

Q3 2016 Earnings Call

Company Participants

- Esteban Tejera Montalvo, Vice Chairman and Finance and Investment Area General Manager
- Fernando Mata Verdejo, Chief Financial Officer
- Natalia Núñez Arana, Capital Markets Director and Head of Investor Relations
- Unverified Participant

MANAGEMENT DISCUSSION SECTION

Esteban Tejera Montalvo {BIO 3910673 <GO>}

Good morning, ladies and gentlemen. Welcome to the presentation of MAPFRE's results for the third quarter of 2016. As usual, I will start by providing you with an overview of the results in main business trends, and then Ms. Natalia Núñez will explain you the financial information in greater detail. At the end of the presentation, we will answer all the questions received to the specified e-mail address as time permits.

As in previous quarters, Mr. Fernando Mata, MAPFRE's newly appointed Chief Financial Officer. Congratulations, Fernando.

Fernando Mata Verdejo {BIO 19676348 <GO>}

Thank you, Esteban.

Esteban Tejera Montalvo {BIO 3910673 <GO>}

...will also participate in a Q&A session. Let's now turn to slide number three. The attributable result stands at €572 million with a return on equity up to 7.8%. Total premiums fell by 1.3% mainly due to currency movements. Excluding Venezuela, it would have grown by 0.4%. 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 2.3% year-on-year growth. Trends to the strength of MAPFRE's agent network in Spain without outperformance of 21% in the period and this has helped compensating the lower sales of protection products link to lending in Brazil, together with the depreciation of the currency in this country.

The non-life combined ratio has fallen by 1.5 percentage points to 97.2% driven by improved managing technical management in our main markets in the absence of extraordinary claims in the U.S. Shareholders' equity has increased by €585 million during

the year, supported by the performance of the investment portfolio during the year thanks to an effective (2:39) investment strategy that has proven successful in this low interest rate environment.

In this context, MAPFRE has also actively managed its balance sheet, realizing gains in the investment portfolio with interest rate near record lows, in lowering our financial expenses by over €45 million. We are seeing a strong growth in managed savings, 6% year-to-date, thanks to the Life business acquired by BANKINTER VIDA in Portugal, positive evolution of mutual funds as well as the appreciation of the Brazilian real.

It also reflects the effect of DUERO businesses, which are classified as held for sale. Without this effect, managed savings would have grown 10%. And from the point of view of the solvency, we keep our higher standard of Solvency II ratio, which is up for the June 30, a 197% with transitional.

Let's move on now to page five where you can see the contribution of different business to premium income of the group. MAPFRE's diversification strategy has allowed us to achieve a strong growth in mature markets, while offsetting the currency movements in macroeconomic conditions in LATAM. The contribution on Iberia is noteworthy accounting for nearly 30% of total premiums established already mentioned recovery in the Spain, both in non-life and life.

Brazil contributes nearly 18% of the total premiums. Despite the Brazilian local currency growth, premiums have fallen 10.4% impacted by the depreciation of the real. North America is growing things to increases in Massachusetts both in homeowner and motor premiums. You remember here, we increased the tariffs in homeowner last year and we are seeing now this growth in the currency part for increase of tariffs.

But also outside Massachusetts, especially in Connecticut where we have a strong competitive position. EMEA now represents 10.3% of premiums with an increase of 43.7% stemming from the consolidation of the various businesses in Italy and Germany, as well as tariff and volume increases in motor insurance in Turkey and the good performance of life insurance in Malta.

MAPFRE RE continues benefiting from the solid performance of the non-group businesses, reaching over 17% of the premiums.

These positive trends offset the falls in LATAM North, in LATAM South, where the comparison is hard, by the depreciation of the Venezuelan bolivar, as well as €387 million multi-year Pemex policy in Mexico last year that was issued in 2015. It is worth highlighting that in LATAM South local currency growth has been positive in the main countries in the region.

