

## Q1 2016 Earnings Call

### Company Participants

- Antonio Huertas Mejías, Executive Chairman & Chief Executive Officer
- Esteban Tejera Montalvo, First Vice-Chairman, Managing Director & Chief Executive Officer
- Natalia Núñez Arana, Deputy Director-Capital Markets & Head-IR

### MANAGEMENT DISCUSSION SECTION

#### Esteban Tejera Montalvo {BIO 3910673 <GO>}

Good morning, ladies and gentlemen. Welcome to MAPFRE Results for the First Quarter of 2016. As usual, I'll give an overview of the results and the main business development. And later, Mrs. Natalia Núñez will explain the financial review in greater detail. And today, Mr. (00:20) of the strategy and (00:21) as for the Q&A session. We will answer the question that have been submitted at the end of the presentation. But 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. MAPFRE's non-life business continues growing in 2016 with positive developments in the EMEA, Iberia, (00:56) and North America, while life premiums has still been affected by the depreciation of the Brazilian Real and the low interest rate environment. The non-life combined ratio has fallen by 2% points to 96.8% in light with MAPFRE's profitable growth strategy.

The improvements in technical management in Iberia and North America has contributed to this reduction, as well as a lower level of (01:29) claims in Massachusetts compared to 2015. Total income has fallen by 3.4% due to a decline in financial income mainly as a result of the depreciation of the Venezuelan Bolivar and Brazilian Real. You remember during the first quarter of 2015, we have had the official Venezuela Bolivar exchange rate up to VEF 12 for \$1. Now, the situation is totally different according to the depreciation we have made within the year with this currency.

(02:23) income and improvement in technical management has allowed MAPFRE Re to achieve an attributable result of - to MAPFRE to achieve an attributable result of nearly €192 million despite the more normalized level for financial income.

Net savings have increased by 4% year-to-date reflecting the strong performance of fixed income markers during the quarter in the state of the MAPFRE's agent channel.

Lastly, MAPFRE (03:04) are strong solvency position. Preliminary Solvency II figures as at December 31 of 2015 confirming MAPFRE's financial strength with the ratio at 190%, which

is supported by a high-quality capital rates with 92% in TIER 1 capital.

Please turn to the next slide. Here, as you can see, the recovery of the Spanish market has been relevant to the results, both life and non-life premiums are benefiting from these tailwinds. As well - and we're seeing it in MAPFRE's commercial network.

The technical financial result in Iberia has increased by over 14% (04:01) improvements in technical management which is not worth it given (04:04) the complicated market conditions and low interest rate environment.

Excluding the profits from CatalunyaCaixa in 2015 the net result would have grown 22% in this region (04:22) MAPFRE USA is also boasting results. (04:29) introduced last year as well as lower weather related claims have brought the business back to profitability. While at the same time we are seeing robust local currency growth due to the consolidation of the expansion plan in already strong position in Massachusetts.

As you already know, our portfolio situation in Brazil remains challenging. The depreciation of the Brazilian Real throughout 2015 is impacting results, although, it is worth mentioning that the real fast recover over 6% during 2016 with respect year-end 2015. The economic cash flow volume is affecting business volumes, mainly in Life due to a reduction in lending and especially in margins. More Life premiums continue growing in the local currency, thanks to the recovery of the agri business.

It is also worth noting the strong performance of financial income in Brazil in local currency, due to the fact our interest rate environment.

On slide five, we will take a look at our Solvency II figures in more detail. MAPFRE's 190% Solvency II ratio is based on a high-quality capital structure of over €8 billion in eligible own funds of which, 92% fees and respective TIER I capital and the remaining 8% is grandfathered subordinated debt. Excluding the use of transitional measures for technical provisions and matching adjustment, MAPFRE would have still have an excellent solvency position of 171% and 189% respectively.

On the next slide, we will take a look at the breakdown of our Solvency II eligible own funds. Taking into consideration the Solvency II standard formula perimeter, IFRS equity will be €8,849 million. In order to attain eligible own funds, several valuation adjustments are applied mainly including €2,658 million in that same of intangible assets as well as the revaluation of taxes and liabilities. These adjustments bring eligible own funds to €8,078 million.

In the next slide, we will take a look at the breakdown of risk category. In line with the nature of our business underwriting and market risk are MAPFRE'S main risks. As you can see the benefits of the diversification of our business in balance sheet are significant.

The total Solvency Capital Requirement is €4,253 million, which reflects (08:04), including the capital requirement for the third party acquiring countries, U.S.A., Brazil, and Mexico.

