

# Mapfre, S.A. BME:MAP

## FY 2017 Earnings Call Transcripts

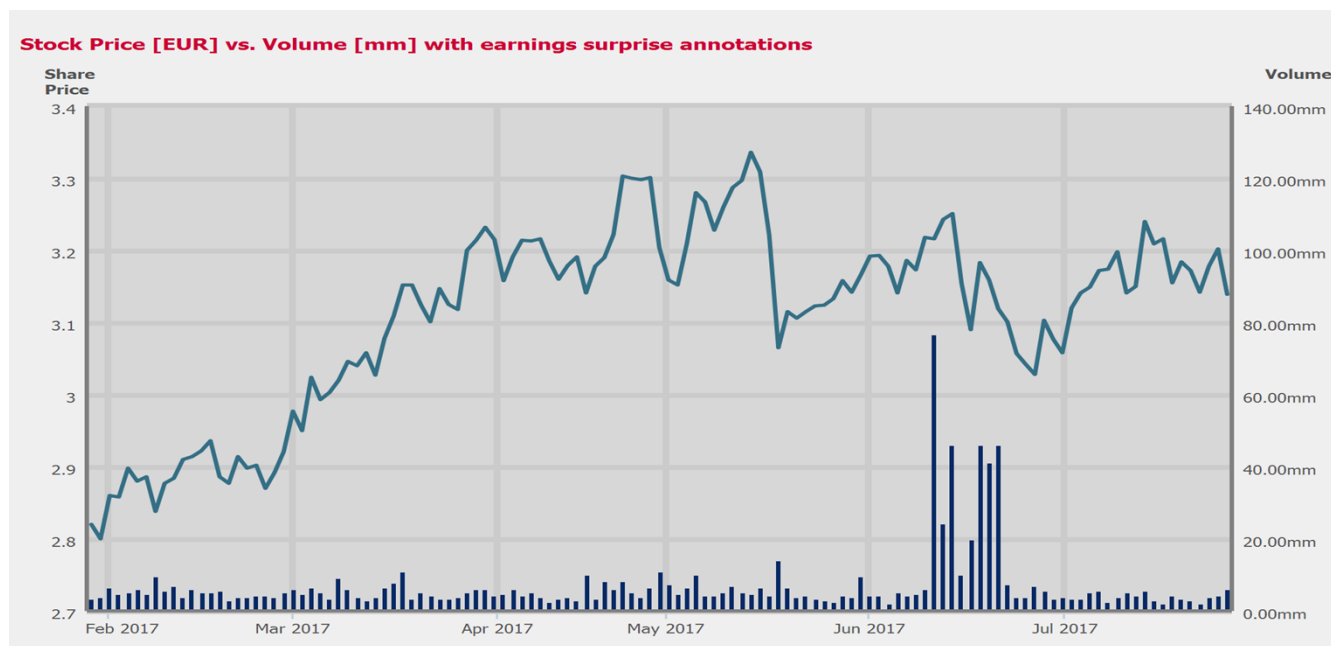
Thursday, February 08, 2018 9:00 AM GMT

### S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-		-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS
<b>EPS Normalized</b>	0.02	0.01	▼ (50.00 %)	0.06	▲ 50.00	0.22
<b>Revenue (mm)</b>	4965.00	4913.50	▼ (1.04 %)	5772.00	-	23442.75

Currency: EUR

Consensus as of Jan-31-2018 2:37 PM GMT



# Call Participants

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## EXECUTIVES

**Antonio Huertas Mejías**

*Chairman of the Board, CEO and  
CEO of International Insurance &  
Global Business*

**Fernando Mata Verdejo**

*CFO & Director*

**Natalia Núñez Arana**

# Presentation

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## Natalia Núñez Arana

Good morning, and welcome to MAPFRE's results presentation for full year 2017.

On this occasion, it's a pleasure to have Mr. Antonio Huertas, our Chairman and CEO, here with us. He will start providing us with a brief review of the main highlights of the year. And at the end of the presentation, he will also participate in the Q&A session. It's also a pleasure to present our CFO, our member of the board, Mr. Fernando Mata, who will take you through the main trends of this period, as in previous quarters. As usual, during the final Q&A, all questions received in the specified e-mail address will be answered by our speakers. And the Investor Relation team will be available to answer any further questions you may have after that.

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

## Antonio Huertas Mejías

*Chairman of the Board, CEO and CEO of International Insurance & Global Business*

Thank you, Natalia. And good morning, everyone. Before we run through the numbers, I would like to go over the main highlights of 2017.

The fourth quarter results have been excellent in the wake of the catastrophe events occurred during the year. We are happy to announce that our initial loss estimates have been revised downwards, thanks to our effective reinsurance program. Fernando will give you more detail later.

I'd like to make a special mention of 2 units that are performing extremely well, Iberia and MAPFRE RE, where our profitable growth strategy is proving to be a great success.

LATAM North, LATAM South and EURASIA have also shown exceptional results. Other core units for us, Brazil and United States, need more time to reflect in their accounts the effect of the measures that are being already implemented.

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

Overall 2016 (sic) [ 2017 ] results exceed EUR 700 million allowing us to propose a total dividend of EUR 0.145 per share, the same of the last year.

Moving to Slide 4. Here, we are presenting the breakdown of shareholder remuneration for the last 6 years. At this point, I'd also like to highlight MAPFRE's commitment to stable ongoing shareholder remuneration.