Let's turn to the next slide to look at the main movements by region in attributable result. Results are also well balanced by organic - by geographical region with around 87% of attributable result Iberia, 23% in LATAM of which 15% comes from Brazil, 9% in North America and 18% of MAPFRE RE. It is worth highlighting, the strong technical profitability in

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Iberia, excluding the impact of CatalunyaCaixa business in 2015. The attributable result growth increased by 68.5%. Brazil is down by nearly 23% as a result of the economic slowdown, lower lending activity in the bancassurance channel and the depreciation of its currency.

We are seeing a return to profitability in North America, thanks to improvements in technical management, as well as lower weather related losses. MAPFRE is benefiting from a benign loss experience in higher realization gains.

On the other hand, EMEA has suffering from extraordinary losses due to negative run offs and results from multi-year (8:14) policies in ASISTENCIA as well as several large corporate claims of global risks and higher integration costs and claims experience in the direct business in Italy.

Finally, in Asia Pacific, results were impacted by the Taiwan earthquake in the first quarter of the year.

Please now turn to slide seven. MAPFRE's board of directors has approved an interim dividend of €0.06 per share against 2016 results, the same as that from previous year. This is possible, thanks to MAPFRE's strong capital position and accordingly the total dividend to be paid in 2016 amounts to €0.13 per share. As you know, MAPFRE is committed to pay out - to a pay out of between 50% and 75% of the group's earnings, increasing dividends in line with earnings growth.

Our present market price is €0.13 equivalent to a dividend there near 5%. Now, I will hand a presentation over to Natalia who will go through the following slides and explain the financial of the quarter in greater detail. Natalia?

Natalia Núñez Arana {BIO 19480994 <GO>}

Thank you, Esteban. Please let's move to slide nine. On a yearly basis, non-life premiums have fallen by 2.3%. As in the previous quarter, this decline in premiums was mainly driven by the depreciation of the Venezuelan bolivar and the Brazilian real. Also in this evaluation we have to remind that the PEMEX policy in Mexico was issued in 2015.

Excluding the effects of Venezuela, premiums would have remained more or less flat, thanks to the following positive trends; the continued pick up in production in virtually all lines of business in Iberia; the integration of the direct insurance businesses in Italy and Germany; and positive developments at MAPFRE USA and MAPFRE RE. The combined ratio has fallen by 1.5 percentage points to 97.2%.

This reduction is stemming from the absence of extraordinary weather-related claims in the U.S.A. along with improvements in technical management, especially in Iberia. And the cost containment measures taken in Brazil and Iberia that have also contributed to these positive developments. Net financial income has remained flat considering the strong effect of currency movements, the underlying result has actually been quite resilient given the low interest rate environment.

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Please let's move on to the next slide to take a look at the trends during the quarter. On the quarter, premiums have decreased by 11.8% mainly as a result of seasonality in motor and multiperil issuance (11:52) in Iberia. Timing differences at MAPFRE RE have also impacted premiums, given the seasonality in this business depending on the renewal campaigns. Brazil was affected by the decrease in motor premiums as well as by several large industrial policies that were issued in the previous quarter.

Underwriting result was favored the continuous strong improvements in Iberia and lower catastrophic losses at MAPFRE RE. The loss experience also improved in Brazil, especially in the agricultural and industrial risks lines. Regarding financial income, it fell in the third quarter as a result of a lower level of realization gains.

We can now take a look at the life business on slide 11. In the life business, the contribution of Iberia must once again been noted. Benefiting from an increase in sales mainly in our agents channel and the issuance of group savings policies. Additionally, the growth in life premium production in Malta has contributed to this positive development. Financial income in LatAm South and Iberia supported the increasing life results and helped offset the reduction in Brazil as a result of the economic slowdown and depreciation of the real and lower lending activity.

On slide 12, we will discuss the main developments during the quarter. On a quarterly basis, we can see the impact of the group savings policies issued in the second quarter in Iberia, which were over €100 million in premiums as well as timing differences at MAPFRE RE due to seasonality of their renewals as we have mentioned before. Results were affected by higher frequency in life protection in Brazil.

