with the higher yields available in the market. But this year was a significant decrease in financial, recurring financial income, approximately €100 million.

The impact on the net result was completely different because in Brazil there is only 25% on net results for Life, mainly coming from BB, but in Non-Life affected basically 50%. As long as their GDP goes up and the interest drops, which is what we've seen, let's say, that we're trying to compensate both factors. Inflation rate, they are decreasing. We expect a very good impact in our structural cost in Brazil. So far, what we've seen since the majority of our investments are inflation-linked instruments. What we've seen is the damage on the value of the financial income, but we expect to see the effect of the inflation drop in our loss and expense ratio during this year and probably next as well.

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

Anyway in the financial information we have released in the Brazil part, you can see that we have estimated around €100 million the decline in financial income during this year both Life and Non-Life. You can – if you need further explanation, but you can find it in the Brazil part in the financial – in the MD&A that we have released today.

So next question is regarding MAPFRE USA. Now, the first one comes from Paco Riquel, is if – can you update on the restructuring plan in the U.S. the exits from several states that we had announced during the Investor Day and on the online launch in Pennsylvania.

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

Thank you. Paco. What we've seen and probably Antonio then will give you an additional comment as well. We expected both a transaction, the one in the middle states and also New Jersey being pretty difficult. We know that because of the size of some operations in some states are quite small and also because they were running in losses. At the beginning, we thought that it was a difficult task. Fortunately, we seen some interest for both operations and we're quite optimistic in the medium run. I mean, we don't see to any solid expectation to fulfill both operations in the future, two, three months. But at least we've seen a lot of interest for both operations.

I don't know. Antonio, do you want to add something?

**A - Antonio Huertas Mejías**

Yes. It's true. We are very positive and we should expect major changes, advances in the process in upcoming months. It's not easy, as you know, that in the states, we have to a follow a strict regulatory process to exit from different states. But the interest that our operation has surged has been very, very positive and we think we are achieving our goals in the next few months.

Talking about our development of the new operation in Pennsylvania, VERTI. I have to say that it's very soon to say information about that. Our VERTI launching has been very, very soft. It's a beta operation and we are still trying to improve the system to make the fine-tuning in tariffs to know better the market competition in the States and even the developing of the approach is still on track. We are trying to do to make changes in the next months to improve the distribution platform and how we can be more competitive in the state, but, at all, we are happy with our launching in Pennsylvania and we have completed the launching in record time and the thing is ready to reach its objectives.

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

If I may add something as well, the most likely transaction that we're looking at now is renewal rates. The sale of renewal rates for the central states and there is some interest for the operations. I mean, they're a corporation from a business in New York and New Jersey.

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

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Okay. Thank you very much. And now regarding taxes, how much of the €38 million positive impact from the U.S. tax reform on the attributable result? How much could be considered recurring?

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

Yeah. Thank you. It was a great surprise. It was our Christmas present. We didn't expect anyway, but let's say that we consider this as a one-off and it won't be recurrent. The €38 million positive impact is after tax obviously. It came from the decrease of the tax liabilities.

Unfortunately, I mean the tax assets stemming from MAPFRE ASISTENCIA. We wrote off and because of the running losses for this unit and the 38 million is affecting MAPFRE USA and the origin is basically timing differences, mainly the use of Life used to calculate depreciation different from tax purposes and for IFRS purposes. Obviously, we'll be at recurring effect because, going forward, the tax rate will be called - will go down from 35% to 21%, and so we will expect a higher net result coming from MAPFRE U.S. business.

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

Great. Thank you. Now, we are changing and moving to MAPFRE Global Risks. Carlos Peixoto (00:50:08) from BPI remarks that its fourth quarter combined ratio was quite low. What was behind the improvement, any release of provisions here?

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

There is nothing relevant, I mean, in the fourth quarter rather than the decrease of the €40 million from the cat losses and also the good performance at Solunion and the agreement for the surety business, which contributed extraordinary income of €5 million. But in general, I mean the fourth quarter was quite steady in terms of losses and weather was quite benign both in the U.S. Well, there was a big snowfall in Massachusetts, but it was quite benign in Spain. Unfortunately, the change - the weather change in January and we had a severe weather in both, in the U.S., in Massachusetts and also in Spain in January, as you know well.

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

Thank you very much. Now Michael Huttner from JPMorgan wants to know, what should we expect in terms of your challenging unit in full-year 2018? What is the outlook at ASISTENCIA? Will it profit this year? How much can you reduce the losses in Italy and Germany this year?