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Let's take a look at the sensitivity analysis for the market Solvency II ratio on slide number eight. As you can see, the limited sensitivities do a change in the alternate forward rate and moves in interest rates within equity markets. Our results of MAPFRE's prudent business mix, asset allocation, and ALM strategy.

Going to slide number nine, as you know the AGM approved our final dividend of €0.07 per share against the 2015 results. This dividend will be repaid on 24th of June. So, the total amount of dividends paid against 2015 amounts to €400.3 million. This dividend implies a dividend yield of current market basis, well above 5.5%.

On slide 10, we will take a look at the breakdown of premiums and results by region. As you can see, MAPFRE results are very well-balanced geographic-based. Since then, 2015, the most relevant variations in premium distribution are as follows: A 6.5 percentage points increase in Iberia due to the recovery in Spain and a 3.1 percentage points increase in EMEA, thanks to the integration of (10:04) businesses in Germany and Italy. We have seen 5.9 percentage points fall in Brazil mainly explained by the depreciation of the real.

With regards to activity and results, the most notable changes include the return to profitability in North America, a strong performance in Iberia and, as we mentioned before, has had a 22% increase in the net result, which (10:38) the profits from CatalunyaCaixa.

LatAm North has also had a good quarter with 11.8% increase in net results. And finally, profit of MAPFRE Re has increased by over 5%, reaching 23% of the group's profits. We have had disturbing losses (11:07) in EMEA due to negative run-offs in ASISTENCIA as well as several large corporate claims and global risks due to too big losses in Germany and UK.

And finally, in part, results have been affected by the Taiwan earthquake.

Now, Mrs. Nuñez will explain these figures in greater detail.

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

Thank you, Esteban, and good morning, everyone. Please let's move on to slide 12 to take a look at the Non-Life account. On a yearly basis, Non-Life premiums have grown at a healthy 2% and we are seeing the following trends. Growth in EMEA, thanks to the successful consolidation of the Direct business in Italy and Germany as well as tariff and volume increases in Turkey.

In EMEA, we have seen increase in production in most lines of business led by 7.7% growth rate in health insurance, a 10.5% increase in Multi-Peril lines and the recovery motor. Premiums have increased also at MAPFRE mainly explained by tiny differences in issuance for several large contracts. And Global Risks is contributing positively to premiums in Iberia, EMEA, and Brazil. These positive trends offset the declines in LatAm South Brazil and LatAm North. As we mentioned before, premiums in LatAm South have been heavily

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affected by the application of an implicit exchange rate in Venezuela that has impacted all lines of business including MAPFRE ASISTENCIA and Global Risks.

In Brazil, Non-Life Premiums are growing by 7% in local currency, driven mainly by other insurance, which has subsided the decrease in Motor. However, the depreciation of the Brazilian Real is still leading to a contraction in euros.

Finally, issuance has fallen in Mexico especially in Health, Industrial Risk, and Motor segments. The combined ratio improved from 98.8% to 96.8% for reasons we will now discuss on slide 15.

The loss ratio improved 1.1 percentage point versus the previous year in last part due to the absence of extraordinary weather-related claims on the East Coast of the U.S.A. The measures introduced last year including tariff increases are an improvement in underwriting are also boosting results.

In Iberia, the focus on technical management including portfolio claims and among other measures have also supported this reduction. These improvements have helped to offset the deterioration in Brazil which is linked to the economic environment and the effects of heavy rains in the first quarter of the year as well as losses in EMEA.

These losses stem from the several large industrial claims at Global Risks and negative runoffs at ASISTENCIA. Nevertheless, the insurance unit in Turkey has performed very well in comparison to the first quarter of 2015. It's also worth mentioning the impact from the Taiwan earthquake on the results at Global Risks in APAC.

Please let's move now to the slide - the next one to discuss the expense ratio. The expense ratio has fallen by 0.9 percentage point thanks to higher commissions from ceded reinsurance in the U.S.A., reductions in the Motor and Industrial Risks segments in Brazil, improvement in the already high efficiency levels in Iberia, decreases in Mexico in Motor, Industrial Risks, and Health segments. These improvements offset the deterioration in Motor and Health lines in Colombia and the uptick at MAPFRE due to the change in the portfolio mix.

Please, let's turn to slide 17, to take a look at financial income. Net financial income and other non-technical income fell by close to €85 million year-on-year. The largest drivers of this fall include the application of an implicit exchange rate in Venezuela, lower realization gains in Iberia in comparison with the first quarter of 2015, and the amortization of investments in IT applications.

Financial income in Brazil has proven (16:31), thanks to the high interest rate environment.