On the next slide, we will now take a look at other business activities. Year-on-year, we have seen a strong improvement in the result from other business activities. Thanks to the maturity of the senior bond last November with a 5.125% coupon and its replacement with the credit facility and a new senior bond and their much better conditions, which has reduced financial expenses from €85 million to €40 million. This has helped to mitigate a deterioration in net operating revenues and expenses stemming from accounting reclassifications in Iberia as well as negative results from multi-year policies and restructuring expenses at MAPFRE ASISTENCIA.

On slide 14, we will discuss the main drivers of the consolidated results. Profit before tax has increased by 15.5%, thanks of the improvement in the results of both the life and non-life businesses. As we explained on the previous slides, together with lower impact from the result on restatement of financial accounts stemming from the depreciation of the Venezuelan Bolivar.

The attributable result this quarter stands at €572 million, falling slightly due to the absence of €186.2 million net result from CatalunyaCaixa's insurance business in 2015, which was sold in the third quarter and also the decrease of non-controlling interests due to lower profits in Brazil. The effective tax rate, however, remained relatively stable compared to the previous quarter.

On the slide 15, we will take a look at the development of the balance sheet. Thanks to a well positioned investment portfolio, the upturn in fixed income market has resulted in an increase in the available for sale assets with the Spanish 10-year bond recording on all time low below 0.9% at the end of September. The balance sheet and the investment portfolio have also been influenced by the strong appreciation of the Brazilian real during 2016, up 18%, which was slightly offset by the U.S. dollar with a 3% depreciation.

These movements led to a large recovery in shareholders' equity, €585 million during the year and €212 million during the quarter. The balance sheet valuations also reflect an increase in cash as well as financial debt due to the issuance of the senior debt in May, which was used to partially payback €450 million of the revolving credit facility helping to diversify our funding sources.

Also, the balance sheet variation reflects the classification of Unión Duero Vida and Duero Pensiones businesses as held for sales and the incorporation of the life business acquired by Bankinter Vida in Portugal.

On the slide 17, we will take a closer look at the Bank's (18:05) investment portfolio. MAPFRE's investment strategy has been prudent over time and has proven effective throughout the recent bond rally. Since the beginning of the year, the value of the investment portfolio has increased by €3.7 billion, reaching almost €50 billion in total for the portfolio.

The main drivers of this variation include an increase in the value of the available for sale portfolio, especially in Spain; a strong increase in Brazil is mainly from the appreciation of the real; an increase in cash from the issuance of debt in May; the inclusion of the business acquired in Portugal by Bankinter Vida; and (18:57) of the investment portfolio of Unión Duero Vida, due to its classification as available for sale.

This is all from my side. And now, Mr. Tejera will lead the Q&A session to answer the questions that you have sent to us throughout the morning. If any other issues arise during this time, please send us an e-mail and we will be delighted to respond if time permits. Later on, the Investor Relations team, as usual, will be available to attend all your enquiries.

Esteban Tejera Montalvo {BIO 3910673 <GO>}

Thank you, Natalia. Well, we will start now the - to answer the question, we have received and we are receiving. Please.

Q&A

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

Yeah. Good morning. The first question comes from Michael Huttner of JPMorgan. Are there relatively high level of realized gains in the results at nine months 2016 of €152 million sustainable, as it is up from €106 million in nine months of 2015? Thanks to the high

gains investment income was near flat at €644 million versus €649 million in the first nine months of 2015.

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

Hi, Michael. This is Fernando Mata. Thank you for your questions. One thing I would like to point out first is that majority of the realized gain were made during the second quarter due to the positive market conditions. As you know, during the third quarter there is only €15 million in realized gain. What we can predict is we don't expect unrealized losses during the fourth quarter. And regarding the future, there is still a significant amount of unrealized gain in our equity, almost €1 billion and our policy is to keep them in the equity in order to maintain our recurring ordinary income from the bond portfolio next year.

