

# Mapfre, S.A. BME:MAP

## *FY Nine Months 2016 Earnings Call Transcripts*

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### S&P Capital IQ Estimates

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# Call Participants

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## EXECUTIVES

**Esteban Tejera Montalvo**

*Former First Vice Chairman,  
Director General and Non  
Executive Chairman of Mapfre Re*

**Fernando Mata Verdejo**

*Executive Director*

**Natalia Arana**

**Unknown Executive**

# Presentation

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## Esteban Tejera Montalvo

*Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re*

Good morning, ladies and gentlemen. Welcome to the presentation of MAPFRE's results for the third quarter of 2016.

As usual, I will start by providing you with an overview of the results and main business strength and then Mrs. Natalia Núñez will explain you the financial information in little detail. At the end of the presentation, we will answer all the question received to the specified e-mail address, as time permits. As in previous quarters, Mr. Fernando Mata, MAPFRE's newly appointed Chief Financial Officer, congratulations, Fernando, will also participate in the Q&A session.

Let us now turn to Slide #3. The attributable result stands at EUR 572 million with a return on equity of 7.8%. Total premiums fell by 1.3%, mainly due to currency movements. Excluding Venezuela, it would have grown by 0.4%. Non-Life premiums are benefiting from the continued recovery in the Spanish market, the integration of the Direct business in Italy and Germany as well as steady growth at MAPFRE RE and MAPFRE U.S.A. Life premiums have proven resilient with a 2.3% year-on-year growth, thanks to the strength of MAPFRE's agent network in Spain with an outperformance of 21% in the period and this has helped compensate the lower sales of protection products linked to lending in Brazil, together with the depreciation of the currency in this country.

The Non-Life combined ratio has fallen by 1.5 percentage points to 97.2%, driven by improvements in technical management in our main markets and the absence of extraordinary claims in the U.S.

Shareholders' equity has increased by EUR 585 million during the year, supported by the performance of the investment portfolio during the year, thanks to an effective investment strategy that has proven successful in this low interest rate environment.

In this context, MAPFRE has also actively managed its balance sheet, realizing gains in the investment portfolio with interest rate near record lows and lowering our financial expenses by over EUR 45 million. We are seeing a strong growth in managed savings, 6% year-to-date, thanks to the Life business acquired by BANKINTER VIDA in Portugal, positive evolution of mutual funds as well as the appreciation of the Brazilian real. It also reflects the effect of DUERO businesses, which are classified as held-for-sale. Without this effect, managed savings would have grown 10%.

And from the point of view of the solvency, we keep our higher standards for Solvency II ratio, which is, as of the 30th of June, 197% with transitionals.

Let's move on now to Page 5 where you can see the contribution of the different business to the premium income of the group. MAPFRE's diversification strategy has allowed us to achieve a strong growth in mature markets while offsetting the currency movements and macroeconomic conditions in LATAM. The contribution of Iberia is noteworthy, accounting for nearly 30% of total premiums as a result of the already mentioned recovery in Spain, both in Non-Life and Life.

Brazil contributes nearly 18% of the total premiums. Despite the Brazilian local currency growth, premiums have fallen 10.4%, impacted by the depreciation of the real.

North America is growing, thanks to increases in Massachusetts, both in homeowner and motor premiums. You remember here, we increased the tariffs in homeowners last year and we are seeing now this growth in the currency part for increase of tariffs, but also aside from Massachusetts, especially in Connecticut where we have a strong competitive position.

EMEA now represents 10.3% of premiums with an increase of 43.7%, stemming from the consolidation of the Direct businesses in Italy and Germany as well as tariff and volume increases in motor insurance in Turkey and the good performance of Life insurance in Malta.

MAPFRE RE continues benefiting from the solid performance of the non-Group businesses, reaching over 17% of the premium. These positive trends have offset the falls in LATAM North and LATAM South where the comparison is hurt by the depreciation of the Venezuelan bolivar as well as the EUR 387 million multiyear PEMEX policy in Mexico last year that was issued in 2015. It is worth highlighting that in LATAM South, local currency growth has been positive in the main countries in the region.

