

Q2 2016 Earnings Call

Company Participants

- Esteban Tejera Montalvo, Vice Chairman and Finance and Investment Area General Manager
- Fernando Mata Verdejo, Corporate Strategy and Development Area General Manager
- Natalia Núñez Arana, Capital Markets Director and Head of Investor Relations

MANAGEMENT DISCUSSION SECTION

Esteban Tejera Montalvo {BIO 3910673 <GO>}

Good morning, ladies and gentlemen. Welcome to MAPFRE's results for the second quarter of 2016. As usual, I give an overview of the results and the main business trends, and later Natalia Núñez will explain the financial information in more depth.

Here with us is also Fernando Mata, Head of Strategy and CRO of the group. And we will answer the questions that we have received by the end of the presentation. If any further questions arise during the call, please send them to the specified e-mail address and we will answer them if time permits.

Let's now turn to slide number three. As you can see here, profitability has improved significantly on the year and MAPFRE is on the track to meet these strategic goals. The attributable result has increased 20.5%, reaching €380.4 million, and the return on equity has improved 0.8 percentage points to 8.8% year-to-date.

The requisition of the Venezuelan Bolivar and the Brazilian Reals have continued affecting financials. If we exclude the effect of the Venezuela on our accounts, the attributable result would have grown by 26.8%. Total premium fell by 0.8%, mainly due to currency movements. Excluding Venezuela, they would have grown by 1.5%. Non-life premiums are benefiting from the continuous recovery in the Spanish market. The integration of the direct business in Italy and Germany as well has a steady growth of MAPFRE Italy and MAPFRE U.S.A.

Life premiums have proven resilient with a 1.3% year-on-year growth despite the complicated market environment. The strength of MAPFRE's agent network in Spain has offset the lower sales of protection products linked to lending in Brazil as well as the depreciation of the currency.

The non-life combined ratio has fallen by 1.6 percentage points to 97.5%, driven by improvement in technical management in our main markets, together with the absence of extraordinary weather-related claims in the U.S.

MAPFRE has actively managed its balance sheet, realizing gains in the investment portfolio with interest rate near-record growth during the quarter. We also took advantage of the opportunity to use €1 billion in a 10 year senior bond in May with a 1.625% coupon, diversifying our funding sources in very favorable conditions.

During 2016, we are seeing a strong growth in managed savings, 6.2%, thanks to the Life business acquired by BANKINTER VIDA in Portugal, positive evolution of mutual and pension funds businesses, as well as the appreciation of the Brazilian real during the year.

This also reflects the effect of the Unión Duero Vida and Duero Pensiones businesses which are classified as held for sale as a consequence of Banco sales communications to exercise the call option. Without this effect, management savings would have grown 10%. Shareholders equity has increased by €454 million during the quarter, €372 million during the year supported by the performance of the investment portfolio and the appreciation of the Brazilian real during 2016.

Please turn to slide five where we will take a look at the regional breakdown of premiums. As you can see here, MAPFRE has a well diversified business mix with around 31% of premiums coming from Iberia. 30% in LatAm, of which nearly 17% is from Brazil. 11%, North America. 11 % in EMEA. And practically 17% remaining coming from MAPFRE RE.

During the year the variations in premium contribution reflect the positive developments in Iberia, North America, EMEA and MAPFRE RE. Brazil does suffered a reduction in the first quarter of this year, reflecting the depreciation of the Brazilian real is increasing its contribution during the second quarter, especially to the good performance of the industrial business and agricultural insurance that offset the slight decrease in motor insurance.

Please step down to a slide six. Here, we can see the regional breakdown of profit. Results are also well-balanced by geographic region with about 52% of attributable result in Iberia, 26% in LatAm of which nearly 15% is from Brazil, 9% in North America and 19.5% of MAPFRE RE. EMEA has suffered from extraordinary losses due to negative run-offs in (06:38), as well as several large corporate claims at global in the first quarter.