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

Thank you, Mr. Mata. Carlos Peixoto at BPI has a following question regarding MAPFRE ASISTENCIA. ASISTENCIA remains in loss making territory for another quarter. How much run off losses or clean up measures are still to come and when we should we expect a return to profits and to what levels?

Well, as you know, we are in the process of doing a significant reduction of the loss contribution of the MAPFRE ASISTENCIA. As you know, MAPFRE ASISTENCIA has two kind of business, one is insurance, the other one is providing services to other insurance companies of particular.

Last year, we have the impact of the reduction of the significant contracts in the U.S.A., Brazil that implied reduction in the capacity with our call centers. It has been done and is being done and we have reduced a lot capacity also in our call centers in Venezuela.

On the other hand, in the insurance activity, we had introduced special claims for underwriting in Colombia and in other countries where, on one hand, we had the improvement of the loss ratio in the next year. And on the other hand, the impact of the expenses that will be this year, not the coming year.

If you look at the combined ratio of the MAPFRE ASISTENCIA, the main increases come from the side (23:25) of the expenses. Finally, we have to review the activity in several countries and we had closed or are in the process of closing our subsidiaries in Japan, Sweden, and Russia and we have plans to continue reducing non-profit centers in the coming months. So I think that even this year remains hard, the next year will be by far better.

Thank you very much. Niccolò Dalla Palma at Exane BNP Paribas, has a question regarding investment strategy. What is your ability to re-risk from here and what is your appetite to re-risk the investment portfolio? This may be different to the ability.

Well, as you know our strategy of investment is very conditioning in the Spain for the assets and liability, full matured activity in life insurance. In any case this is a very good news from the point of view of the evolution of liabilities in the future and from the point

of view of the renewal of the new business also because the new business are underwritten at the levels of interest that we can deliver in the future.

In any case it's true that the renewal of investments imply lower interest rates. And this is a question of substituting the according with the duration of the contracts the new portfolio. The strategy we are marking in order to sell new products in life assurance is a true issue mainly in savings life assurance exclusively in Spain unit-linked products where we give the possibility of our policyholder of getting more profitability even if the volatility is higher, but there is you seen the (26:13).

Thank you. Carlos Peixoto at BPI would like to know the modify duration of European (26:23) bond portfolio?

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

Hi, Carlos, this is Fernando again. First, I would like to point one thing, I mean, even being available for sale, our portfolio is split into two. First is the - what we call the portfolio match with liabilities mainly referred to life and also the burial expenses, which is along the line of business and then the non-life portfolio. I guess do you refer to this one and we just actively manage in order to obtain capital gains. This last portfolio, the average modify duration is approximately five years.

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

Thank you, Mr. Mata. Niccolò Dalla Palma at Exane BNP Paribas, also had the following questions regarding dividends and the upcoming Investor Day. Should we take the flat interim dividend as an indication of what you may do for the full year and how should we use the dividend yield target with thinking of our dividend forecast? Also should we expect targets to be announced next week or we'll just stick to the targets announced at the beginning of 2016?

Well, the interim dividend is always is interim in the sense that it lags at least three months to finish the year and we prefer to wait until having all the figures of the year to deliver the final figures for the complementary dividend, which is the decision of the board. In any case, having the same dividend that last year implies be in line with the targets we established ought to be profitable of the increasing dividends in, as in the possibility of our results in according to our policy of having between 50% and 65% of payout. So we will keep this policy and a final decision will be after knowing the results of the year. But always with a commitment of increasing, as far as we can the profitability for our shareholders.

Thank you, Mr. Tejera. The next question is regarding consolidation adjustments. Andrew Sinclair at Bank of America Merrill Lynch, would like to know. This has been moving pretty widely in recent quarters. Can you give us some more clarity on what's going on in these lines?

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

Hi Andy. As we mentioned last quarter in Q2, we booked a provision for long-term management incentives around €11 million. During the quarter, the 3Q, this provision was reallocated to the technical result across the regions. There was a strong improvement in the quarter. Nevertheless, this figure tends to be volatile on a quarterly basis and you should focus on the average for the last four quarters, which is more stable and gives a better view of the underlying trends.