Let's turn to the next slide to look at the main movements by region in attributable result. Results are also well balanced by organic -- by geographic region with around 57% of attributable result in Iberia; 23% in LATAM, of which 15% comes from Brazil; 9% in North America and 18% at MAPFRE RE. It is worth highlighting the strong technical profitability in Iberia. Excluding the impact of CatalunyaCaixa business in 2015, the attributable result would have increased by 68.5%.

Brazil is down by nearly 23% as a result of the economic slowdown, lower lending activity in the bancassurance channel and the depreciation of its currency.

We are seeing a return to profitability in North America, thanks to improvements in technical management as well as lower weather-related losses.

MAPFRE RE is benefiting from a benign loss experience and higher realization gains.

On the other hand, EMEA has suffered from extraordinary losses due to negative runoffs and results from multiyear policies in ASISTENCIA as well as several large corporate claims of GLOBAL RISKS and higher integration costs and claims experience in the Direct business in Italy.

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

Please now turn to Slide 7. MAPFRE's Board of Directors has approved an interim dividend of EUR 0.06 per share against 2016 results, the same as that from previous year. This is possible thanks to MAPFRE's strong capital position, and accordingly, the total dividend to be paid in 2016 amounts to EUR 0.13 per share. As you know, MAPFRE is committed to pay out -- to a payout of between 50% and 75% of the group's earnings, increasing dividends in line with earnings growth. At present market prices, EUR 0.13 are equivalent to a dividend near 5%.

Now I will hand the presentation over to Natalia who will go through the following slides and explain the financial of the quarter in greater detail. Natalia?

### **Natalia Arana**

Thank you, Esteban. Please, let's move on to Slide 9. On a yearly basis, Non-Life premiums have fallen by 2.3%. As in the previous quarter, this decline in premiums was mainly driven by the depreciation of the Venezuelan bolivar and the Brazilian real. Also, in this evolution, we have to bear in mind that the PEMEX policy in Mexico was issued in 2015. Excluding the effects of Venezuela, premiums would have remained more or less flat, thanks to the following positive trends: the continued pick up in production in virtually all lines of business in Iberia, the integration of the Direct insurance businesses in Italy and Germany and positive developments at MAPFRE U.S.A. and MAPFRE RE.

The combined ratio has fallen by 1.5 percentage points to 97.2%. This reduction is stemming from the absence of extraordinary weather-related claims in the U.S.A. along with improvements in technical management, especially in Iberia and the cost containment measures taken in Brazil and Iberia that have also contributed to this positive development.

Net financial income has remained flat. Considering the strong effect of currency movements, the underlying result was -- have actually been quite resilient given the low interest rate environment.

Please, let's move on to the next slide to take a look at the trends during the quarter. On the quarter, premiums have decreased by 11.8%, mainly as a result of seasonality in motor and multi-peril issuance in Iberia. Timing differences at MAPFRE have also impacted premiums, given the seasonality in this business depending on the renewal campaigns.

Brazil was affected by the decrease in motor premiums as well as by several large industrial policies that were issued in the previous quarter.

The underwriting result was favored by the continuous strong improvement in Iberia and lower catastrophic losses at MAPFRE RE. The loss experience also improved in Brazil, especially in the agricultural and industrial risk lines.

Regarding financial income, it fell in the third quarter as a result of a lower level of realization gains.

We can now take a look at the Life business on Slide 11. In the Life business, the contribution of Iberia must once again be noted, benefiting from an increase in sales, mainly in our agents channel and the issuance of group savings policies. Additionally, the growth in Life premium production in Malta has contributed to this positive development.

Financial income in LATAM South and Iberia supported the increase in Life results and helped offset the reduction in Brazil as a result of the economic slowdown, the depreciation of the real and lower lending activity.

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

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

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

The attributable result this quarter stands at EUR 572 million, falling slightly due to the absence of a EUR 186.2 million net result from CatalunyaCaixa's insurance business in 2015, which was sold in the third quarter and also the decrease of noncontrolling interests due to lower profits in Brazil.

The effective tax rate, however, remained relatively stable compared to the previous quarter.