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

Well, I take it and then I'm sure Antonio will give some comments as well. ASISTENCIA, as you know, we've been dealing with the current problems of ASISTENCIA for the last two years. The first phase was focused on cancelling unprofitable business. It was mainly 2016 across the board, but mainly focused on Europe and UK travel assistance. Multi-year portfolios were provoking a lot of the losses. The second phase was focused on balance

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sheet cleanup and adjusting some cost structure to business volume. We started deteriorating writing off intangible assets as a decrease in the business projections.

We wrote down as well some debtors and in the end some tax assets, as I mentioned, particularly in the U.S. The reduction of expenses was made at year end of 2017. So, we will look at the 2018 loss cost structure lower than last year. So, in the end, we expect better results. But, I mean, it's too early to say that probably we will see a turnaround next year or a small loss.

## **A - Antonio Huertas Mejías**

Yeah. I would like, Fernando, to add some words about the MAPFRE development during the 2018 year. We are very positive because we think that the units that are going well will be on the same line. IBERIA and MAPFRE RE are already in excellent profitability levels, but we can still expect some room for improvement especially, for example, in Spain in homeowners and third-party liability.

In U.S., as you know, the foundations have been set to improve technical results and we should expect during the year better returns, especially at the long end of the curve as well as the lower tax rate.

In Brazil, we are very confident with the new scenario, with the measures that we have already taken to improve the results. We can expect better performance as well. We could still see some headwinds from the lower interest rate environment and currency volatility going forward, but we should benefit as Brazil moves out of recession.

ASSISTENCIA, as Fernando said, the reduction or losses should also be a positive driver at 2018 result. And we can't forget Mexico. Mexico is a great country. We have there an excellent platform and we expect in 2018 better improvements. And if God permits, we don't expect big cut events during the year and we should get better results due to the lower frequency in big cat events.

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

Then, one thing I forgot, Michael. We're running wonderful - small but wonderful profit in Germany even looking at the papers and the net result grew from 2.4% to 2.7%. So, there are no losses in Germany.

Regarding Italy, you're right. I mean, the losses are still there and a significant decrease due to the restructuring changes made last year. And we're quite positive. I mean, the outlook is much better from Italy. But still probably, we expect one-digit loss next year.

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

Okay. Thank you so much. Next question is coming also from Michael Huttner from JPMorgan and is regarding the U.S. program of gradual withdrawal from loss-making states. What's the progress and how much benefit could we see this year from that program?

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

Thank you, Michael. I mean, it's too early. We said, as you know, at the Investor Day, new targets for business in the U.S. It's just one month after we released these objectives. So, I mean, it's too early just to discuss or to comment on the performance of these objectives.

Mainly, it will depend on the - how fast we are, I mean, in the restructuring of the different states. So, coming back to my words I previously mentioned, I mean, we're quite optimistic for both potential transaction, the sale of the renewal rights in - for the central states, also the sale of the operations in New York and New Jersey.

If we sell both operations. I mean, let's say, at a good price, that we are expecting a good price. Let's say, that the net income will be much, much better, I mean, from the U.S. For the long run, as I said, I mean, it was a great and wonderful surprise, the reduction of the tax rate in the U.S. It will help us to increase as well our net income. And also, I mean, there is our protection as well for the goodwill impairment test that we have to carry for the next years.

Regarding the operations, Massachusetts and, in general, Northeast New England, I mean, is performing well. Combined ratio is in the low 80s percent. Last year, it was extraordinary. The quota share in reinsurance contract with MAPFRE RE is working well. So, I remember that one-third of the profit growth (00:58:05) lead to MAPFRE accounts. In the remaining states, there is still an increasing combined ratio. But we focus on the plan made and unveil at the Investor Day in order to reduce on those states that are under development in order to reduce losses and improve combined ratio. Probably, I mean, at the first quarter 2018, we will be able to give you further details regarding progress in the U.S.

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

Thank you very much, Fernando. Now, we have a question regarding Solvency II. It's from Paco Riquel. Do you expect the Solvency II ratio to improve in Q4 from 189% levels in Q3 despite the increase in the dividend payout?