On the following slide, we will look at the figures for the Life business. In terms of business volumes, premiums are still contracting in the Life business, although, there's lower rate than those seen in 2015. We are seeing a return to growth in Iberia where premiums have increased by 3.6%, thanks to the pickup in sales in the Agents' network.

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The Life business in Malta also continues to perform very well.

In Brazil, premiums have fallen 11% in local currency due to lower sales of risk products linked to loans, and have been additionally impacted by the depreciation of the real.

Regarding results, there is a fall of 18% mainly due to the claims in Brazil and Malta. In Brazil, lower volumes and negative evolution of claims in the Life Protection segment, and the depreciation of the real have put pressure on results. Whereas in Malta, net financial income has declined due to the poor performance in financial markets during the first quarter of 2016 compared to the previous year. This fall has been partially offset by the improvement of the underwriting result in this country.

Please let's turn to slide 21 to see the result of all the business activities.

Just as a reminder the result of all the business activities includes the activities of the following companies of MAPFRE S.A., MAPFRE AMÉRICA and MAPFRE INTERNACIONAL. As well as, the group's non-insurance activities undertaken by subsidiaries. The €7.7 million decline in the result is explained by a fault in net operating revenues and expenses due to lower activity in the quarter. The impact of negative runoffs from unprofitable contact in EMEA at MAPFRE ASISTENCIA and the impairment of a real estate investment.

On slide 23, we will look at the main drivers of the consolidated result. The year-on-year contraction in retrofit has been due to two main process. One, the reduction in the Non-Life financial result, which has been affected by the application of an implicit exchange rate in Venezuela, as well as lower realization gains in Iberia. And two, the decline in the result of the Life business in Brazil and Malta as explained earlier in the presentation. These impacts were mitigated by the strong improvement in the Non-Life underwriting result.

There has also been a growth in the effective tax rate due to the increase in the corporate taxes in Brazil and (19:51) in the tax regime in Colombia last year. The result attributable to minorities has fallen significantly driven by the depreciation of the real.

As we have mentioned earlier, this year's result still would include those from discontinued operations which were €21.3 million in 2015, mainly from CatalunyaCaixa. Excluding this impact, net profit would have increased by 6%.

On slide 25, on the next one, we will take a look at the main variations in equity on the balance sheet year-to-date. The good performance of global financial markets during the quarter, especially fixed income, have led to an increase in the value of the financial investment portfolio. These movements were partially offset by shadow accounting. Also, the 4.4% depreciation of the U.S. dollar was partially offset by the 6.2% appreciation of the Brazilian real during the quarter.

For the time being, this is all from my side. I will now hand back the call to Mr. Tejera to start with the Q&A session.

## **Esteban Tejera Montalvo** {BIO 3910673 <GO>}

Thank you, Natalia. Now, we will answer the questions the most of you have sent us through at the moment. If any other issues arise during the Q&A session, please send us an email, we will be happy to respond if time permits.

## **Q&A**

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

Thank you, Mr. Tejera. The first set of questions is with regards to the evolution of the business investment (21:42). Silvia Rigol of BBVA, Niccolo Dalla Palma of Exane BNP, Menuet and Sylvia of Bank of America Merrill Lynch asked about the worsening of the combined ratio. Is it due to the macro environment or is it related to weather? Is it recurring?

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

The worsening of combined ratio affects mainly to Motor business, and to Mass Market Multi-Peril line. In the Motor segment, claim ratio has deteriorated in the first quarter of 2016 due to (22:16) of frequency in theft as a consequence of the economic crisis in the country which has led to an increase of delinquency and fraud. In Mass Market Multi-Peril line, claims ratio was affected by heavy rains in the first quarter on the year together with an increasing frequency.

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

Thank you, Mrs. Núñez. Sylvia Rigol (22:42) also asked about evolution of premiums on pricing in Life. Is it (22:47) currency also recurring? What do you expect for financial (22:53) in 2016?

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

In the sale Non-Life premium (22:58) 18.1% in Europe with a growth of 7% in local currency. The lower level of growth compared to previous quarter is due to a decreasing (23:10) Motor. In this way, Motor insurance is affected by a contraction in number of new car sales and western competition. For us, it's important to say in that sense that MAPFRE in this environment of price war is not playing this war. We are focused as we have said before in profitable growth. Perhaps, this is one of their reasons of this decrease in the motor segment.

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

Thank you. Andrea Sinclair (23:45) and Paz Ojeda sent the following questions about the Life business in Brazil. Firstly, bank premiums seem to drop materially in local terms. What was the local currency move in (23:55) premiums? How much of the drop in premiums was moved to a (23:59) full in borrowing in Brazil? What can you say about the outlook for Brazilian Life? What's the reason for the decrease in the underwriting and financial result?