For the year 2016, the final dividend to be proposed to the AGM stands at EUR 0.85, equivalent to a 63.7% payout ratio, which is within our target range. Therefore, the total dividend for the year will amount to EUR 0.145. I'd like to assert that this high dividend shows our strong commitment to our shareholders, especially in such a difficult year in terms of cat events.

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

In Brazil, one of MAPFRE's main feature is our business diversification. And in this country, this has helped us offset the effects of strong competition in motor business with outstanding results in other lines.

We are confident that the improvement of the economic environment in the country is underway. In addition, we have just announced the signing of a memorandum of understanding with our partner, Banco do Brasil, to update our bancassurance agreement after 6 years of success.

According to this new agreement, MAPFRE will own 100% of the business generated by the agent network and the Motor and Large Risk assessments in BB, Banco do Brasil, bancassurance channel. However, it won't affect life and agro business. We are very happy with our partnership with Banco do Brasil, and we are layering the foundations to make it more efficient and profitable. Both groups think the same. We have now more opportunities to increase business and profits.

Now let me talk about the U.S. markets, where the Northeast region continues to be key to MAPFRE.

As we announced during our last Investor Day, we have already implemented a new strategic plan for this country and expect to see results soon. As far as I know, we are closer to exit from the states where we have always decided. Also, we have benefited from their recent tax reform, which has allowed -- has had a EUR 38 million on attributable result.

As we also announced, during the Investor Day, we have already joined the former EMEA and APAC regions to whether into EURASIA, and our figures have been reported accordingly as you will see during the presentation.

In Germany, the rebranding of our direct business into VERTI has been a great success. In Italy, we will start with the rebranding in a few weeks. In this country, we are starting to see premium increases and a [ positive ] firming of the business. Malta and Turkey have also reported spectacular increases in results. All in all, they give us healthy growth in EURASIA.

In LATAM North, Dominican Republic and Central American countries are doing very well with outstanding performance. Mexico, which is still in transition, has implemented many measures to improve.

LATAM South is showing an excellent improvement in many countries, like Colombia and Argentina. Furthermore, Peru and other countries present great results as well.

Going to Slide 6. MAPFRE. We are very proud of our reinsurance unit. MAPFRE RE's performance has been outstanding in a difficult year, thanks to its excellence in underwriting and effective reinsurance program, which have allowed it to successfully manage the impact of the catastrophes.

Additionally, we have seen the benefits of diversification both geographically and by business mix.

MAPFRE GLOBAL RISKS suffered heavily under cat events. Also during the year, it had a few numbers of losses, which affected dramatically its results.

And finally, ASISTENCIA unit is being very closely monitored and improvements are expected, thanks to the strict underwriting cost-cutting and restructuring processes implemented.

Let's move to Slide 7 where you can see the main figures for the quarter.

Revenues went up to EUR 28 billion, with an increase of 3.3%. Life insurance shows a better performance with 4.2% of growth. P&C represents 77% of our total premiums and grew by 2.6%.

In the middle of that line, you can see premium growth, excluding foreign exchange rate effects, which shows a premium growth of 4.1% without this effect.

Combined ratio stood at 98.1% and expenses remained stable. Loss ratio went up mainly due to the weather-related losses.

The column on the right shows data excluding the NatCat events that affected MAPFRE's primary insurance business during 2017. The result stood at over EUR 700 million, with nearly EUR 256 million during the fourth quarter.

Excluding these cat events, the results would have increased by 6.5% to EUR 826 million, a reduction of 1.2 percentage points on the combined ratio.

The ROE would have reached over 9%.

Finally, I'd like to highlight the excellent solvency ratio, which was 189% by September 2017.

Now I will hand the call over to Fernando Mata.

**Fernando Mata Verdejo**

*CFO & Director*

Thank you, Antonio. Good morning, everybody, especially those connected from this -- early birds connected from the States. I know too early. I'm happy to have this opportunity to be here with you again. Before going into the details of our annual accounts, let's take a look at the impact of exceptional catastrophic losses on MAPFRE results in 2017.

These events were the largest accumulation of cat events in a 3-week period in all MAPFRE's history. We were very accurate in our initial loss estimates, releasing figures ahead of our peers. The gross loss is now estimated at just over EUR 1 billion with EUR 100 million reduction compared to the initial estimate.

Of this EUR 1 billion at year-end, EUR 189 million correspond to claims paid, EUR 552 million of outstanding claims, and the remaining EUR 306 million of IBNR reserves.

The total net loss is EUR 183.8 million, including the Coastal Niño, of which EUR 125.6 million correspond to losses at primary insurance units, the remainder at MAPFRE RE.

During the last quarter, the main variations were a significant reduction in losses at MAPFRE RE and GLOBAL RISKS, which was slightly offset by increasing losses in Puerto Rico.

MAPFRE's strict underwriting policy and our reinsurance protection has helped mitigate the impact. Also we have implemented the necessary processes in each of the affected countries to handle and settle all claims as quickly as possible. However, settlement will go on for months and some of this adjustment could be quite complex.

On this slide, you have the breakdown of premiums and results by region and business unit. You can see that MAPFRE's appropriate geographic mix has also helped our resilient results. Reinsurance units represent 75% of business volume, and MAPFRE RE represents over 16%, with the remainder of premiums at GLOBAL RISKS and MAPFRE ASISTENCIA.

Regarding reinsurance units, Iberia represents nearly 27% of total premiums, followed by Brazil with 18.6% and the rest of LATAM with over 13%.