Finally, in APAC, results were impacted by the Taiwan earthquake in the first quarter of the year. During the quarter, we have seen the increase in the contribution of results coming from our three main regions: Iberia, Brazil and North America.

And finally, on slide seven, we'll give an update of our solvency position. Our preliminary Solvency II figures as of March of 31, 2016 confirm MAPFRE's strong solvency position. The 200% Solvency II ratio is based on a high quality capital structure of €8.6 million renewable own funds, of which 93% is unrestricted Tier 1. Capital in the remaining 7% is grandfathered subordinated debt. Excluding the use of transitional measures for technical provisions. MAPFRE will still have an excellent solvency position of 181%.

I will now hand the call over, Natalia, who will explain these figures in greater depth.

Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you, Esteban, and good morning everyone. Please let's move to slide nine to take a closer look at the non-life account. On a yearly basis, non-life premiums have fallen by 1.3%. This decline in premiums was mainly driven by €387 million multi-year Pemex policy in Mexico issued in 2015, as well as the depreciation of the Venezuelan Bolivar and the Brazilian real. Excluding the effects of Venezuela, premiums would have increased by 1.5%.

Premium-wise, we have seen the following trends: continued pickup in production in virtually all lines of business in Iberia, consolidation of the direct insurance business in Italy and Germany, as well as positive developments at MAPFRE U.S.A. and MAPFRE RE. The combined ratio has fallen 1.6 percentage points to 97.5% due to a 0.9 percentage improvement in the loss ratio and 0.7 percentage point decrease in the expense ratio.

These reductions are stemming from improved technical management in our main markets especially in Iberia as well as the absence of extraordinary weather-related claims in the U.S. East Coast. The reduction in expense ratio must also be highlighted and it's driven by MAPFRE U.S.A. stemming from higher commissions from ceded reinsurance as well as lower expenses in Brazil and Iberia across main lines of business.

Net financial income has fallen 3.8% considering the strong effect of currency movement, the underlying result was actually been quite resilient given the low interest rate environment. Please, let's move on to the next slide to take a look at the trends during the quarter. On the quarter, premiums have fallen 11% mainly as a result of seasonality in health and burial insurance in Iberia.

In Brazil, we have seen an improvement in market conditions with a 22% appreciation of the Brazilian real during the year as well as higher insurance in industrial risk in Brazil as Esteban mentioned before. There has also been an improvement in claims experience thanks to the absence of heavy rains that affected the first quarter of the year.

In the quarter, the combined ratio has increased on a stand-alone basis by 1.5 percentage points mainly due to the higher catastrophic losses at MAPFRE RE including the Alberta wildfires and the heavy flooding in Northern Europe as well as an uptick in the claims ratio at MAPFRE España where we have experienced higher frequency of motor and homeowner claims due to seasonality effects.

Financial income has performed strongly on the quarter. As Mr. Tejera mentioned before, MAPFRE has been managing the portfolio actively, taking advantage of the nearly record low interest rates to realize gains during the quarter, especially in Iberia and MAPFRE RE.

Now we can take a look at Life business on slide 11. Despite a challenging market environment for Life products in Europe, premiums grew by 1.3%. In this regard, we have seen the following trends: higher sales in Iberia through the agent network and the issuance of savings policies, group savings policies issued at the corporate level. Increasing production in Malta thanks to the attractiveness of the (12:31) product offering.

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In Brazil in turn, premiums and results have both been affected by lower lending activity in the bancassurance channels and the depreciation of the real. The technical financial result has increased by over 5% year-on-year, supported by higher realization gains at MAPFRE RE and positive developments of financial income in LatAm South and Iberia.

These improvements in results were partially offset by worsening of net financial income in Malta due to poor performance in the financial markets during the first quarter of 2016 compared to the first quarter of prior year.