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

Thank you, Ms. Núñez. The following set of question is with regards to the Spanish operations, Silvia Riglo from BBVA. Regarding life in Spain, why have the sales in agents' channel declined? Why have life savings premiums declined when the rest of the sector is growing?

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

Hi, Silvia. Single premiums business at the agents' channel is up 43% year-on-year. You could be referring to the 3Q sales, I think. The slowdown versus the 2Q is due to the issuance of large group policies in 2Q as standalone, which were - these were swapped over €100 million on start day (31:04) comparison.

With respect to your second question, in general, life savings have been distorted by the strong production as we say in 2Q in agent channels. However, the banking channel has been underperforming and we have taken active measures to manufacture new products which are easier to sell through the channels. You have to bear in mind that we compete with the (31:35) coming from the bank. And the next quarter, the 4Q are all the pension campaigns, so we are optimistic about the next quarter.

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

And regarding non-life spend, are the excellent ratios at multiperil health and commercial sustainable? What has happened in burial with the ratio of 109%?

Yes. First, regarding the first question I would like to differentiate between multiperil and commercial sustainable - and commercial lines. Both are pretty sustainable. The decrease in the combined ratio is due to both things. First, a stricter underwriting guidelines and also the elimination of some non-performing coverage. Regarding health, as you know, is the line of business, we were growing for the last two to three years. We believe that an amount the size of this business will contribute to lower our combined ratio. And also there is a loss of initiatives in order to reduce expenses in the health business.

Regarding the burial expenses, there is an increase in the third quarter, you're right and is due to some changes in the actuarial associates (32:58) regarding the provisions, the technical provisions in order to meet the discount rate approved by the Spanish supervisor. With this adjustment made in the third quarter, all the different actuarial assumptions are fully booked for the 2016 year.

Thanks. Niccolò Dalla Palma from Exane BNP Paribas asks the following about Spain property and causality. What are your current tariff increases on motor and how does it

compare to last cost trends following the baremo implementation, are you still seeing some trading down?

As do you know, MAPFRE put through tariff increases between 5% and 6% last year and the latest figure we have regarding the cost increase of baremo is quite similar to the rate increase, I mean it's in the average 5%. So as we mentioned during the last quarter presentation, let say that so far increase of tariff and increased cost are both parallel.

And regarding the (34:12) we made in last year in order to cover the application of the new baremo to 2015 accident year. On previous, let's say that so far there is no any evidence from the judges of application on this situation. So at the end of the year, if the remaining quarter remains like the first three quarters and we will reevaluate this provision and probably that must likely is to have a partial release of research.

As regards to Bankinter Vida, the underwriting financial result in the third quarter was €67.1 million, above the run rate of €50 million per quarter. What drove this strong result given the absence of significant gains in the quarter?

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

Okay. Firstly, the life result always has to look as a combination of underwriting on financial results. So if you want to see the evaluation of the results in life you have to take in mind - to bear in mind, both of these aspects.

And secondly, as you are already aware, we have less life savings products, which are used to cover (35:41) portfolio. And these products are mainly derivatives that match the redemptions in this - or the cash flows in this kind of products. And these derivatives are accounted for through the income statement. Perhaps this is where you can see this movement in the financial income. But as I said before, you have to look both financial and technical result in order to half and area of the performance of the life business.

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

Thanks Ms. Núñez. In relation to reserves, so we expect like the last two quarters - sorry, the last three years, a higher combined ratio in the fourth quarter for the motor business to strengthen another beat reserves. It happened all of the last five years. So I wanted to understand if this seasonality will remain?

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

First of all, I would like to point out that the - particularly IBNR reserves that are being monitored on a quarterly basis. And also at the year-end usually, there is the final review of provisions. And - but as I already mentioned, provision portfolio expenses has been updated at the third quarter and if there is no unforeseen events, we don't expect any threaten of reserves for the last quarter.