North America contributes nearly 10% of business volume and EURASIA also has a strong share with 7%.

On the right, you can see the evolution by business unit, which we will discuss in more detail in the following slides. Regarding attributable results, Iberia stands out with over EUR 500 million, by far the largest contributor.

I would like to also point out the strong recovery in EURASIA, with an over EUR 100 million increase in net result as well as an over EUR 50 million improvement in LATAM South. These are both clear example of the success of diversity in processes that have been implemented in both regions during the last 2 years. Furthermore, the results in Brazil have proven very resilient taking into account the market context.

MAPFRE RE has performed very well too, especially considering NatCat events.

Finally, Iberia's results, excluding real estate transactions, grew by almost EUR 27 million.

On this slide, you can see that the revenue was up over 3%, supported by the positive evolution of premiums, while financial income is still being affected by lower reinvestment deals across LATAM basically and Europe.

Our income grew substantially, sustaining from positive currency differences. The Life business grew by over 4% and Non-Life by 2.6% despite the cancellation of more than EUR 528 million of loss-making portfolios, in line with profitable growth strategy that started 2 years ago.

Growth was positively affected by a multiyear policy in Mexico for nearly EUR 500 million, issued in June 2017, already mentioned in previous quarters.

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

In Brazil, we're seeing some green shoots with a slight pickup in premiums in local currency, but the appreciation of the Brazilian real is still the main growth driver.

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

And we have already mentioned the largest effect has been NatCat losses, with a net impact of around EUR 126 million.

Net realized gains were also EUR 75 million lower than 2017 -- '16, sorry, comprising both financial investment and real estate.

The decrease is mainly due to the sale of MAPFRE Tower in 2016 and lower realized gains in the fourth quarter of this year.

On the other hand, we booked 2 non-recovering positive events in December this year. The first impact is related to the write-down of intangibles. As you may recall, last year, we wrote down goodwill by over EUR 46 million, mainly in Italy.

In 2017, the positive net impact of EUR 28 million is the result of write-downs with goodwill and other intangibles for EUR 75 million, offset by the cancellation of our provision amounting to EUR 103 million.

With these cancellations, we have aligned balance sheet valuations with the current economic context and distribution structure in Brazil.

Second, there is an extraordinary income of EUR 38 million at MAPFRE USA as a result of the decreasing deferred tax liabilities from the U.S. tax reform.

And last, EUR 27 million positive impact due to the reversal of a provision for bancassurance made in the first quarter of 2017 that you already know.

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

I would like to emphasize the following positive trends in combined ratio. The improvement seen in Iberia, which I will cover in more detail later, the 6.3 percentage-point improvement in the combined ratio in EURASIA, thanks to successful restructuring and better claims experience. And LATAM North, minus 4.2 bp; and LATAM South minus 2.2 bp, are reaping the benefits of profitability initiatives.

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

As you can see, the underlined result decreased by EUR 69 million with 2 opposing factors. First, there is an improvement in the technical result of EUR 62 million. Second, a decrease in the financial result of EUR 131 million due to the already mentioned reduction in deals.

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

While we're talking about Non-Life, I want to discuss the extraordinary Non-Life results in Spain. The implementation of the Non-Life transformation process that began in 2015 focused on profitable growth is delivering results in Spain. You can see on the left, pretax profit grew from EUR 235 million to EUR 427 million in 2 years. This outstanding performance was achieved, mainly thanks to the reduction of the combined ratio, which improved from 97% to 94%.

On the right, you can see the Motor premium growth, reaching 3.9% in retail lines, while fleets are still decreasing. Total Motor premium growth was 3.5% compared to 3.4% for the market.

MAPFRE España is outperforming the market despite the cancellation of underperforming business segments.

In the year 2017, MAPFRE has continued reinforcing its leading position in the Non-Life Spanish market and has increased its market share in Motor, Commercial and Health business.

MAPFRE's growth is based on profitability and average Motor premium growth is well above the market.

Continuing with their strategy for profitable growth, MAPFRE España has implemented a series of measures to control and reduce claims and expenses in Motor lines. All of these measures have significantly lowered the combined ratio, which stood 5 points below the market and has continued improving. At the close of 2017, MAPFRE's Motor combined ratio stood at an extraordinary 90%.

I'm going to skip the 2 following slides, which contain the main highlights for Non-Life by region and unit.

Moving on to information regarding the Life business. We will take a look at premiums, which are up over 4%, thanks to the outstanding performance in the bancassurance channel in Iberia as well as positive developments in Mexico, Colombia, Peru and MAPFRE RE.

In Brazil, net premium are down 2% as a result of lower lending activity. The result of the Life business is down slightly, largely driven by the declining financial income in Brazil due to the sharp fall in interest rates and inflation.

This was mitigated by strong results in Colombia and Peru as well as the gains in Iberia from the cancellation of the provision for continued liabilities in the bancassurance channel already mentioned.

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

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

Finally, the mutual and pension fund businesses continue with a strong growth, nearly 10%, thanks to MAPFRE's successful strategy to foster the asset management business.

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

Please turn to the next slide. Realized gains in Non-Life are lower than the previous year's figure, mainly as a result of the sale of MAPFRE Tower last year.

I would like to point out the high level of unrealized gains on our equity and mutual fund portfolios. In Europe, around EUR 130 million. This gives us leverage to take advantage of future market opportunities.