On slide 12 we will discuss the main developments during the quarter. Premiums grew by 36% during the quarter mainly due to these group savings policies in Iberia that we mentioned on previous slide. There are also positive trends in Brazil where we have seen the MAPFRE's agent network has performed well, and claims frequency and life protection products was falling. The strong recovery of the Brazilian real during the quarter, nearly 50%, is also helping to boost results.

On the next slide, we will now take a look at the result of other business activities. The result for other business activities has improved €4.2 million compared to the previous year. This valuation was driven by lower financial expenses at the holding company level. As we mention every year in the presentation last November, €1 billion in a senior bond with a 5.125% coupon mature, and this one was replaced in May with a 10 year senior bond with 1.625% coupon.

We are still seeing some negative trends in net operating revenues and expenses due to lower activity at non-insurance business in Iberia, as well as negative runoffs, cancelation of unprofitable contracts and optimization of the cost base at MAPFRE Asistencia in EMEA and MAPFRE Asistencia in North America.

On slide 14, we will discuss the main drivers of the consolidated results. Profit before tax has increased by over 11%, explained mainly by the improvement in the results of both the life and non-Life business as we explained on previous slides. Together with a lower impact from the result on the statement of financial accounts, stemming from the depreciation of the Venezuelan Bolivar.

The attributable result stand at €380.4 million, a 20.5% increase which has been impacted by a slightly higher effective tax rate compared to the previous year, mainly due to the increase of the corporate tax rate in Brazil, which was offset mainly by a decrease in Iberia.

The absence of a €31.7 million net result from CatalunyaCaixa's insurance business in 2015, under discontinued operations. It's also worth mentioning that non-controlling interest fell compared to the previous year, mainly due to a reduction in profits in Brazil.

On the next slide, we will take a look at the valuations in equity and the balance sheet here today. Fixed income markets have performed very well during the year, with (16:48) falling from over 1.8% at the beginning of the year to around 1.2% at the end of June.

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(16:58) has had a very positive impact on the value of our available-for-sale investment portfolio, although partially offset by shallow accounting. The balance sheet and the investment portfolio has also been influenced by the strong appreciation of the Brazilian real during 2016. This appreciation was 22%. It was slightly offset by the depreciation of the U.S. dollar, 1.5% of depreciation for the U.S. dollar.

This movement led to a large recovery in shareholders' equity, €372 million during the year and €454 million during the quarter. The balance sheet variations also reflect an increasing cash as well as financial debt due to the issue of €1 billion of senior debt in May, which was used to partially pay back €450 million of the revolving credit facility, helping this way to diversify our funding sources. The classification of Unión Duero Vida and Duero Pensiones businesses as held for sale. And the incorporation of the Life business acquired by BANKINTER VIDA in Portugal.

On slide 17, we will take a closer look at the investment portfolio. We would like here to point out that the conservative asset allocation strategy with around 79% of the portfolio and fixed income, of which 58% is allocated to governments, over 25% of the corporate portfolio, is allocated to bonds with collateral, mainly cover bonds.

Since the beginning of the year, the value of the investment portfolio has increased by €3.4 billion, reaching €49.7 billion. The main drivers of this valuation include an increase in the value of the available for sale portfolio especially in Spain, a strong increase in Brazil due to the improvements in market value as well as the appreciation of the real, an increase in cash from the issuance of debt in May and also the movements in the investment portfolio include the business acquired in Portugal by BANKINTER VIDA, and the exclusion of the investment portfolio of Unión Duero due to its classification as available for sale.

Now, on slide 18 and 19, we are going to sum up the main embedded value figures for 2015. Our total embedded value view by 6.7% in 2015, mainly due to a €204 million increase in adjusted net asset value from the accounting impact of the gains realized from the sale of CatalunyaCaixa Vida. The valuation in the value of in-force business was less substantial with 0.6% increase, reflecting the effect of the sale of CatalunyaCaixa. Excluding this effect, the value force would have grown by 8.4%.