On the Slide 15, we will take a look at the development of the balance sheet. Thanks to a well-positioned investment portfolio, the upturn in fixed income market has resulted in an increase in the available-for-sale assets with the Spanish 10-year bond recording an all-time low below 0.9% at the end of September. The balance sheet and the investment portfolio have also been influenced by the strong appreciation of the Brazilian real during 2016, up 18%, which was slightly offset by the U.S. dollar with a 3% appreciation. These movements led to a large recovery in shareholders' equity, EUR 585 million during the year and EUR 212 million during the quarter.

The balance sheet variations also reflect an increase in cash as well as financial debt due to the issuance of the senior debt in May, which was used to partially pay back EUR 450 million of the revolving credit facility, helping to diversify our funding sources. Also the balance sheet variation reflects the classification of UNIÓN DUERO VIDA and DUERO PENSIONES businesses as held-for-sale and the incorporation of the Life business acquired by BANKINTER VIDA in Portugal.

On Slide 17, we will take a closer look at the investment portfolio. MAPFRE's investment strategy has been prudent over time and has proven effective throughout the recent bond rally. Since the beginning of the year, the value of the investment portfolio has increased by EUR 3.7 billion, reaching almost EUR 50

billion in total for the portfolio. The main drivers of this variation include: an increase in the value of the available-for-sale portfolio, especially in Spain; a strong increase in Brazil, mainly from the appreciation of the real; an increase in cash from the issuance of debt in May; the inclusion of the business acquired in Portugal by BANKINTER VIDA; and the exclusion of the investment portfolio of UNIÓN DUERO VIDA due to its classification as available-for-sale.

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

**Esteban Tejera Montalvo**

*Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re*

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

## Question and Answer

### Unknown Executive

Yes, good morning. The first question comes from Michael Huttner at JPMorgan. Are the relatively high levels of realized gains in the results at 9 months 2016 of EUR 152 million sustainable as this is up from EUR 106 million in 9 months of 2015, thanks to the high gains investment income was near flat at EUR 644 million versus EUR 649 million in the first 9 months of 2015.

### Fernando Mata Verdejo

*Executive Director*

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

### Unknown Executive

Thank you, Mr. Mata. Paco Riquel [ph] at Nmás1 and Carlos Peixoto at BPI have the following question regarding MAPFRE ASISTENCIA. Assistance remains in loss-making territory for another quarter. How much runoff losses or clean-up measures are still to come? And when should we expect a return to profits and to what levels?

### Esteban Tejera Montalvo

*Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re*

Well, as you know, we are in the process of doing a significant reduction of the loss contribution of the MAPFRE ASISTENCIA. As you know, MAPFRE ASISTENCIA has 2 kind of business, one is insurance, the other is providing services to other insurance companies for particulars. Last year, we have the impact of the reduction of the significant contracts in the U.S.A., Brazil that implied a reduction in the capacity of our call centers. It has been done and is being done and we have reduced a lot of the capacity also in our call centers in Venezuela. And on the other hand, in the insurance activity, we had introduced special plans for underwriting in Colombia and in other countries where, on one hand, we had the improvement of the loss ratio in the next year, and on the other hand, the impact of the expenses that will be this year, not the coming year. If you look at the combined ratio of the MAPFRE ASISTENCIA, the main increases come from the side of expenses. Finally, we had reviewed the activity in several countries and we had closed or are in the process -- on the process of closing our subsidiaries in Japan, Sweden and Russia and we have plans to continue reducing nonprofit centers in the coming months. So I think that even if this year remains hard, the next year will be, by far, better.

### Unknown Executive

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

### Esteban Tejera Montalvo

*Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re*

Well, as you know, our strategy of investment is very conditional in Spain for the assets and liability full matched activity in Life insurance. In any case, this is very good news from the point of view of the evolution of liabilities in the future. And we are -- and from the point of view of the renewal of the new business also because the new business are underwritten at the levels of the interest that we can deliver in the future. In any case, it's true that the renewal of investments implied lower interest rates and this is

a question of the -- of substituting the -- according with the duration of the contracts, the new portfolio. The strategy we are marking in order to sell new products in Life Assurance is to issue mainly in savings Life Assurance exclusively in Spain, unit-linked products where we give the possibility our policyholder of getting more profitability even if the volatility is higher, but the risk is in their hands.