And finally, it's worth pointing out the high accounting deals in our portfolios, 2.6% in Non-Life and over 4% in Life, well above market deals and quite stable during the year.

Next, please? Yes. On the left side, you can see the breakdown of our capital structure at year-end, which amounted to EUR 12.8 billion. Its largest component is equity, with 82% of the total. And you can see its breakdown on the chart on the bottom left.

The majority is capital, retained earnings and reserves. There are over EUR 600 million in net unrealized capital gains, which remain, as you can see, quite stable for the last 3 years, even after realizing over EUR 100 million in 2017.

Finally, these gains are offset by over EUR 700 million in negative foreign exchange differences.

The right side, you can see the evolution of the shareholders' equity, which has fallen by over EUR 500 million during the year to EUR 8.6 billion. The decline was largely driven by the depreciation of our main currencies, which we have already mentioned resulting in EUR 639 million decrease in equity.

On the other hand, there was a decrease in financial assets available for sale, which was partially offset by shadow accounting.

On the next slide, we will present the Solvency II information, which was already given at the Investor Day, so there are no further details to discuss now.

Yes, as a reminder, we will release the full year Solvency II figures with the first quarter 2018 results, which will include the annual solvency capital requirement calculation.

That's all for me. As I said, 2017 was a complex year in terms of one-offs and cat events. But we were more than happy with the final outcome.

We hope the information disclosed has been interesting for you. And now, Antonio Huertas is going to discuss the MAPFRE Banco do Brasil alliance and wrap up the presentation. Thank you.

### **Antonio Huertas Mejías**

*Chairman of the Board, CEO and CEO of International Insurance & Global Business*

Thank you, Fernando. At this point, I would like to go back over our new scenario in Brazil. You know we have just announced a memorandum of understanding to update our agreement with Banco do Brasil. According to that, MAPFRE will control 100% of BB MAPFRE's agency channel. Secondly, MAPFRE will also control 100% of Motor and Large Risk business in the bancassurance channel. And next, MAPFRE will maintain exclusivity both in Life and Non-Life for the distribution of products in the Banco do Brasil channel. And finally, BB MAPFRE will focus on Life, Agricultural, SME, and Homeowner insurance for Banco do Brasil customers.

Please turn to the next slide to see the main advantages of our new agreement. What will this agreement bring to MAPFRE? In my own evaluation, firstly, it significantly increases our shareholding in Brazil. Secondly, it increases the profit contribution, expanding its consolidation scope from Brazil.

Also, it will simplify MAPFRE strategy execution in Brazil and eliminate shared management restrictions, giving us even more freedom to make management decisions.

Moreover, leverage the MAPFRE brand in Brazil, becoming [ alone ] the second largest Non-Life insurer in the country. And last but not least, exclusivity in the Bank of Brazil channel is maintained.

To draw the presentation to a close, I would like to outline some conclusions regarding 2017 MAPFRE performance. Firstly, MAPFRE has delivered solid results in an extremely complicated year.

Secondly, we continued demonstrating our financial strength, conservative management strategy and a continuous commitment to our shareholders.

Also, after the successful implementation in Iberia, the focus on profitable growth is beginning to bear fruit in other regions.



To wrap things up, we are satisfied with the results of our well-defined and well-executed strategy.

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

**Natalia Núñez Arana**

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

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

## Question and Answer

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### Natalia Núñez Arana

Now let's start with the Q&A session. First question regarding Brazil, coming from Paco Riquel Alantra Equities. It's regarding the reorganization of the JV in Brazil and the buyout of the Non-Life business. Is this the year that you can finance with debt? Or would you consider raising equity at all?

### Fernando Mata Verdejo

*CFO & Director*

Thank you, Paco. First of all, and as you know, I'm pretty happy, I mean, to answer your question regarding Brazil, but there is not yet a deal. And what we have signed is a nonbinding agreement, and we have to still -- to wait still probably a couple or 3 months in order to wait and have the final contract. But anyway, I mean, let me say that with this current nonbinding agreement, there is no change in the risk that we are taking in Brazil. I mean, Solvency capital requirement will be quite similar. And also total assets as well. But you are right. I mean, the only change that we have to replace, some of them are minorities because the acquisition will be in cash. We have to replace minorities by some sort of a capital instrument. At that point, we haven't decided yet. It could be both, I mean, debt or we'll write issue. We haven't decided yet. And also you have to be reminded as well that there is an excess of cash currently in Brazil that we can use for this potential acquisition. Regarding our capital Solvency II ratio, capitals are currently excellent and within the target range of EUR 175 million to EUR 225 million. So overall, we do not expect a significant impact on our capital position.

### Antonio Huertas Mejías

*Chairman of the Board, CEO and CEO of International Insurance & Global Business*

I'd like to add to Paco, information about your question, if we are able to get any synergy or efficiency gain from this acquisition. It's -- indeed, we don't have any doubt about that. You know that usually, when you run a company alone, it's better than doing that with -- inside a joint venture. As well, MAPFRE has strong knowledge of P&C business. And usually, in all the Latin American countries, we run these companies along, doing our risk, getting excellent results. In terms of our business in Brazil, for real, we have had good returns, and we know that managing this business, both the business coming from agent channel and the Banco do Brasil channel, we can increase efficiency, mixing the teams using one single platform and trying to make the most out of our knowledge. We haven't yet quantified the savings, but we know that we will do better managing this business in the newest scenario.