From this total valuing force, the share belonging to the parent company has increased by 5% between 2014 and 2015, from €1,307 million to €1,375 million. Regarding the value added by new business, it fell by 22%, reflecting mainly the exclusion of CatalunyaCaixa from the consolidation scope. As well as a reduction in new business margins driven by the low interest rate environment unchanged in the new business mix.

On page 19, we can see that during the last few years, the perimeter of the Life business has changed due to the inclusion in 2014 of the (21:40) portfolios. We've seen Bankia agreement as well as the sale of CatalunyaCaixa Vida in 2015. Embedded value has proven resilient despite the challenging market environment.

During 2015, we have seen several positive trends that we must highlight. The value of the in-force business has benefited from positive mortality developments of in-force corporate annuity business and positive contribution of mutual and pension funds due to lower distribution costs and improvements in client retention. New business margins have been resilient despite the low interest rate environment, thanks to growth in higher-margin Life Protection products.

You can analyze all these figures in greater detail in the embedded value presentation that we have also made public today. For the time being, this is all from my side, and I will now hand back the call to Mr. Tejera.

Esteban Tejera Montalvo {BIO 3910673 <GO>}

Thanks Natalia. Now, we will start the Q&A session to answer the question that most of you have sent us throughout the morning. If any other issues arise in the meantime, please, send us an email and we will be happy to respond if time permits. We start now.

Q&A

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

Thank you. The first set of question is with regards to the evolution of the business at MAPFRE U.S.A. Michael Huttner from JPMorgan asks, given the new incentive plan, how is the group addressing the U.S. non-life units outside of Massachusetts, where the loss ratio worsened in the second quarter of 2016, 94.4% versus 91.2% in the first quarter? Why not just shut it down and avoid the dilution of the (23:49) Massachusetts results where the second quarter loss ratios was 68.1% versus 73.3% in the first quarter?

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

Thank you, Michael. This is Fernando Mata. Well, the situation is that in the United States, in Massachusetts, the reality is that the change in tariffs and some of them dividing conditions. We are in a better situation and business is profitable and the combined ratio is on a normal path.

Related to the expansion, the expansion has to be funded, in this case, in internally (24:26) capital from our core business in Massachusetts, no doubt. The reason for expansion and we've discussed in previous meeting. First is the geographical diversification. Second, to look for growth opportunities in other estates. And the third is increase business expertise in - and know-how in the world largest and most mature market.

We believe that these measures (24:52) outside Massachusetts will have an effective impact in those estates in the coming months for sure. And according to our plan wouldn't consider a new estate entry until late 2017. In fact we're analyzing the performance on some estates and that we've seen improvements mainly in homeowners in the majority of the states and there are still in personal auto some work to do mainly in New York, New Jersey and California. The remaining states are performing very well.

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

Thank you. The next question comes from Andrew Sinclair at Bank of America Merrill Lynch. Can you please break down gross written premium increases in North America between tight increases in volumes?

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

We can do. The increasing gross written premiums in the North America region is 7.3%. MAPFRE U.S.A. increased 8.4% mainly due to the growth outside of the states of Massachusetts which was 18.3% above prior year. Chiefly in Connecticut, Rhode Island, Florida, and Washington. Connecticut continues to contribute with the large increases stemming from a strong, competitive position in marketplace.

In Massachusetts, premiums increased 4% over prior year. Personal autos written premiums resulted in 2% growth due to competitive environment. 2015 rate change was minus 1.3% while homeowner is growing at 10% year-on-year due to tariff increases.

As you can see on page 22 of the presentation, the number of homeowner policies increased 3.9% over the prior year while the average premium per policy increased 6.3% from 2015.

Premiums breakdown by geography as of June 2016 is 69% coming from Massachusetts, and 31% from other estates. This is the most complete answer we can give you regarding your question.