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

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Okay. Late premiums from Mapfre Brazil have decreased 32.3% in euros, 11% in local currency. This is due to the difficult economic environment in the country. In this way, Life premiums distributed by Bank of Brussels suffered a contraction stemming from lower amount of loans granted to bank with the (24:35) customers.

However, Life premiums distributed by Mapfre's network have a growth of 15% in local currency. The Life underwriting result decreased as a consequence of the contraction of premiums issuance and the negative evolution of the claims in the quarter, also, because of the macroeconomic environment.

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

The only piece I would like to underline that this referred to this first product is due mainly to a decline in the lending activity in Mapfre Brazil and due to the current turmoil that is suffering now in the Brazilian economy.

In any case, in terms of the results, there is also a compare with the figures of the first quarter of 2015 in the evolution (25:41) of their financial market is important to (25:46) due to the fact that part of the Hawaii (25:48) financial investment there have an impact in the profit and loss accounting due to the accounting there in their of the (26:03) portfolio.

Thank you, Mr. Tejera. Concerning market in U.S.A., Niccolo Dalla Palma from Exane BNP Paribas asks the following questions on the U.S.A. 102% combined ratio in the quarter, that was like natural catastrophes looks like, at least a point in (26:23) the underlying profitability, any one-off factors this time?

No. No. (26:34) These figures are more in the line that it would be. The most important thing here is that the situation is totally different in Massachusetts, outside of Massachusetts. The improvement in the loans ratio is due to lower losses mainly Massachusetts, Connecticut, New York and Florida. The combined ratio of our business in Massachusetts is below 100%. It means that the core business with MAPFRE in the USA is consistently performing very well.

Outside from the Massachusetts, the combined ratio is verified due to growth. We are growing in several states and growing means not cost free. There is a new (27:27) in business penalty that has strong impact on the ratios but we'll meet that in key states such as California, Thailand, New Jersey, New York, Connecticut we have already achieved as we said (27:45) scale to turn them into a profit-generating center very soon.

Thank you. Andrew Sinclair from Bank of America Merrill Lynch asked the following questions. Massachusetts had a revenue whether (28:02), yet the U.S. business still the leader (28:05) technical result. Under what circumstances would this business deliver a positive technical result?

As I mentioned before, Massachusetts has a combined ratio that is below 100%, which is performing well. The combined ratio of the U.S.A. (28:27) expansion plan. In Massachusetts, the reality is that after raising tariffs changing in the underwriting

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conditions. We are now in the same condition with the other businesses (28:48), is profitable and the combined ratio is, as I mentioned indirect (28:55) in a normal part.

Related to the expansion, clearly, this expansion has to be funded in this phase with internally generated capital. Our provisions in Massachusetts is managing the operation investment grade. We're entering any new market (29:19) there is a pickup in the cost base. But over time, as the operations mature, there should be an improvement in profitability. We are paying annual business penalty that is halting our (29:32).

But the most important thing is that now we have changed the structure in - of the management in the U.S.A. We have now four regional management teams that are monitoring especially - specifically each region, and we can monitor growth and profitability. And we are going to manage how we want to roll according to their results in each of these regions. And we can assist, as I said to you before, monitor this growth in terms smooth profitability for the future.

Thank you, Mr. Tejera. Would you consider this to have been a normal winter or better than normal winter for Massachusetts?

When we compare this winter with the previous one, it's a very good one, but is a more normal winter. It's in the balance with the normality. Last year was very, very warm, but - yeah.

What year-on-year price increase have been put through Massachusetts?

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

In Personal Auto, we've been almost flat. In Homeowner, as we said last year, we increased close to 9%. We haven't seen this year some competitive environment in Personal Autos in the State of Massachusetts. There is not a price war set (31:21), but players' pressure (31:23) rates by maintaining or reducing tariffs on the last quarter of the year, but our position there is comfortable. In terms of portfolio mix in Massachusetts, 75% of our portfolio is Auto, and 16% Homeowner. In Auto, we have market share of 25% and 13% in Homeowner.

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

Thank you, Mrs. Nuñez. With regards to the ASISTENCIA business, (31:58) at Exane BNP Paribas had the following question. What caused again the bad performance of ASISTENCIA? You said at full-year results that you had fixed the issue.

Well, we have seen that we are taking runoffs for North ASISTENCIA. North ASISTENCIA is mainly influenced. As we mentioned in the fourth quarter last year, we have been canceling non-profitable products. Canceling this type of products requires reduction structure. It takes time to even - especially in countries where the (32:37) is more difficult to remove them in other countries. This portfolio (32:44) purchase was well under way at the end of 2015. And largest economic impact was felt in the fourth quarter of 2015 and the first quarter of this year.