### Natalia Núñez Arana

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

### Fernando Mata Verdejo

*CFO & Director*

Thank you, Natalia. Back to our commitment, regarding the strategy planning, as we said, we focus on our current footprint, and we were more than happy, I mean, to expand. And also our current strategic operations, and obviously, Brazil, has been and will be for sure, I mean, a strategic operational country for MAPFRE. It's a quite attractive market with an excellent growth potential. And as you know, it's moving out of the recession. The current macro figures, I mean, look much better. Regarding insurance, it's a country which has still low insurance penetration, so it gives a lot of opportunities in order to expand our premium volume in Brazil. Regarding valuation, the assessment of the business that we will acquire. Both BB Seguridade and MAPFRE both are listed companies, so we're together, both teams -- in order to get market price valuation for this transaction. [ It can ] the other way. So for sure, we will have an arm's length transaction at the end of the discussions. Obviously, we'll look at the potential synergies, as Antonio said, and future business plans and so on.

### Natalia Núñez Arana

[WWW.SPCAPITALIQ.COM](http://WWW.SPCAPITALIQ.COM)

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

**Fernando Mata Verdejo**

*CFO & Director*

Yes. Thank you, Paco. As you know, the stakes or the corporation in Brazil, they are split not into Life and Non-Life, but into bancassurance channel and the agency channels. Majority of the bancassurance channel comprise Life, but there is Non-Life. So we don't have with me at this point -- I mean, the right figure regarding Life and Non-Life. But let me say that the current scenario in Brazil, I mean, is not the best for Non-Life business. Automobile combined ratio stands for MAPFRE nearly 108%. Fortunately, other lines of business, they're offsetting this bad results. But overall, we're quite happy, I mean, with Brazil performance. Regarding one-offs, as I mentioned, the most relevant one-off is the EUR 28 million, which is the net effect of the write-downs of intangible assets for Non-Life. And also the cancellation of provision for expenses and risk.

Both balances were accounted for in 2011 as a result of the fund bancassurance alliance that year with Banco do Brasil and both have been canceled. The provision for EUR 103 million, the liability, was established at that year to cover the potential risk for different sort of expenses. And it was canceled because it was no liability further for MAPFRE. On the other hand, and in that case, there are 2 main reasons. First is the current economic situation Brazil, particularly affecting the Motor line. And also the final outcome of the alliance with Banco do Brasil. So in the end, we thought that both the environment and the change in the alliance could affect any potential impairment of our goodwill. And with this, I guess, well, the board decided to write off both in all sort of intangibles affecting the agency channel. Particular -- mainly was a goodwill, but it was a small amount, well of a value or book acquire. So basically, this was the one-off, separated into assets and liability, income and expenses and affected more than Non-Life. It affected the agency channel.

**Natalia Núñez Arana**

Okay. I think it's clear. Anyway, if you need further explanation, we are available later on.

Okay. Next one, also from -- regarding Brazil is the question coming from Andrew Sinclair, Bank of America Merrill Lynch. How much is MAPFRE paying up from the standard Banco do Brasil relationship?

**Fernando Mata Verdejo**

*CFO & Director*

Well, as we said, this is a nonbinding agreement. We haven't set the price, the consideration yet. It will take at least 2 or 3 months. The first thing we have to get -- we have to complete is the independent review of the financial accounts and get the independent auditor's reports and also to draft the final contract. But Andrew, for sure, as I said, the transaction will be at market price. I mean, both are listed companies. And in the end, we'll have an arm's length transaction, 100% sure.

**Natalia Núñez Arana**

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

**Natalia Núñez Arana**

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

**Natalia Núñez Arana**

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

**Fernando Mata Verdejo**

*CFO & Director*

You're right. I mean, we've seen a relevant drop in the deals in Brazil. We still remember those good times with the Selic rate above 12%. Last year, at year-end, it was nearly 7%, the deal. Sometimes we said, and we were right, that our portfolio was privileged, but it won't last forever. I mean, we have to attend the maturities, and we're trying to replace with higher deals available in the market. But this year was a significant decrease in financial -- recurring financial income, approximately EUR 100 million. The impact on the net result is completely different because in Brazil, there is only 25% net results from Life, mainly coming from BB, but in Non-Life, affected basically 50%. As long as the GDP grows up and the interest drops, which is what we're seeing, let's say, that we're trying to compensate both factors, inflation rate, they are decreasing. We expect a very good impact in our structural cost in Brazil. So far, what we've seen since the majority of our investments are inflation-linked instruments, what we've seen is the damage on the value of their financial income, but we expect to see the effect of the inflation drop in our loss and expense ratio during this year and probably next as well.

**Natalia Núñez Arana**

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

So the next question is regarding MAPFRE U.S.A. Now the first one comes from Paco Riquel. If -- can you update on the restructuring plan in the U.S. the exit from several states that we had announced during the Investor Day and on the online launch in Pennsylvania?

**Fernando Mata Verdejo**

*CFO & Director*

Thank you, Paco. What we're seeing and probably, Antonio will then give you an additional comment as well, we expected both transactions, the one in the middle states and also New Jersey being pretty difficult. We know that because of the size of some operations in some states that are quite small and also because they will run in losses, the beginning we thought that it was a difficult task. Fortunately, we've seen some interest for both operations, and we are quite optimistic in the medium run. I mean, we don't see any solid expectation to fulfill both operations in the future 2, 3 months. But at least, we've seen a lot of interest for both operations. I don't know, Antonio, you want to add something?