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

Thank you. Regarding Brazil, Andrew Sinclair from Bank of America Merrill Lynch sends the following question. Can you please provide local currency growth in the quarter for Life and Non-Life? Can you please break down gross written premium increases in Brazil in local currency Non-life between tariff increases and volumes? And also, can you please update us on the outlook?

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

MAPFRE Brazil growth in local currency in first half of 2016 is total premiums plus 3.2%. Motor, minus 12%, Life Protection, minus 8%, mass multiple risks, plus 3% and our insurance is plus 80% - 1-0% (28:24). Motor insurance is affected by contraction in number of new car sales and the strong competition in environment of high-interest rates. The strong competition is something that is very common, is common factor in this area, and we don't play this competition war.

The companies that are growing (28:50) in Brazil are those with low tariffs. On the other hand, companies focused on technical result are consequently with higher tariffs do not release their growth this year in motor.

MAPFRE Brazil is not willing to reduce tariffs. In Life Protection, premiums distributed by Banco do Brasil suffer a contraction extending mainly from lower amount of loans granted

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to bank customers. However, life premiums distributed by MAPFRE's network has a growth of currency, 21% in local currency.

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

Yes. (29:38) JD Capital asks which business was the main driver to premium growth in the quarter in terms of a combined ratio, what can we expect for the second half of 2016?

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

As we have said, past, hello? The main contributor to premium growth was salary insurance. Growth was 80% in the first half of 2016. As you notice, I know it's very difficult to have an idea of the evolution of combined ratio in the second half of 2016 as most of the claims are related to the worsening economic environment.

In any case, we expect to have a better combined ratio than the market as MAPFRE Brazil is focused on profitable growth while avoiding entering into price wars. Actions in 2016 include cost rationalization plans and increase in distribution platforms, cross-sell initiatives too and furthering the penetration of insurance product in Banco do Brasil client base. With all these measures, we hope that the technical result will show better results.

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

Niccolo Dalla Palma from Exane BNP sends the following question. According to the disclosure from (31:10), in the first quarter, motor insurance suffered from price adjustments of service providers in some estates and credit life insurance due to reported claims which were not fully processed because of registration mismatches. Could you give us an update on both?

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

Okay. Price adjustments are normal in an environment of high inflation and are already translated to tariff calculations. Regarding claims, not fully processed, they incurred but no reported provisions are calculating, taking into account these possible mismatches.

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

Thanks. The next set of question is regarding the Spanish business. Andrew Sinclair at Bank of America Merrill Lynch and Michael Huttner at JP Morgan. We'd like to note the following about Iberia and non-life. You indicate that the higher loss ratio for Iberia in the second quarter was down to higher frequency. What have you seen on severity? Is the Baremo having any impact?

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

Thank you, Andrew. Quite interesting question. And first of all, the first grad quarter was quite mild in terms of weather and there is no rain or snow practically and even the number of vehicles and the cost consortium was quite limited as well. And given the second quarter there was a pickup of severe weather, a lot of rains across Spain and it was an increase of loss ratio.

Regarding the Baremo, this had not significant impact on the result. And during the first quarter what we saw is an increase in the cost of severe injuries. And as of June, the average increase of cost is before 5% was basically the estimation for tariffs. So, overview, I mean, the increase of the cost of Baremo is quite aligned with the increase of tariffs.

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

Thanks. Expenses in Iberia were down again quarter-on-quarter. Can expenses continue to reduce in absolute terms?

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

We're expecting an additional reduction as well in the second quarter. And as we already mentioned, there is an inventory of over 100 initiatives in order to cleanse non-performing portfolios, and also to reduce expenses as well. And some of them, we studied last year and we've seen some of the fruits in the first half of the year. But the main of these initiatives are still ongoing and we expect further reduction during the second half of the year.

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

Thanks. Financial income was higher than expected and much higher quarter-on-quarter. What guidance can you provide in the outlook for financial income in the second quarter? How much of it was gained?