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What is important to keep in mind is that premiums have been resilient. It would return to profitability as shown in ASISTENCIA service funds of the measures taken. We're having also negative effects from exchange rate depreciation loss not only in Venezuela, but also in Brazil and Colombia.

(33:27) RGB Capital Markets had the following question. Will you expect results at MAPFRE ASISTENCIA to improve?

Well, even if this year will be a difficult one for MAPFRE ASISTENCIA, the worst is past, and I think that we will see during the year - a year that will be nothing profits. But there is room for profitable growth in the coming years.

Thank you. Concerning the business in Spain, Niccolo Dalla Palma from Exane BNP Paribas asks the following questions. Regarding margins in Spain, the loss ratio (34:18) 2 percentage points, while that of your peers Linea Directa and Catalana (34:25) deteriorated close to 2 percentage points. How can you explain the difference? Did you release any provisions in the first quarter? And what can you say about the (34:34) income so far?

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

The tariff, I can say that we have applied some measures in Spain. These measures as we said - what we have said is the reduction in fleets. Also we have adequate the tariffs. Right now there is sufficiency of tariff in Spain in 2015 and so far this year. This year, as I've said before, placing of the portfolio specifically in fleets, combined with the benign weather, better underwriting and claims handling have improved the profitability of this business.

I can tell you there's no release of any provision during the first quarter. MAPFRE is actively managing its portfolio of business and is focusing on profitability. For that in the Baremo, we haven't seen any impact, almost any impact during the deal in the first quarter, what we have seen is slight increase in frequency, but the severity coming from the Baremo. We haven't seen that in this first quarter yet.

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

Thank you. Regarding prices in Spain, your average premium in Motor is up 2.3%, can you pull this up further in the second or third quarters, or will you increase prices by this amount for the next two or three years?

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

As I've said before, MAPFRE is focusing on profitability, better underwriting result. We have mentioned in the past that this year, we would be raising targets in order to offset the impact impact on Baremo. Therefore, we should expect this effect to continue during the rest of the year. I think that with respect to the next two or three years, it's too early to indicate.

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

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Thank you. Silvia Rigol of BBVA asks the following questions: Regarding Motor in Spain, is the improvement in the combined ratio recurring? Are you witnessing greater frequency? How market churn are you willing to lose in order to maintain the combined ratio?

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

We would certainly hope this ratio to be recurring. I have said before, MAPFRE is focusing on the fidelity and better on the writing results. The creating of the portfolios specifically in flips and the benign weather better on writing and claims handling. Having for that profitability of this business. This is the most remarkable feature of the combined ratio in this first quarter in Spain. This is for the part that MAPFRE has to do with in terms of the external factors, frequency continues to rise and this is backed up by the information coming from (38:07). And from the year-end, it has increased about 2.1%. And regarding market share losses, we don't want to target a specific market share, only profitability, as we have said before.

However, what intended to happen in the past is that when the market competitors focus on grabbing market share as through aggressive pricing, MAPFRE tends to lose market share only to win it back when the competition abates on pricing becomes more rational.

Also, there is a different trend in the first quarter. The fleets have, for some competitors, have a big impact in their accounts. So we will - there is kind of a (39:04) during the first quarter. We will have to wait until the half of the year to see if - this demand continues.

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

Thank you, Mrs. Nuñez. With respect to the live (39:16) in Spain, first (39:18) continue to fall, what measures are you going to adopt?

Well, the decline in the banking channel is due to lower production in the single and regular premiums due to the focus on protection products without a higher margin. In this environment with a very low interest rate, working to launch products - saving products in the banking channel. And we are (39:46) according to that.

And as you can see on page 47 of our presentation, there is an increase in the BANKIA channel in Life protection of 7.7% and in accidents, premiums, you have an increase of 22.7%. In any case, we are designing new products to be launched even in the saving banks in the coming months, in the BANKIA channel.

Thank you, Mr. Tejera. Andrew Sinclair from Bank of America Merrill Lynch asked the following question regarding Iberia Non-Life. What level of reserve releases was seen in Iberia Non-Life with this quarter?

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

Again, what I can tell you, the that the improvement in the underwriting result is due to the focusing on profitability and better underwriting results. This is the main future and the main effect for this improvement in the combined ratio.

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

And what level of price increases were put through.

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

What we are doing, I have mentioned before, is to adopt tariffs to be sufficient. As you know, the excellence in tariffication (41:28) and underwriting of MAPFRE is to adapt to the real situation with this new situation is (41:36) and the increasing frequency because of the improvement of the economy. And we will adapt - we are adapting our tariffs and we are making them sufficient.