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

Thank you, Ms. Mata. Andy Sinclair from Bank of America Merrill Lynch would like to know the following about the Iberia non-life. What were reserves releases as in the quarter, very loss ratio? Can you talk us through the moving parts, including pricing changes and claims inflation?

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

As you know, we do not provide reserve release information on a quarterly basis, but I can anticipate that the IBNR for baremo will be updated at the year-end and probably we will see a release of reserves. And in general, loan rates are very good due to the specific action we've taken in the past. We've raised (37:56) model, cleaned up the portfolio, eliminating some coverage, non-performance coverage, et cetera.

In multiperil, we also taking a larger range of different actions; there are stricter underwritings and claims handling we adopted as I mentioned, particularly in the case of commercial business. Health is a segment which certain seasonality effects and the combined ratio is very similar to last year and also we see a huge improvement in the third quarter. Regarding the burial, I already mentioned, was the update of the technical provisions with applying the discount rate apply approved by the general - the supervisor.

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

Thank you, Mr. Mata. Carlos Peixoto from BPI would like know, what are your expectations on revolution of motor premiums in Spain and on the combined ratio? Can you update us on the baremo expectations? What was the reinforcement in provisions in car insurance related with this?

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

First of all, let's say the premiums have been raised 5%, 6% to offset the effect of beramo. Our combined ratio has improved in the year, but mainly not the beramo, the effect of beramo but the better underwriting guidelines and also reduction in the cost of claims. Expectation, the evolution of motor premiums in the Spain, let's say that they increased the number of vehicles in the Spain, almost 600,000 and this situation has allowed the companies to be more active in terms of marketing products and growing premiums. Next year, the economy of Spain I guess will keep our - the current trend, but also I mean, average premium and also the number of new units will decrease a little bit compared to 2016.

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

Thank you very much. This block of question is concerning the developments in Brazil, Paz Ojeda of JB Capital and Silvia Rigol at BBVA would like to know. Premiums in Brazil, reais fell a lot in first nine months of 2016, minus 3% year-on-year. In the presentation, it is indicated that it is due to lower sales of life protection in Banco do Brasil. Do you have a Plan B?

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

We have seen as life recovery of life protection premiums in the third quarter in local currency, decrease in June was minus 8% and now the decrease is minus 3%. In any case, the performance of the segment is linked to the credit activity of Banco do Brasil and we expect a gradual improvement in the next quarter, thanks to a better economic environment in Brazil.

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

Thanks. Andrew Sinclair from Bank of America Merrill Lynch, has two questions. One about Brazil non-life first of all. Can you talk us through pricing changes in the quarter, in local currency transfer each of the broad (41:44) lines Can you please also talk us through volume changes in the quarter, local currency transfer each of the broad (41:51) lines and then about Brazil life. How did sales perform in each of your distribution channels in the quarter and can you remind us what proportion of sales comes from each channel? Additionally, Brazil technical result was weaker in the third quarter. Can you give your expectations for the coming quarters given the changing macro backdrop in Brazil?

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

Lot of questions. Okay. First of all, in terms of non-life business, motor insurance in Brazil is affected by contraction in number of new car sales and the strong competition as we have said several, in other times, in other occasions. There is, when the interest rates are in high levels, the competition is also stronger. And usually, MAPFRE doesn't play this kind of price wars.

Additionally, the lower level of disposable income has led to aging of the fleets and weaker mix of covers in short. In this environment, the companies that are growing in Brazil are those with low tariffs. On the other hand, companies focused on technical result and consequently with higher tariffs (43:23) this year in motor. MAPFRE Brazil is not willing to reduce tariffs. In this way regarding trends and volume in 3Q, we have seen a contraction in motor while the rest of segments continue the trends already seen in previous quarter.

In local currency, the motor segment is the only one that is going down in this quarter. The other segments are performing very well. In Brazil life, in the breakdown of premiums by segments, most of the business is life protection in which we are seeing a contraction as we have mentioned due to the lower credit activity of Banco do Brasil. In life savings distributed by MAPFRE network, there is a positive evolution of premiums, but is not very significant. Expectation of results would depend on macroeconomic evolution in Brazil in the next quarter and on that sense, we feel more optimistic.