Well, increase is due mainly to some realization gains Natalia mentioned at the beginning of the presentation. The realization gains led to impairments compared to the last quarter were €65.6 million in this quarter versus €16 in the first quarter. Stripping out the realized gains from both years, the underlying financial income would be roughly €65 million the first half of 2015 and roughly €68 million in the current year.

Thanks. Can you please break down gross written premium increases in Iberia between tight increases and volumes?

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

We already said that we don't disclose this information and we cannot (35:52) that is very important in the number of insured (35:55) to the one we have in December last year. So, basically our increase in premiums is due to an average increase of the price.

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

Thanks. Regarding Iberia's Life's group savings premiums, were these all one-offs, or would these (36:15) further?

Well, even if our people in the commercial lines are very active in this is a result of this; this quarter has been especially a good one. It's impossible to predict there will be one or two of this kind of operation in the next quarter but we are very active in this market.

And excluding the group saving premiums, underlying growth still seems strong, what is a fair run rate here? Any change in the product mix in recent quarters?

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

There are two contrasting movements. The first, the MAPRE specific agency channel is growing strongly with new products launched in the second quarter (37:14) prior year's single premium which is working very, very well. We are witnessing as well that the unilinks-type products are having a good performance versus last year, but - which is - are clearly due to the declining interest rate environment. So it's a mix of both. I mean the single premiums and also the unilinks products as well. And the decline in the bank in China is due to lower production in the single and regular premiums. Due to the focus on protection products which have as you know a higher margin.

The trend depends much on the current interest rate environment and customer appetite. However, there are sales campaigns and new products lined to schedule for later in this year which should help as well to rectify the situation.

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

Thanks. Michael Huttner at JP Morgan would like know, have your loss ratio rose from 70% in the first quarter to 74% in the second? Is this a new trend number?

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

In two quarter 2016, this time alone, there has been slight increase in the loss ratio as a result of seasonality effect as Mr. Mata mentioned before. Easter this year fell in the first quarter with the consequent delay in the reporting of claims that have appeared in the second quarter. This is mainly the seasonality effects. Yes, sir.

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

Paz Ojeda, JB Capital have two further questions. First, motor spend. Can you comment on the expectations for growth in premiums' underperformance of the combined ratio?

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

(39:06) 2015 and so far this year have had the positive effect on the net earned premiums. In addition, a cleansing of the portfolio, and specifically in some fleets and combined with the mild weather, better underwriting and claims handling as well have improved the profitability of this business. And there is also a reduction in majority of the operating expense as well. And well, MAPFRE is active in managing its portfolio of business and we focus on profitability. Clearly an unknown factor is the future loss experience. However, rapid increases combined with the cleansing of the portfolio should lead to at least to the improvement during the second half of the year.

The 2Q 2016 standalone, there has been a slight increase in the (40:04) result of the seasonably effects that we already mentioned. So, that's it from my side.

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

The second question from Paz Ojeda is Unión Duero has been reclassified as a business held for sale, can you give an indication of the potential gain which you will be booking?

Well, it's too early to comment on these possibilities. We just received the formal application for the call option they have, and we are currently at the beginning of the negotiations.

Thanks. Paz Ojeda also asked the following the questions with regard to MAPFRE ASISTENCIA. Can you please explain the negative run-offs in the result from other activities coming from MAPFRE ASISTENCIA? Why aren't the negative run-offs affecting the technical result of the company?

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

Paz, what we can say regarding this question is that MAPFRE ASISTENCIA has businesses which are insurance products and enter in the technical result account, as well as services for businesses which enter in our business activities.

On page 57 of the result presentation, you can see the minus €15.8 million losses in business activities at MAPFRE ASISTENCIA, which are reflecting the consolidated numbers. The portfolio cleansing process was well underway at the end of 2015. And the largest economic impact was felt in the fourth quarter of this last year and the first quarter of 2016.