**Antonio Huertas Mejías**

*Chairman of the Board, CEO and CEO of International Insurance & Global Business*

Yes. It's true. We are very positive, and we should expect major changes, advances in the process in upcoming months. It's not easy as you know that in the States, we have to follow a strict regulatory process to exit from different states. But the interest that our operation has surged -- has appeared has been very, very positive, and we think we are achieving our goals in the next few months. Talking about our development of the new operation in Pennsylvania, VERTI, I have to say that it's very soon to say information about that. Our VERTI launching has been very, very soft. It's a better operation, and we're still trying to improve the system, to make it -- fine-tuning in tariffs to know better the market competition in the States. And even the development of boat is still on track. We are trying to make changes in the next months to improve the development -- the distribution, the distribution platform and how we can be more competitive in the States. But in total, we are happy with our launching in Pennsylvania, and we have completed the launching in record time. And the thing is ready to reach its objectives.

**Fernando Mata Verdejo**

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*CFO & Director*

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

**Natalia Núñez Arana**

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

**Antonio Huertas Mejías**

*Chairman of the Board, CEO and CEO of International Insurance & Global Business*

Yes. Thank you, Andrew. It was a great surprise. It was our Christmas present from Trump. We didn't expect, anyway. But let's say that we consider it as a one-off. And it won't be recurring. That EUR 38 million positive impact is after-tax, obviously. It came from the decrease of the tax liabilities. Unfortunately, I mean, the tax assets stemming from MAPFRE ASISTENCIA, we wrote-off because of the running losses for this unit. And the EUR 38 million is affecting MAPFRE U.S.A. They're coming -- the reason is basically timing differences, mainly the useful lives used to calculate depreciation, different from tax purposes and for IFRS purposes. Obviously, it will be a recurring effect because going forward, the tax rate will go down from 35% to 21%, and so we will expect a higher net result coming from MAPFRE U.S.A. business.

**Natalia Núñez Arana**

Great. Thank you. Now we are changing -- moving to MAPFRE GLOBAL RISKS. Carlos Peixoto from BPI remarks that its fourth quarter combined ratio was quite low. What was behind the improvement? Any release of provisions here?

**Fernando Mata Verdejo**

*CFO & Director*

There is nothing relevant, I mean, in the fourth quarter rather than the degrees of the EUR 40 million from the cat losses. And also, the good performance at [ Solonian ] and the agreement for the security business, which contributed [indiscernible] net income of EUR 5 million. But in general, I mean, the fourth quarter was quite steady in terms of losses. And whether it was quite benign both in the U.S -- there was a big snowfall in Massachusetts, but it was quite benign in Spain. Unfortunately, the change -- the weather change in January, and we had the severe weather in both, in the U.S., in Massachusetts and also in Spain in January, as you know well.

**Natalia Núñez Arana**

Thank you very much. Now Michael Huttner from JP Morgan wants to know what should we expect in terms of your challenging units in full year '18? What is the outlook at ASISTENCIA? Will it profit this year? How much can you reduce the losses in Italy and Germany this year?

**Fernando Mata Verdejo**

*CFO & Director*

Well, I'll take it, and I'm sure Antonio will give some comments as well. ASISTENCIA, as you know, we've been dealing with the current problems of ASISTENCIA for the last 2 years. The first phase was focused on selling unprofitable business. It was mainly 2016 across-the-board but mainly focused on Europe and the U.K. Travel assistance and multiyear portfolios were provoking a lot of the losses. The second phase was focused on balance sheet cleanup and adjusting some cost structure to business volume. We started deteriorating and writing off intangible assets as the decrease -- I mean, in the business projections. We wrote down as well some debtors and in the end some tax assets, as I mentioned, particularly in the U.S. The reduction of expenses was made that year -- at the year-end of 2017. So we will look at the 2018 loss cost structure lower than last year. So in the end, we expect better results. But I mean, it's too early to say that probably we will see a turnaround next year with small loss.

**Antonio Huertas Mejías**

*Chairman of the Board, CEO and CEO of International Insurance & Global Business*

Yes. I would like, Fernando, to add some words about MAPFRE development during the 2018 year. We are very positive because we think that the units that are going well will be on the same line. Iberia and MAPFRE RE are already at excellent profitability levels, but we can still expect some room for improvement, especially, for example Spain, Homeowners and third-party liability. In the U.S., as you know, the foundations have been set to improve technical results, and we should expect during the year better, better returns, especially at the long end of the [indiscernible] as well the lower tax rate. In Brazil, we are very confident with the newest scenario with the measures we have already taken to improve the results. We can expect better performance as well. We could still see some headwinds from the lower interest rate environment and currency volatility going forward. But we should benefit as Brazil moves out of recession. [indiscernible] As Fernando said, the reduction of losses should also be a positive driver at 2010 results. And we can't forget Mexico. Mexico is a great country. We have there an excellent platform. And we expect during 2018 better, better improvements. And if God permits, we don't expect big cat events during the year, and we should get better results due to the lower frequency in big cat events.

**Fernando Mata Verdejo**

*CFO & Director*

One thing I forgot, Michael. We're running wonderful -- small but wonderful profit in Germany. Even looking at the papers, their net result grew from 2.4 to 2.7, so there are no losses in Germany. Regarding Italy, you're right, I mean, the losses are still there. And significant decrease due to the restructuring changes made last year. And we're quite positive. I mean, the outlook is much better for Italy, but still, probably we expect 1-digit loss next year.