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

(41:49) inflation has been seen and how much of this was attributable to the (41:56)?

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

Okay. Frequency continues to rise as I've said before in terms of the information coming from (42:16), this was increasing by 2.1%. In respect to (42:21), it has had an unbelievable impact on the result thus far.

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

Thank you. (42:31) from JB Capital asks a few more questions. Regarding (42:36) in the Spain, the (42:38) ratio of around 95%, is this sustainable or either a one-off (42:44) on this? Would you give an outlook for the coming quarters? Expected increases in average price for the year was around 6%. Do you see room to raise this?

Right. (42:59) from before. (43:00) is focusing on - in profitability in (43:02). We have been cleansing the portfolio specifically in fleet, combined with - this combined with very good to go down and better underwriting in place and in fact improving the profitability of our business. These levels are more in the normal level that we have and we will have in the future. Even with time spent during the next quarter - next two quarters more impact coming from the Baremo. But as you always mention before, the establishment of the (43:59) and the new structure of Baremo improves the losses in the accidents that are not big accidents but accidents that were a source of growth in the past. So, we can wait in the long term an improvement. Even in the short term, we can see some (44:45) of the loss ratio in moderation. According to that, we will (44:52) with that.

Thank you. The next set of question is regarding Solvency II. Niccolo Dalla Palma at Exane BNP Paribas asked, would you like to know the following. Can you explain the drivers of the move from Solvency II ratio of 170% to 190%. And can you remind us which countries are not included on an equivalence basis?

**A - Antonio Huertas Mejías**

This is (45:26). Thank you for your questions. There are different combinations of factors claiming this increase. First is the changing methodology in previous year without a full consolidation of operations and in 2015 and basically due to the equivalent rating is a full

consolidation for operations in the European Union and those relevant in LatAm and (45:55).

For the remainder, we applied the equivalent regime. That means Brazil, the U.S.A and Mexico. And the second factor to remark as well is a new interpretation, a new policy that was published by the Spanish supervisor in order to give instructions to apply transitional on technical provisions. And the new ones will give us an additional credit.

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

Thank you, Mr. Huertas. Andrew Sinclair at Bank of America Merrill Lynch has a few questions regarding Solvency II. Firstly, the 190% ratio is materially above the round 170% the staged financial year 2015. Is this difference due to transitional now being included? Or is it something else? And secondly, where is transitional relief being taken? Transitionals seem greater than what have been expected.

### **A - Antonio Huertas Mejías**

We said there are several reasons. Firstly say the equivalent regime and second is transitionals. I forgot as well another one which is detention the group because previous in previous year, we had CatalunyaCaixa which was a joint venture 50/50 operating in Life in Spain. And in 2015, we had the new direct line operations in Germany and Italy and they're operating in Non-Life.

Transitional growth, in general, the applied on technical resource in Life portfolio in Spain. And the change in the ratio is mainly due to the increase in other (47:41) as I mentioned.

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

Thank you. Is there another mode of optimization that you can do?

### **A - Antonio Huertas Mejías**

Yes. We mentioned several times that MAPFRE is working in internal knowledge for the last 10 years, and the numbers and the metrics are being used only for (48:02) purposes. We're working as well in unit-linked U.S. (48:08) parameters as well in the (48:13) for internal knowledge. We're willing to understand the results for the internal knowledge and the different (48:20) was in place. (48:25) standard for Non-Life.

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

And how much of this dealer certification benefit is international diversification versus within country (48:40) diversification?

More of the effect is coming from international diversification. But also, the diversification between different businesses is important. Duration for (49:10) is that in Spain, our business is focused in other countries in personal lines with very good track of results and very low volatility, but diversification obviously is important.

Thank you very much. (49:43) had the following questions. What are the transitional measures applied by MAPFRE in terms of the technical provisions? Is this the deduction approach?

**A - Antonio Huertas Mejías**

Yes. It is the decision on technical provision for business in Spain, but only for (50:03) too much (50:02).

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

Thank you, Mr. Huertas. And does MAPFRE applying transitional measures in terms of capital charges for equities?

**A - Antonio Huertas Mejías**

Yes, but results were not relevant.

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

And what about transitional measures around reporting deadlines?

**A - Antonio Huertas Mejías**

I will report those transitional measures according to the deadlines included in the legislation.

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

Is there a specific part of the business, which requires the matching adjustment or is it gladly use across the group?

**A - Antonio Huertas Mejías**

Well, the matching adjustment only applies in certain portfolios in Spain and for the remainder of Life portfolios with (50:43) volatility adjustment and Non-Life is not relevant.