And as we have mentioned, it takes time to cancel these types of products, as well as to adapt to the new cost structure. What is important to keep in mind is that premiums have been resilient and we will return to profitability in ASISTENCIA as a result of the measures taken.

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

Thank you. Michael Huttner of JPMorgan have the following questions regarding the strategic plan and objectives. To this results indicate that the progression to the over 11% (42:44) target by 2018 in the first half of 2016 was 8.8% and under 96% combined ratio could be linear. In the first half, it was 97.5%. Or are there easy wins on the way which could lead to positive surprises earlier?

Thank you for your question, Michael. As you know, our strategic focus is on profitable growth and the targets were set in order to be achieved gradually over a three year period.

We can conclude, we are on track to meet these goals, thanks to the measures taken to improve technical management. And some of them, they have to be implemented in the remaining period as well in order to reduce expenses in the main markets. And we're pretty confident that we will meet these goals.

Thanks. Andrew Sinclair at Bank of America Merrill Lynch, (43:50) JD Capital Markets have the following questions regarding non-life financial results. Firstly, Andrew Sinclair asks to quantify gains by business unit for this quarter.

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

The information for the accumulated first six months of 2016 by business unit can be found on page 65 of the results presentation. The information for the first quarter of the year was also published in the appendix of our first quarter earnings release.

In non-life, realized gains were €88.7 million on the quarter compared to €33.9 million in the first quarter of the year. The largest variations were at MAPFRE España with a €3.6 million increase on the quarter and at MAPFRE RE, which also had a large increase.

We took advantage, as we have said before, of these historic low levels of interest rates that we have seen in the last quarter to actively manage our portfolio realizing gains.

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

Paz Ojeda would like to know the impact of the realized gains on the recurring yield.

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

Thank you Paz. Gains were realized in that excellent moment in the market with deals and historic lows. Obviously there is a toll and some of the yields have gone back up with the Feds investing going forward positively.

Basically, there are (45:41) to Iberia and Spain. And we can assess that the reduction on the recurrent investment income will be like a 20 PP more or less. And our accounting deal is over 2.5% which is wonderful in the current scenario.

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

Thanks. Andrew Sinclair of Bank of America Merrill Lynch asked the following question. Were there any material reserve releases in this quarter?

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

Andrew, what we can tell you is that reserve releases didn't have a material impact on results during this quarter. This is what we can say.

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

The next question is regarding negative €83 million result in corporate areas and consolidation adjustments. We have received questions from Paco Riquel at Ene Mas Uno (46:43), Andrew Sinclair at Bank of America Merrill Lynch, Michael Huttner at JPMorgan and Nicolo de la Palma (46:50) at Exane BNP Paribas.

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

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Okay. We can say that this is the interesting question for all of you so we will try to answer the best we can. Holding and consolidation adjustments includes a general expenses like interest payments mainly of the three holding companies; MAPFRE SA, MAPFRE America and MAPFRE Internacional. And, also, the minority interest at MAPFRE RE and MAPFRE America. And also the non-insurance activities of several subsidiaries, including MAPFRE Asistencia.

The consolidation adjustment of the non-life result has fallen from €9.1 million to €13.2 million due to a provision for the multiyear incentive plan for management which is pending to be allocated to the respective business unit, and we will (47:53) to do so by the end of this year. But this is the main effect that you can see, and this is the main movement of the consolidation adjustments.

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

Thanks. (48:09) Capital Markets would like to know the following. Can you comment evolution of the online subsidiaries of VERTI and Direct Line?

Yes. Thank you, Paz (48:19). First, VERTI, well, as you know, premiums at VERTI amount to more or less €40 million and have declined 2.5% year-on-year. The decline basically is due to a reduction in number of units because we implemented the same increase of tariffs across the board. So, all in all, Verti is also well on lineup with profitable growth main objective, MAPFRE.