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

Thank you, Mrs. Núñez. The following question comes from (44:43) What are your expectation on evolution of the agricultural insurance business in Brazil?

Hi, Carlos (44:50) We expect (44:53) continue its policy of subsidies to this business, so the evolution of premiums will foresee a follow stable path of growth in the next quarters. The profitability of this business is very good even though it could be affected by (45:16),

so called this year in the first part of the year, but now again the situation is in the normal path.

Thank you, Mr. Tejera. Silvia Rigol at BBVA would like to know the following about MAPFRE international. Asia-Pacific continues to generate losses with the combined ratio spiking at 112%. What has happened?

Well, Asia-Pacific has suffered first (46:02) shortfall, and the size of the business is very small and so volatilities is higher than the other business. In Q1, losses sustained from GLOBAL RISKS from the earthquake in Taiwan of €5.2 million. In the third quarter, we suffered several industrial claims in the region also affecting GLOBAL RISKS. Also, we have had an increase in the holding (46:35) cost and investment in high utilization (46:38) in this area, but mainly we have suffered from (46:48) for restoring our losses - catastrophic losses in GLOBAL RISKS.

The next set of question is with regards to the evolution of the business at MAPFRE USA. Michael Huttner at JPMorgan. For the USA, when will the non-Massachusetts business improve nearer to a 100% combined ratio? From what we estimate to be 120% at nine months of 2016.

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

Thank you. Michael. A couple of things. First, what we've seen is reduction in the combined ratio in both Massachusetts, we called Northeast division, which basically comprises Massachusetts, Connecticut and New Hampshire states around the Massachusetts. But also as well in the remaining divisions. The current combined ratio for the Northeast division stands at a quite comfortable 95.2%. The remaining regions, Atlantic region is practically equivalent to the Central and the Pacific region. In last year, we were talking about a combined ratio between 125% and 120% for the combined three regions. This year within the range between a 115% and 120% and we see significant reductions in the three regions. Atlantic region which is the largest, the reduction in the combined ratio was at 4 percentage points which is quite remarkable.

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

Thanks. Andy Sinclair from Bank of America Merrill Lynch would like to know, if any present actions have been taken in the quarter in North America in non-life?

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

Yes, it's very well described in the management report filed within Securities and Exchange Commission in Spain. And in Massachusetts, there is an average premium increase of 4.3% and also the policy count was - shows an increase of 3.6%. For model, the average premium grew 1.5% and also they supposed to (49:15) grew as well 2.3%. So, a solid performance there.

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

And Carlos Peixoto from BPI would like to have an outlook for MAPFRE USA?

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

Well, our operation in Massachusetts are quite solid and mature and after achieving our growth objectives of strong Massachusetts, we're confident that the levels of the performance will level off across all the states. It will take time, I mean, this year, things haven't been easy, but we've seen the proper path towards profitability.

We have learned about profitability measures outside Massachusetts. We'll have for sure a positive impact in the medium term, such as a rate increase across the board, management of agency networks, stricter underwriting controls and risk mitigation tools. We're looking at new tariff tools as well, new product features to implementation (50:22) and product offerings, et cetera. And in Massachusetts, we'll continue consolidating our results and also reducing our channel (50:28) ratio, which is very important as well.

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

Let me tell you something, Carlos, you will have the chance next week to go more in depth in the USA business in our Investor Day. So I will - I'm sure you will receive more information about that.

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

Thanks. Also regarding MAPFRE USA, Maria Paz Ojeda from JB Capital would like to have the details of premiums growth and combined ratio in those states outside of Massachusetts?

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

As already mentioned and the combined ratio for the three - other than Massachusetts regions stand between 115 and 120 with significant reductions in both loss ratio and the expense ratio.

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

Thanks Mr. Mata. This block of question is concerning the developments in EMEA. Silvia Rigol at BBVA would like to know the combined ratio in EMEA, why has it reached 109% in the third quarter of 2016?