**Natalia Núñez Arana**

Okay. Thank you so much. Next question is coming also from Michael Huttner from JP Morgan. And it's regarding the U.S. program of renewal withdrawal from loss-making states. What's the progress? How much benefit could you -- could we see this year from that program?

**Fernando Mata Verdejo**

*CFO & Director*

Thank you, Michael. I mean, it's too early. We set, as you know, at the Investor Day, new targets for business in the U.S. It's just 1 month after we released these objectives. So I mean, it's too early just to discuss or to comment on the performance of these objectives. Mainly will depend on how fast we are, I mean, in the restructuring of the different states. So coming back to my words I previously mentioned, I mean, we're quite optimistic for both a potential transaction, the sale of the renewals rights for the central states and also the sale of the operations in New York and New Jersey. If we sell both operations, I mean, let's say at a good price, and we're expecting a good price, let's say that the net income will be much, much better, I mean, from the U.S. For the long run, as I said, it was a great and wonderful surprise, the reduction of the tax rate in the U.S. It will help us actually increase as well our net income. And also, I mean, there is our protection as well for the goodwill impairment tax we had to carry for the next years. Regarding the operations. Massachusetts, in general, Northeast New England, I mean, is performing well. Combined ratio is in the low 80s. And last year was extraordinary. And the quota share and reinsurance contracts with MAPFRE RE is working well. So I remember that 1/3 of the profits [closed out] is related to the MAPFRE RE accounts. And in the remaining states, there is still an increase in combined ratio, but we'll focus on the plan made and unveiled at the Investor Day in order to reduce on those states that are under development in order to reduce losses and improve combined ratio. Probably, I mean, at the first quarter 2018, we will be able to give you further details regarding the progress in the U.S.

**Natalia Núñez Arana**

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



**Fernando Mata Verdejo**

*CFO & Director*

Thank you, Paco. And let's say that we're expecting 2 non-relevant effects to [ have ] at the year-end Solvency II a calculation. First is the, let's say, the future business profit that we only estimate on a yearly basis. So on the quarter release, this positive impact on eligible funds is not contemplated. The second is the cat losses effect. As you know, there is a relevant increase in our assets due to the reinsurance to be collectible, I mean, from our reinsurers. And also an increase in provisions. As I said, there is over 500, including IBNR, like EUR 700 million of increasing outstanding losses in the liability side of the balance sheet. Both are -- both represent more requirements in terms of Solvency II capital requirements, but we do not consider it to be relevant, I mean, taking the figures as a whole from MAPFRE. So probably, it will be a slight increase or improvement, but it's still too early, I mean, to assess, I mean, the final impact. But they will be for sure nonrelevant.

**Natalia Núñez Arana**

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

**Fernando Mata Verdejo**

*CFO & Director*

Yes. Thank you, everybody. I mean, there are 2 main reasons for this decrease in the fourth quarter. The first has been lower level of realized gains and has affected the financial income. As we mentioned, I mean, the one-off -- the positive one-offs that we booked in December, I mean, the EUR 28 million in Brazil, and also the EUR 38 million in tax effect in the U.S., allow us, I mean, to decrease the pace of realized gains from financial investment. So this is the first reason. And also additionally, as you'll remember, it was early retirement schedule in Spain that took place affecting almost 100 people, and at the cost of EUR 35 million. The cost was split between Life and Non-Life. And I guess, this is one of the reasons for the decrease -- for the drop in net results in the fourth quarter.

**Natalia Núñez Arana**

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

**Antonio Huertas Mejías**

*Chairman of the Board, CEO and CEO of International Insurance & Global Business*

Thank you. We are certainly happy with the combined ratio of Motor in Spain. Of course, we don't have the magic ball to know what's going to happen with the business, but we have in our hands all the possibilities to continue on the same line. MAPFRE started to raise tariffs, 2, 3 years ago when we saw the difficulties -- the future difficulties of the business, for the implementation of the Baremo, for the recovery of the economy and the market competition. For that, we did our duties, and we now are very sure that we are on the right track. We have consulted many non-profitable business in Motor, and we are trying to do -- to run the business in a very positive way. But it's difficult, we know, to maintain this combined ratio up close to 90%. But we have still room to improve other lines as well as Homeowners, Health and third-party liability and others. And we have -- even in Motor, we are growing over the market, having increases in average premiums in the line. We are very positive. Talking about VERTI. We said 2 years ago that we started a new time, a new season with VERTI because of the differentiation of the company in the market. As well, VERTI started the process to work more together with MAPFRE in the back office processes. And we -- VERTI, has made many, many savings in the back office operations. VERTI is growing less than the beginning of the operation, but it's growing. VERTI is trying to be the leading company in online business in Spain and reaching the breakeven, even making a little bit profits during 2016 -- '17, sorry. We are positive, and it's the beginning of a new time for this operation. [ Seven years ] after the launching, we have gotten the goal, and now we are trying to improve the quality of the business, the quality of the service as well as the increase of the margin of the direct insurance of VERTI.



**Natalia Núñez Arana**

Okay. Regarding also Spanish Motor combined ratio, there's a question about it. Is there -- it includes -- this exceptional good combined ratio of 90.8% in Spain includes any one-off such as [ resell ] releases, sort of volume of provision?