**Unknown Executive**

Thank you. Carlos Peixoto at BPI would like to know the modified duration of your European sovereign bond portfolio.

**Fernando Mata Verdejo**  
*Executive Director*

Carlos, this is Fernando again. First, I would like to point one thing. I mean, even being available for sale, our portfolio is split into 2. First is what we call in the portfolio a match with liabilities mainly referred to Life. And also, the burial expenses, which is a long-tail line of business and then the Non-Life portfolio. I guess that you referred to this one, which is actively managed in order to obtain capital gains. This last portfolio, the average modified duration is pushing early 5 years.

**Unknown Executive**

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

**Esteban Tejera Montalvo**

*Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re*

Well, the interim dividend is always -- is interim in the sense that it lags at least 3 months to finish the year and we prefer to wait until having all the figures of the year to deliver the final figures of the complementary dividend, which is the decision of the board. In any case, having the same dividend as last year implies being in line with the targets we established, at the profitable -- of the increasing dividends in -- as in the possibility of our results and according to our policy of having between 50% and 65% of payout. So we will keep this policy and the final decision will be at the -- after knowing the results of the year, but always with the commitment of increasing as far as we can the profitability of -- for our shareholders.

**Unknown Executive**

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

**Natalia Arana**

Andy, as we mentioned last quarter, in Q2, we booked a provision for long-term management incentives, around EUR 11 million. During the quarter, the 3Q, this provision was reallocated to the technical result across the regions. There was a strong improvement in the quarter. Nevertheless, this figure tends to be volatile on a quarterly basis and you should focus on the average for the last 4 quarters, which is more stable and gives a better view of the underlying trends.

**Unknown Executive**

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

**Natalia Arana**



Silvia, single premiums business at the agents channel is up 43% year-on-year. You could be referring to the 3Q sales, I think. The slowdown versus the 2Q is due to the issuance of large group policies in 2Q as stand-alone, which were -- this was -- were over EUR 100 million and distorts the comparison. With respect to your second question, in general, Life savings have been distorted by the strong production, as we say in 2Q in agent channels. However, the banking channel has been underperforming and we are taking active measures to manufacture new products, which are easier to sell through the channels. You have to bear in mind that we compete with the savings products coming from the bank and the next quarter, the 4Q, are all the pension campaigns so we are optimistic about the next quarter.

**Unknown Executive**

And regarding loan life Spain. Are the excellent ratios at multi-peril Health and commercial sustainable? What has happened in Burial with the ratio of 109%?

**Fernando Mata Verdejo**

*Executive Director*

Yes. First, regarding the first question, I would like to differentiate between multiple and commercial sustainable -- and commercial lines. Both are pretty sustainable. The decrease in the combined ratio is due to both things: first, stricter underwriting guidelines; and also the elimination of some nonperforming coverage. Regarding Health, as you know, it's the line of business and we've been growing for the last 2, 3 years. We believe that the -- an amount of the size of this business will contribute to lower our combined ratio. And also, there is a loss of initiatives in order to reduce expenses in the health business. Regarding the Burial expenses, there is an increase in the third quarter, you're right, and is due to some changes in the actuarial results regarding the provisions, the technical provisions, in order to meet the discount rate approved by the Spanish supervisor. With this adjustment made in the third quarter, all the different actuarial assumptions are booked -- fully booked for the 2016 year.

**Unknown Executive**

Thanks. Niccolo Dalla Palma from Exane BNP Paribas asked the following about Spain property and casualty. What are current tariff increases in motor? And how does it compare to loss constraints following the Baremo implementation? Are you still seeing some trading down?