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

Thank you, Paco. Let's say that we're expecting two non-relevant effects to have at the year-end Solvency II calculation. First is the, let's say, the future business profit that we only estimate on yearly basis. So, on the quarter release, this is positive impact on eligible fund is not contemplated. The second is the cat losses effect. There is a relevant increase in our assets due to the reinsurance to be collectible, I mean, from our reinsurers and also an increase in provisions.

As I said, there's over €500 million, including IBNR like €700 million of increase in outstanding losses in the liability side of the balance sheet. Both represent more requirements in terms of Solvency II capital requirements. But we do not consider it to be relevant I mean taking the figures as a whole from MAPFRE. So probably, it will be a slight

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increase on improvement, but it is still too early, I mean to assess the final impact, but they will be for sure non-relevant.

< : Okay. Now, we are going to ask you something about IBERIA because we haven't talked yet about that. Silvia Rigol from BBVA, Carlos Peixoto from Caixa, Pax Ojeda from Sabadell and Michael Huttner from JPMorgan wanted to know what happened during the quarter in the Life unit. Why have margins decreased despite lower mathematical provisions?

Thank you, everybody. I mean, there are two main reasons for the decrease in the fourth quarter. The first has been lower level of realized gains and has affected the financial income. As we mentioned, I mean, the positive one-off that we booked in December, I mean, the 28% in Brazil and also the 38% in the tax effect in the U.S. allow us, I mean, to decrease the pace of realized gains from financial investment. So, this is the first reason.

And also, additionally, as you remember, it was early retirement schedule in Spain that took place affecting almost 100 people at that cost of €35 million. The cost was split between Life and Non-Life and I guess this is one of reasons for the decrease - for the drop in net results in the fourth quarter.

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

Thank you so much, Fernando. And there is another one regarding Motor combined ratio in Spain. Is Motor combined ratio recurrent for coming quarters? Could you give us more details on VERTI in Spain?

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

Thank you. We are certainly happy with the combined ratio of Motor in Spain. Of course, we don't have the magic ball to know what's going to happen with the business, but we have in our hands all the possibilities to continue on the same line. MAPFRE started to raise the tariffs two, three years ago when we saw the future difficulties of the business for the implementation of the Baremo, for the recovery of the economy, and the market competition. For that, we did our duties and we now are very sure that we are on the right track. We have canceled many non-profitable business in Motor, and we are trying to run the business in a very positive way. But it's difficult, we know, to maintain this combined ratio close 90%, but we have still room to improve other lines as well as homeowners, health, and third-party liability and others.

And we have - even in Motor, we are growing over the market, having increases in our premiums in the line. We are very positive. Talking about VERTI, we said two years ago that we started a new -- trying a new system with VERTI because of the differentiation of the company in the market as well. VERTI started the process to work more together with MAPFRE in the back office processes and VERTI has made many, many savings in the back office operations.

VERTI is growing less than the beginning of the operation, but it's growing. VERTI is trying to be the leading company in online business in Spain and reaching the breakeven, even

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making a little, but profits during 2017. We are positive and it's the beginning of a new time for this operation. Seven years after the launching, we have gotten the goal. And now, we are trying to improve the quality of the business, the quality of the service, as well the increase of the margin, of the direct insurance of VERTI.

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

Okay. Regarding also Spanish Motor combined ratio, there is a question about it. Is there - it includes, this exceptional, good combined ratio of 90.8% in Spain includes any one-offs such as reserve releases of the Baremo provision?

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

Yeah. Thank you. I mean, the 90.8%, I will clarify. First, the 90.8% is from Spain and Portugal Motor is from IBERIA. From Spain, it's even lower because it's 90.5%, but the reduction is not due to one-offs. It's due to the quite extensive number of initiatives taken for the last two years in order to improve our performance in this line of business. The only release of a provision we made was the €15 million of the Baremo provision that was made at the third quarter, if I'm not mistaken.

And probably, I mean, it's very likely there is no changes in the current trend. Probably, we will release the remaining balance, which stands at, I guess, €20 million, I'm not sure, but probably next year. What happened - I mean in the - also - I mean, the effect of those initiatives was as well helped by a quite benign weather during the last quarter. There were just the contrary last year. But, let's say, that we're quite proud of the job made in order to improve the performance for Motor line in Spain, which is key strategic and a very good example in order to implement the same process in other regions and countries.

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

Thank you. And now regarding the bond portfolio, Carlos Peixoto from BPI asks what could be the impact of 100 basis points rise in European sovereign bonds? What is the modified duration of the portfolio?