Regarding integration of the Direct Line operation in Italy and in Germany, I would like to say that the integration plan is expected to last approximately two years to three years more or less. And this acquisition transfers their know-how to the group. That has already been used throughout MAPFRE's digital transformation and expansion of the digital verification worldwide which is, by the way, one of the four strategic lines to be developed during the three-year period.

Thanks. The next set of question is regarding the Spanish business. Niccolo Dalla Palma from Exane BNP Paribas would like to know regarding the Spanish model. Is it correct that the Baremo reduces the cost for the small injuries but increases that of severe injuries? If so, does this mean that we will only see the negative effect when you start (49:57)? How long for you these take?

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

Well, (50:03) some cases of minor injuries, such as whiplash. It's also true to say that the more severe claims will take slightly longer to settle. And therefore, it should be logical to assume then the path should increase during the course of the year.

This situation has been mitigate an increasing the cost of the average claims to be opened, according to the increase of the Baremo. So, basically, it will be not a significant impact.

However, the effects should be mitigated by the tariff increases, with MAPFRE's (50:45), which is about 5% to 6%. As I already mentioned, currently, the average cost of claims affected the Baremo is below 5%. So, let's say that there is a perfect correlation between increase of tariffs and increase of cost.

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

Thank you. (51:11) at JB Capital Markets asks, can you explain the restructuring plans for MAPFRE U.S.A. referred to on slide 13?

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

Sorry about this but it was a misunderstanding. What we trying to say is that, the restructuring plans refer to MAPFRE ASISTENCIA in North America, not MAPFRE U.S.A. As we have mentioned in previously business, volumes have fallen in this market and MAPFRE ASISTENCIA due to a loss of a large client and the cost rate has been optimized to adapt to these changes including the close of a call center among other measures. But this is the only reason of this. I mean the restructuring plans refer only to MAPFRE ASISTENCIA in North America.

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

Niccolo Dalla Palma at Exane BNP Paribas and (52:11) JB Capital Markets would like to know what has been done with the proceeds from the €1 billion senior debt issue? And what are your plans for the €150 million in cash that is left over?

Yeah, well, as we mentioned before, we are tending the maturity of the €1 billion debt we have at the end of the year. And with respect to this with - mainly with the revolving bank facility we had. And then in May, we issued these new issue of €1 billion (53:04) maturity. We paid back - at the end of June, we have paid back €450 million.

Then our liquidity just at the end of June due to the fact that we would have to attend several current obligations like the increase of capital in MAPFRE ASISTENCIA which was done for €85 million I think was the figure. We have to pay also the coupons of the subordinate debt just in this month and other current activities of the company that will lead to liquidity.

At the same time, remember that at the end of June, we'll work just on the aftermath of the Brexit and we prefer to have liquidity for possible opportunities in the process. And at the same time, due to the low prices of the share, we acquire our own shares by roughly less than 1% of the acquisition of own shares. And this is why there is no intention of doing acquisitions with this remaining money. And you can see during the next quarter that the figures of the bank facility can be go down possibly according to the current necessities in the policy of investment we would have.

Thank you very much. We haven't received any more questions.

Well, thank you for attending our conference call. I would like to thank you again for accompanying us during the presentation. And I will give Natalia the opportunity of announcing to you the date of the Investor Day we are planning to do in the last quarter of the year prior to finish this conference call.

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

I think this is a very good news. I think most of you will value that as a very important step in MAPFRE in order to give more clarity and approach closer to the management. And for us, we are very happy to announce, all of us, that on the 15th of November, we will celebrate our first Investor Day and we will hope all of you to be there. The Investor Day, we will be in Madrid. We will have to decide the venue yet but it will be in Madrid. So, I hope to see most of you there.

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

Well, I hope I can also to meet you in Madrid. In the meantime, I will send you the best wishes for the holidays and (56:54) have the opportunity of having you. Thank you for attending the conference call and good bye.

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

Thank you. Bye-bye.

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

Thank you. Bye.

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