**Fernando Mata Verdejo**

*Executive Director*

As you know, MAPFRE put through tariff increases between 5% and 6% last year and the latest figure we have regarding the cost increase of Baremo is quite similar to the rate increase. I mean, it's in the average 5%. So as we mentioned during the last quarter presentation, let's say that so far increase of tariffs and increased cost are both parallel. And regarding the extraordinary appropriation reserve we made in -- last year in order to cover the application of the new Baremo in 2015 accident years and previous, let's say that, so far, there is not any evidence from the judges of application in this situation. So at the end of the year, if the remaining quarter remains like the first 3 quarters and then we will reevaluate this provision and probably the most likely is to have a partial release of reserves.

**Unknown Executive**

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

**Natalia Arana**

Okay. Firstly, the Life result always has to look as a combination -- has to be looked as a combination of underwriting and financial results. So if you want to see the evolution of the results in Life, you have to take in -- to bear in mind both of these aspects. And secondly, as you are already aware, we have placed life savings products, which are used to cover the matched portfolio. And this products are mainly derivatives that match the redemptions in these other cash flows in this kind of product and these derivatives are accounted for through the income statement. Perhaps this is where you can see this

movement in the financial income. As I've said before, you have to look both financial and technical result in order to have an idea of the performance of the Life business.

**Unknown Executive**

Thanks, Ms. Nuñez. In relation to reserves, so we expect like the last 2 quarters -- sorry, the last 2 years a higher combined ratio in the fourth quarter for the motor business to strengthen another bid [ph] reserves? It happened all of the last 5 years. So I wanted to understand if this seasonality will remain.

**Fernando Mata Verdejo**

*Executive Director*

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

**Unknown Executive**

Thank you, Mr. Mata. Andy Sinclair from Bank of America Merrill Lynch would like to know the following about the area of Non-Life: what were reserve releases in the quarter? Very low loss ratio. Can you take us through the moving parts including pricing changes and claims inflation?

**Fernando Mata Verdejo**

*Executive Director*

As you know, we do not provide reserve release information on a quarterly basis. But I can anticipate that the reserves -- the IBNR for Baremo will be updated at the year-end and probably we will see a release of reserves. And loss ratio, in general, our loss ratio is very good due to the specific action we've taken in the past. We've raised tariffs in motor; cleaned up the portfolio; eliminated some coverage, nonperforming coverage; et cetera. In multi-peril, we are also taking large range of different actions, stricter underwriting and terms handling we adopted, as I mentioned, particularly in the case of commercial business. Health is, as I mentioned, with certain seasonality effects and the combined ratio is very similar to last year and also we see a huge improvement in the third quarter. Regarding the Burial, we already mentioned, was the update of the technical provisions with applying the discount rate applied -- approved by the general -- the supervisor.

**Unknown Executive**

Thank you, Mr. Mata. Carlos Peixoto from BPI would like to know what are your expectation on the evolution of motor premiums in Spain? And on the combined ratio, can you update us on the variable impact expectations? What was the reinforcement in provisions in car insurance related with this?

**Fernando Mata Verdejo**

*Executive Director*

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

**Unknown Executive**

Thank you very much. This block of question is concerning the developments in Brazil. Paz Ojeda at JB Capital and Silvia Rigol at BBVA would like to know: premiums in Brazil, reals, fell a lot in the first 9

months of 2016, minus 3% year-on-year. In the presentation, it is indicated that it is due to lower sales of Life-Protection in Banco do Brasil. Do you have a plan B?

**Natalia Arana**

We have seen a slight recovery of Life-Protection premiums in the third quarter in local currency. Decrease in June was minus 8% and now the decrease is minus 3%. In any case, the performance of this segment is linked to the great activity of Banco do Brasil and we expect a gradual improvement in the next quarters, thanks to a better economic environment in Brazil.

**Unknown Executive**

Thanks. Andrew Sinclair from Bank of America Merrill Lynch has 2 questions, one about Brazil on Life, first of all. Can you talk us through pricing changes in the quarter in local currency terms for each of the growth lines? Can you please also talk us through volume changes in the quarter in local currency terms for each of the growth lines? And then about Brazil Life, how did sales perform in each of your distribution channels in the quarter? And can you remind us what proportion of sales comes from each channel? Additionally, Brazil technical result was weaker in the third quarter. Can you give your expectations for the coming quarters given the change in macro backdrop in Brazil?