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

Thank you, Carlos. To be honest and overall it will be a very positive news if it happens, but we do not expect 100 basis points increase. And it is true that we expect an increase on rates, but probably nothing significant in next year in 2018 despite the recent movements in the financial markets.

We will prepare for you, I mean, the calculation, the sensitivity analysis and we will back to you with the numbers. But just to let you know that in our IBERIA portfolio, we have a 4.2% yield at acquisition cost versus 1.4% on market value. So, there is a relevant gap, and that what I said that we have a privilege portfolio.

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

Okay. Thank you. Thank you so much. Thank you so much, Fernando. And now, there is one remaining question in Brazil from Silvia Rigol, BBVA, and Carlos Peixoto from Caixa.

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Could you give us more details regarding higher acquisition cost? Is it recurring for coming quarters?

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

Thank you, Silvia and Carlos. You're right. I mean, acquisition costs are quite high in Brazil, particularly when we compared with other regions. But this is something that is recurrent in this country. As you know that - what we call the corredores is an independent agent. They've got quite a potential role in the brokerage of premiums. We're trying to reduce these acquisition costs. This is quite difficult, but you're right. The only increase in commissions that I remember is that the one made for the bancassurance channel it and was already mentioned in the past in order to foster activity in Banco Do Brasil.

My conclusion overall, I mean, let's say, that we expect a reduction in the acquisition costs. We're working on it, but due to the current structure of the intermediary agents in Brazil, we consider it as recurrent for the coming years.

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

Okay. Thank you. There is one left, but I think more or less you have talked about that. What are the expectations on the evolution of premiums and combined ratio in Brazil?

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

Well, what we expect is that the similar trend that we've seen and we saw in Spain for the next three years after coming up from the recession, we expect a similar trend in Brazil. I do know there is a time lag, usually one year, two years between the good metrics, good macro metrics for a country. And also volume increase in premiums in the insurance business and also improvements in combined ratio. Let's say that the first year is done, I mean, and our expectation are greater, I mean, for next year. And basically is that we we're quite happy and our expectation are pretty high regarding the new transactions with Banco do Brasil that we also launched our positions in Non-Life in Brazil.

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

The last question - thank you, Fernando. The last question comes now because we are running out of time. And it comes from Ivan Bokhmat from Barclays. Would you be able to present any guidance for 2018 on net profit, combined ratio, investment result?

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

Thank you, Ivan. As usual, we don't make any release of our forecast out of the AGM. We are in the middle - at the end, actually, at the end of a current subject plan and 2018 is a transition year. When we communicated the impact of a catastrophic event, we said that we have - we moderated our protection to accomplish some financial targets like ROE. It's very difficult in the third year to reach it. But now we are focused on the improvement of the business in all the geographies. Sales network in all countries will have pressure all year to get us close to these goals as possible.

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The new strategic plan will be analyzed during the second part of this year and it will be launched for the next three-year period. We will continue working on the same lines trying to get the most profitable business instead only to talk about growth.

Quarter-by-quarter, we are seeing the success of the current strategic approach. And in the third year of the plan, we are satisfied. We are quite happy with the plan, the improvements of the business in Spain, the first country where we applied the profitable growth, the improvements as well in LATAM. All the regions in LATAM have excellent combined ratios below 100%. And now, we know that we have to embrace the main challenge to lower the combined ratio in the States and EURASIA.

Every year, MAPFRE RE will continue having excellent results. U.S.A. is in progress with the plans we have already released. And in Brazil, we are very confident with the measures that we have taken to improve the technical result. For that very reason, in 2018, we expect to keep growing our current process and to improve little by little our combined ratio and the ROE. But it's obvious that it's a year that - where we will continue doing the same activities to improve the quality of our business. Nevertheless, we are happy. We are very satisfied with the results of the year and we think the 2018 will be again an excellent year for MAPFRE business in all the world. Thank you very much.

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

Thank you very much. No more questions.

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

Thank you, everyone, and just to say bye-bye, and we know that 2017 has been a quite complex year in (01:15:22) our continued efforts and also one-offs. Hopefully, we hope that the explanation given and also the disclosures including the documents that we've filed with the stock market authority are quite interesting for you. But any additional further detail or any additional question you may have, as usual, do not hesitate to contact to reach Natalia's team. They will be fully available for you. Thank you for your present again and bye-bye.

**A - Antonio Huertas Mejías**

Thank you. Bye-bye.

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