**Fernando Mata Verdejo**

*CFO & Director*

Yes. Thank you. I mean, the 90.8% -- I will clarify. First, the 90.8% is from Spain and Portugal Motor. It's from Iberia. From Spain, it's even lower because it's 90.5%. But the reduction is not due to one-offs. It's due to the quite extensive number of initiatives taken for the last 2 years in order to improve our performance in this line of business. The only release of provision we made was the EUR 15 million of the Baremo provision was made at the third quarter, if I'm not mistaken. And probably, I mean, it's very likely there is no changes in the current trend. Probably, we will release the remaining balance, which stands at, I guess, EUR 20 million, I'm not sure, but probably next year. What happened? I mean, in the -- also, I mean, the effect of those initiatives were as well helped by quite benign weather during the last quarter. That was just the contrary last year. But let's say, that we're quite proud of the job made in order to improve the performance of our Motor line in Spain, which is key strategic and are very good example in order to implement the same process in other regions and countries.

**Natalia Núñez Arana**

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

**Fernando Mata Verdejo**

*CFO & Director*

Thank you, Carlos. To be honest, and overall, it will be a very positive news, if it happens, but we do not spread 100% -- 100 basis points increase. It is true that we spread an increase on rates, but probably nothing significant in next year, in 2018, despite the recent movements in the financial markets. We will prepare for you, I mean, the calculation, the sensitivity analysis, and we will back to you with the numbers. But just to let you know that in our Iberia portfolio, we have a 4.2% deal acquisition cost versus 1.4% of market value. So there is a relevant gap. And that's why I've said that we have a privileged portfolio.

**Natalia Núñez Arana**

Okay. Thank you. Thank you so much, Fernando. Now there is one remaining question in Brazil from Silvia Rigol, BBVA; and Carlos Peixoto from Caixa. Could you give us more details regarding high acquisition cost? Is it recurring for coming quarters?

**Fernando Mata Verdejo**

*CFO & Director*

Thank you, Silvia and Carlos. You're right, commission -- I mean, acquisition costs are quite high in Brazil, particularly, when we compare with other regions. But this is something that is recurring in this country. You'll note that what we call the Corretores is the independent agents. They've got a quite potential role in the block rate of premiums. We're trying to reduce this acquisition costs. It's quite difficult, but you're right. The only increase in commissions that I remember is that the one made for the bancassurance channel, and it was already mentioned in the past, in order to foster activity in Banco do Brasil. My conclusion, overall, I mean, let's say, that there we expect reduction in the acquisition costs. We're working on it. But due to the current structure of the intermediary agent in Brazil, we consider it as recurring for the coming years.

**Natalia Núñez Arana**

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

**Fernando Mata Verdejo**

*CFO & Director*

Well, what we expect is that the similar trend that we've seen -- we saw in Spain for the next 3 years after coming out from the recession. We expect a similar trend in Brazil. As you know, there is a time lag, usually 1 year, 2 years, between the good metrics -- good macro metrics for a country, and also a relevant increase in premiums in the insurance business and also improvements in combined ratio. Let's say, that the first year is done. I mean, and we are -- our expectation are great -- greater, I mean, for next year. And basically is that's we're quite happy, and our expectations are pretty high regarding the new transactions with Banco do Brasil that we also enlarge our positions in Non-Life in Brazil.

**Natalia Núñez Arana**

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

**Antonio Huertas Mejías**

*Chairman of the Board, CEO and CEO of International Insurance & Global Business*

Thank you, Ivan. As usual, we don't make any release of our forecast out of the AGM. You know, we are in the middle -- at the end, actually, at the end of the current strategic plan and 2018 is a transitional year. When we communicated the impact of a catastrophic event, we said that we have -- we moderated our protection to accomplish some financial targets like ROE. It's very difficult in the third year to reach it. But now we are focused on the improvement of the business in all the geographies. Sales network in all countries will have pressure all year to get us close to these goals as possible. The new strategic plan will be analyzed during the second part of this year. And we'll -- it will be launched for the next 3-year period. We will continue working on the same alliance, trying to get the most profitable business instead of only to talk about growth. Quarter-by-quarter, we are seeing the success of the current strategic approach, and in the third year of the plan, we are satisfied. We are quite happy with the plan, the improvements of the business in Spain, the first country where we applied the profitable growth. The improvements as well in LATAM. All the regions in LATAM have excellent combined ratios below 100%. And now we know that we have to embrace the main challenge to lower the combined ratio in the States and EURASIA. Iberia and MAPFRE RE will continue having excellent results. USA is in progress with the plans we have already released. And in Brazil, we are very confident with the measures that we have taken to improve the technical results. For that, in -- for that reason, in 2018, we expect to keep going our current process and to improve little by little our combined ratio and the ROE. But it's obvious that it's a year that where we will continue doing the same activities to improve the quality of our business. Nevertheless, we are happy. We are very satisfied with the results of the year, and we think 2018 will be, again, an excellent year for MAPFRE business in all of the world. Thank you very much.

**Natalia Núñez Arana**

Thank you very much. No more questions.

**Fernando Mata Verdejo**

*CFO & Director*

Thank you. Just one thing, just to say bye-bye. And we know that it has been -- 2017 has been a quite complex year in terms of both accounting effects and also one-offs. Hopefully, we hope that the explanation given and also the disclosures included in the documents that we filed with the stock market are of quality and are quite interesting for you. But any additional further detail or any additional question you may have, as usual, do not hesitate to contact to reach Natalia's team. They will be fully available for you. Thank you for your presence again and bye-bye.

**Antonio Huertas Mejías**

*Chairman of the Board, CEO and CEO of International Insurance & Global Business*

Thank you. Bye-bye.

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