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

Thank you. And finally, does MAPFRE plan a volatility adjustment as well?

**A - Antonio Huertas Mejías**

(50:53) on Life business portfolios, but those matching adjustment in (50:59) and Non-Life is not relevant as I mentioned.

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

Thank you, Mr. Huertas. The new set of question is concerning the business in Spain. Carlos Peixoto from BPI (51:10) asks the following questions. MAPFRE ESPAÑA divisions were reclassified. Companies, home insurance, and others disappeared into Multi-Peril and other personal lines and commercial insurance. Why do you decide to make this change?

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

Yeah. Well, this change was due mainly to the merger of MAPFRE FAMILIAR and MAPFRE EMPRESAS to trade MAPFRE ESPAÑA. These two companies have been fully integrated, therefore, it's not possible to replicate the exact same information we previously published. That's why we have given you the figures for 2015 to MAPFRE like-for-like numbers.

The main difference between the new disclosure and the previous one is mainly property insurance which is not - is now included in Multi-Peril and other personal lines. Last year, it included mainly condominium insurance. This year Multi-Peril includes Home, Condominium, and Commercial Property insurance. This is the main difference. But anyway, you need any further assistance, we can give you more color on that if you call us through the Investor Relation team.

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

Thank you, Mrs. Núñez. What is behind the reinstatement of the Motor Insurance division data in the first quarter of 2015? What changes have been made in the consolidation (52:50)?

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

I think it's that this year we are presenting the information for the entire business management MAPFRE ESPAÑA which includes Spain and Portugal. Last year, we presented only the information for Motor in Spain but as you can imagine, the main bulk of the business come from Spain. It's mainly Spain. There are slight differences. That's why we have given you the figure for 2015 in order for you to compare.

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

Thank you. I noticed a 1% growth in the number of insured vehicles in Spain. Is this related with pricing discipline? What further improvement in the combined ratio?

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

This is really mainly through the cleansing of the portfolio, principally inflates as we have mentioned, which at the same time, have had the effect of improving the profitability of the business.

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

Thank you, Mrs. Núñez. What are your expectations on the evolution of Motor premiums in Spain on the combined ratio?

Well, I think that premiums will continue to perform well, given that the tariff increases, we are (54:16). In addition, the cleansing of the portfolio specifically inflates combined with the underwriting claim, and this should continue to improve in the profitability of the business.

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As I mentioned in the first method (54:35) in respect of Barrimoere (54:38) so far, this has (54:46) impact on the result thus far but in the near future we must wait to see for the (54:58) quarters.

Thank you, Mr. Tejera. Paz Ojeda (55:06) at JB Capital sends the following questions about Mexico. What's the reason for the falling premiums in local currency? Do you see risk of a worsening environment for the business?

Well, in Life, the reduced premium more than that and the first quarter of 2015 included life protection corporate policy arranged a multi-year contract that has (55:32) in 2016. In Non-Life, in the - in this quarter, premiums decreased in (55:41) industries in motor segment due specifically to actions of that thinking especially in quality policies in Motor in February (55:55) in order to keep the profitability.

Thank you, Mr. Tejera. (56:04) at BPI (56:05) sends the following question on Brazil. What are your expectations in evolution of the agricultural insurance business in Brazil?

Well, the evolution of the agricultural business in Brazil is very tight to the evolution of the (56:20) of the government for the farmers in order to widen premiums. As we notice in the last year, at that time, there was no these payment subsidies in this year. And these payment subsidies were replaced in the second half of the 2015. So, this figure are according to that.

Due to the fact that this (56:59) we will play a role of the leaders in this market in Brazil.

Next question is from (57:11) of Credit Suisse. Will then MAPFRE apply (57:12) its embedded value report for 2015?

We provide the materials for everybody in the last few quarter presentation (57:21).

Thank you. Michael Huttner (57:27) from JPMorgan has asked. Would management's planned holiday incentive plan has changed? And how (57:35) it matches in your 2018 strategic plan targets?

As always, once the three-year plan - strategic plan was approved, all the incentives within the company had been arranged with this in new plan. And has been calculated to all the levels of the organization.

Thank you, Mr. Tejera. Mike Ofera (58:12) from JB Capital (58:13) asked the following question regarding the business in Germany. Could you explain the poor performance of Germany year-on-year, pre-tax profit that stands at minus 10.2% - sorry, minus €10.2 million? What has happened?

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

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This is a good question because the presentation can give you a different idea about the consolidation of the direct business in Germany. The consolidation of the direct business in Germany is contributing to the improvement in the result of Germany. But the problems is that there has been some negative deviations in the country during the quarter arising from Global Risks. P2 premiums in the recently consolidated insurance unit are performing very well. With a better combined ratio than expected. However, we are going through an integration process. We can suffer from integration cost that might lag the overall performance of the company throughout the year. But until now it's performing very well.