**Natalia Arana**

A lot of questions. Okay, first of all, in terms of Non-Life business, motor insurance in Brazil is affected by contraction in number of new car sales and the strong competition. As we have said several -- in other times, in other occasions, there is -- when the interest rates are high -- in high levels, the competition is also stronger and usually MAPFRE doesn't play this kind of price wars. Additionally, the lower level of disposable income has led to aging of the fleet and we carry [ph] mix of covers insured. In this environment, the companies that are growing in Brazil are those with low tariffs. On the other hand, companies focused on technical result and consequently with higher tariffs do not register growth this year in motor. MAPFRE Brazil is not willing to reduce tariffs. In this way, regarding trends in volume in 3Q, we have seen a contraction in motor while the rest of segments continue the trends already seen in previous quarter. In local currency, the motor segment is the only one that is going down in this quarter. The other segments are performing very well. In Brazil Life, in the breakdown of premiums by segments, most of the business is Life-Protection in which we are seeing a contraction, as we have mentioned, due to the lower rate activity of Banco do Brasil. In Life savings distributed by MAPFRE network, there is a positive evolution of premiums, but it's not very significant. Expectation of results will depend on macroeconomic evolution in Brazil in the next quarter, and on that sense, we feel more optimistic.

**Unknown Executive**

Thank you, Ms. Nuñez. The following question comes from Carlos Peixoto at BPI. What are your expectation on the evolution of the agriculture insurance business in Brazil?

**Esteban Tejera Montalvo**

*Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re*

Carlos, we expect the government will continue its policy of subsidies into this business. So the evolution of premiums will follow -- we foresee a follow -- a stable path of growth in the next quarters. The profitability of this business is very good even though it could be affected by historically weather-related event so far this year -- in the first part of the year. But now, again, the situation is in the normal path.

**Unknown Executive**

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

**Esteban Tejera Montalvo**

*Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re*

Well, Asia Pacific has suffered fairly so far. The size of the business is very small and so volatility is higher than in other business. In Q1, losses sustained from GLOBAL RISKS from the earthquake in Taiwan, EUR 5.2 million. In the third quarter, we suffered several industrial claims in the region also affecting GLOBAL RISKS. Also, we have had an increase in the holding costs and investment in utilization in this area. But mainly, we have suffered from [indiscernible] extraordinary losses in -- catastrophic losses in GLOBAL RISKS.

**Unknown Executive**

The next set of question is with regard to the evolution of the business at MAPFRE U.S.A., Michael Huttner at JPMorgan. For the U.S.A., when will the Massachusetts business improve nearer to 100% combined ratio from what we estimate to be 120% at 9 months of 2016?

**Fernando Mata Verdejo**

*Executive Director*

Thank you, Michael. A couple of things first, what we've seen is a reduction in the combined ratio in both Massachusetts we call Northeast division, which basically comprise Massachusetts, Connecticut, New Hampshire states surrounding Massachusetts, but also as well in the remaining divisions. The current combined ratio for the Northeast division stands at a quite comfortable 95.2%. The remaining regions, Atlantic region is practically equivalent to the Central and the Pacific region. In last year, we were talking about a combined ratio between 125% and 120% for the combined 3 regions. This year, we're in range between 115% and 120% and we've seen significant reductions in the 3 regions. Atlantic region, which is the largest, the reduction in the combined ratio was 4 percentage points, which is quite remarkable.

**Unknown Executive**

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

**Fernando Mata Verdejo**

*Executive Director*

Yes, it's very well described in the management report filed with the Securities and Exchange Commission in Spain. And in Massachusetts, there is an average premium increase of 4.3% and also the policy count was -- shows an increase of 3.6%. For motor, the average premium grew 1.5%. And also the exposure grew as well 2.3%. So solid performance.

**Unknown Executive**

And Carlos Peixoto from BPI would like to have an outlook for MAPFRE U.S.A.