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

Yeah. Well, this high level of combined ratio in EMEA come from three different operations. First which is the most significant is Italy. As we already mentioned, we've seen a decrease in the average premium is something that is affecting the total sector. The second that we made in the second quarter is appropriation of technical reserves in order to follow one year ruling by the Supreme Court that has changed the mortality tables, increasing the cost of claims. And the third one as well is the change in the slight (52:24) commission in our reinsurance contract due mainly to previous aspect that I already mentioned.

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The second country is Malta. We've seen a deterioration of motor combined ratio due to an increase in average cost of claims as well. And is something that is affecting the total market and United Kingdom, the most significant is (52:52) claims in GLOBAL RISKS.

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

Thanks. The next question comes from Andrew Sinclair from Bank of America Merrill Lynch. In EMEA, there was a big drop in premiums in the third quarter versus the first half, is this a near lower base level or a one-off?

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

Okay. The evolution in premiums in the EMEA includes Turkey with lower impact of increase in tariffs in this 3Q in comparison with a first half. In Italy, we have seen also a decrease of the average premium. In Malta, lower issuance in life and motor segments and also it's important to mention that in Germany, the main premiums comes in the first part - in the first quarter of the year. So there is - this is rationality that you have to bear in mind also in order to see the evolution of the premiums in EMEA.

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

Thanks. Paco Riquel at Ene Mas Uno (54:00) and Paz Ojeda at JB Capital ask about the red line. The red line has been heavily making losses in Italy and to a lesser extent in Germany during 2016. You mentioned a decrease in the average premium on a adverse court ruling in disability claims. Can you please elaborate more about the problems in this business, any measures to correct the problems and what type of profitability and when should we expect it? Additionally, Niccolo Dalla Palma at Exane BNP asks, why do you lose €26 million in Italy in the third quarter? Is that a problem with the research of the line (54:37) business you bought?

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

Yeah. Let's address first question from Niccolo. There is no any doubt about the sufficiency of research in direct line and we're following the same problem basis policy of MAPFRE are the one we're applying in the rest of the operations. Regarding the different battery (55:06) of action that we've taken in order to offset the decreasing premiums, and also the new ruling for the Supreme Court. We're trying to have a better claim segmentation (55:17) in order to optimize our tariffs. Also we have to reduce, there is no doubt our expense ratio in order to have a similar performance of our peers. And in that way, we're reducing our capacity in some contact centers in order to have the proper size regarding the business we're managing.

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

Thanks. This block of question is concerning to developments in LATAM North and LATAM South. Silvia Rigol at BBVA. What has happened in LATAM North to react our combined ratio of 108%. And in LATAM South, it keeps combined ratio above 100%. What measures can you take to improve it? Also on this subject Andrew Sinclair asks, in North American non-life, are you going to take any pricing action in the quarter?

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

Okay. In Mexico, there has been a higher combined ratio in motor, industrial risks and health, this is the main reason. Additionally, there have been large industrial claims in MAPFRE GLOBAL RISK in the region. In LATAM South, the countries that are suffering technical losses are Colombia, and in the industrial risks and motor business, and Argentina in motor and health.

In another cases, the companies are carrying out measures to improve technical result, mainly in underwriting, selection of risk and tariffs, so we hope that the improvement will come in the next quarters.

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

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

Operator

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

A - Unverified Participant

Thank you. Mr. Esteban.

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

Well, thank you for attending our third quarter results. We look forward to having the a chance to meet with all of you, who will be in Madrid next week for our first Investor Day. And for those of you, that will not attend our Investor Day, I would like to say, good bye. As you know, I will be retired since the end of the year, and Mr. Mata will be with you in this presentation of results. Mr. Marta is a very experienced man, with a lot of knowledge and I will assure that we will be in very good hands in the future.

It has been honor and a pleasure to meet you and to share with you the evolution of MAPFRE results during the last 36-quarter, and I would like to say thank you again. Thank you. Bye.

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

Bye-bye.

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

Bye. See you next week. Bye.

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