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

(59:32) and the negative figure is coming from a big loss in industrial power plant in Global Risk.

Thank you. The next question is from Carlos Peixoto at BPI (59:47). Should we expect financial income to remain under pressure over the coming quarters?

Financial income in the first quarter is a more normalized level due to a lower level of the realized gains. In any case, last year, we had a lot of realized gains in Spain. You can see in the details at the end of the presentation on page 69, you can see the net realization gains breakdown by different kind of business. Last year in the first quarter, we had €72.9 million. And this year, we are having €34.4 million. In this we can reflect what happened last year.

In any case - although, we are seeing lower investment deals in the Spanish portfolio, deals in (01:01:08) is still at a high level due to the interest rate environment. In the strong decrease in the financial result is driven mainly by currency movements, mainly the depreciation of the Venezuelan Bolivar as well as the Brazilian Real, which is affecting the year-on-year comparison. And also, in Malta, last year, we've had an (01:01:31) event that is not including Brazil.

Thank you, Mr. Tejera. Carlos Peixoto at BPI (01:01:39) asks the following questions: Do we expect that the €14 sales dividend per share to come as reference for 2016 and its payout?

We are not giving this kind of (01:01:56). That is very (01:01:59) in the year and in many cases, we are not giving (01:02:05) this kind. What we had said is that our policy is having a payout higher than 50%.

Thank you. And what is your outlook for MAPFRE USA?

Well, I mentioned before that our policy in Massachusetts is solid and mature. We are confident that it delivers on (01:02:26) profitability will level off across all state after achieving our growth objectives outside Massachusetts. In the sales, we have launched a battery of (01:02:38) of profitability measures outside Massachusetts. We will definitely have a positive impact in mid-term. New measures have been implemented for angles of



the business, rate increases and overall prices we put in actions. It is a management under rating controls in new product features.

According to our plan, we are not considering our new state empty until late 2017. And then we will be in a better position to determine if an additional (01:03:15) makes sense even if we have to reduce our presence in one of the space we have presence already.

Thank you. Regarding Brazil, (01:03:31) further question. Taking into account reiterated weakened (01:03:35) economic environment. Could it be a risk for further deterioration in the combined ratio? What kind of measure is MAPFRE taking to protect the profitability of the business?

Well, first of all I would like to send a message of (01:03:54) because what is happening now in Brazil is not - there is a - environment with a lot of uncertainty. There are people that are not asking new money for upgrading new cars or new houses. And this has some immediate impact. The message from MAPFRE is that we would continue as always in keeping our business under control in terms of profitability even if we have to witness a period of low increase in premium income - only one decrease. But I think that the operation is very solid. We are now entering in price wars and I think that the deterioration of the loss ratio are huge. The weather conditions especially for this range in parts of the country will be offset in the - during the year. In - well, thank you, (01:05:28).

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

Maybe one more. [foreign language] (01:05:32)

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

Sorry. I thought we had (01:05:35)

Farquhar Murray at Autonomous (01:05:39) would like to know the following regarding Solvency II. Please, can you just confirm that there is no international diversification benefit related to Brazil and the U.S.? Given this come under the (01:05:53)?

**A - Antonio Huertas Mejías**

Yeah, that's correct. We can confirm that there is no international diversification benefit. So, we don't get any credit from the Brazil, U.S. and Mexico.

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

Thank you, Mr. Huertas. Niccolo Dalla Palma at Exane (01:06:07) asks why is the margin adjustment benefit only 1%? Wasn't this a very important feature for the Spanish Life market?

**A - Antonio Huertas Mejías**

Well, the 1% benefit is over the volatility adjustment. We felt that it was important to disclose the margin adjustment because it's nothing (01:06:26) similar, particular for the

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Spanish market.

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

Thank you. Carlos Peixoto at BPI (01:06:31) has another question regarding MAPFRE ASISTENCIA. Will you please elaborate on the €54.5 million provision at MAPFRE ASISTENCIA? What was behind it?

Carlos (01:06:45), I understand that you refer to the figures that we publish at the end of the year. And these losses were reported in the full-year 2015 figures and other losses related to the identification of known profitable contents. We have already discussed a large part of these losses were located in France. But there was also some pressure on results coming from Brazil, North America, and LatAm South. But this - we have been discussing in the full-year results.

Thank you very much. There are no more questions.

Thank you, Marta. Well, thank you for attending our presentation and hope that we'll see you again in three months. Thank you. Bye.

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