**Fernando Mata Verdejo**

*Executive Director*

Well, our operation in Massachusetts are quite solid and mature. And after achieving a growth of [indiscernible] from Massachusetts, we're confident that the levels of performance will level off across all the states. It will take time. I mean, this year things haven't been easy, but we've seen the proper path towards profitability. We have launched a battery of profitability measures outside Massachusetts with -- will have, for sure, a positive impact in the medium term such as rate increase across-the-board, management of agency networks, stricter underwriting controls and risk mitigation tools. We're looking at new tariff tools as well, new product features to improve segmentation, improved offerings, et cetera. And in Massachusetts, we'll continue consolidating our results and also our -- and reducing our external ratio, which is very important as well.

**Natalia Arana**

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

**Unknown Executive**

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

**Fernando Mata Verdejo**

*Executive Director*

Well, as already mentioned, the combined ratio for the 3 other than Massachusetts regions stand between 115% and 120% with significant reductions in both floor ratio and dispense ratio.

**Unknown Executive**

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

**Fernando Mata Verdejo**

*Executive Director*

Well, this high level of combined ratio in EMEA comes from 3 different operations. First, which is the most significant is Italy. As we already mentioned, we see a decrease in the average premium. It's something that is affecting the total sector. The second that we made in the second quarter is a proper appropriation of technical reserves in order to follow a new ruling by the Supreme Court that has changed the mortality tables, increasing the cost of claims. And the third one as well is the change in the slide commission in our reinsurance contract due mainly to the 2 previous aspect that I already mentioned. The second country is Malta. We've seen a deterioration of motor combined ratio due to an increase in average cost of claims as well and it's something that is affecting the total market. And United Kingdom, the most significant is large industrial claims in GLOBAL RISKS.

**Unknown Executive**

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

**Natalia Arana**

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

**Unknown Executive**

Thanks. Paco Riquel [ph] at Nmas1 and Paz Ojeda at JB Capital asked about Direct Line. Redline has been heavily making losses in Italy and to a lesser extent in Germany, during 2016. You mentioned a decrease in the average premium and adverse court ruling in disability claims. Can you please elaborate more about the problems in this business? Any measures to correct the problems? And what type of profitability and when should we expect it? Additionally, Niccolo Dalla Palma at Exane BNP asks why do you lose EUR 26 million in Italy in the third quarter? Is that a problem with the reserves on the Direct Line business you bought?

**Fernando Mata Verdejo**

*Executive Director*

Yes. Let's address first the question from Niccolo. There is no any trouble with the sufficiency of our reserves in Direct Line and is the -- and we're following the same problem basis policy of MAPFRE as the one we apply in the rest of operations. Regarding the different battery of action that we're taking in order to offset the decrease in premiums and also the new ruling for the Supreme Court, we're trying to have a better claims segmentation in order to optimize our tariffs. Also we have to reduce, there is no doubt, our expense ratio in order to have a similar performance on our peers, and in that way, we're reducing

the -- our capacity in some contact centers in order to have the proper size regarding the business we are managing.

**Unknown Executive**

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

**Natalia Arana**

Okay. In Mexico, there has been a higher combined ratio in motor, industrial risk and in Health. This is the main reason. Additionally, there have been large industrial claims in MAPFRE GLOBAL RISKS in the region. In LATAM South, the countries that are suffering technical losses are Colombia in the industrial risk and motor business and Argentina in motor and Health. In other cases, the companies are carrying out measures to improve technical result mainly in underwriting, selection of risk and tariffs. So we hope that the improvement will come in the next quarters.

**Unknown Executive**

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

**Esteban Tejera Montalvo**

*Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re*

Thank you. Well, thank you for attending our third quarter results. We look forward to having the chance to meet with all of you who will be in Madrid next week for our first Investor Day. And for those of you that will not attend our Investor Day, I would like to say goodbye. As you know, I will be retired since the end of the year and Mr. Mata will be with you in the next presentation of results. Mr. Mata is a very experienced man with a lot of knowledge. And I will be sure -- I'm sure that we will be in very good hands in the future. It has been an honor and a pleasure to meet you and to share with you the evolution of MAPFRE results during the last 36 quarters. And I would like to say thank you, again. Thank you. Bye.

**Fernando Mata Verdejo**

*Executive Director*

Bye-bye.

**Natalia Arana**

See you next week. Bye.



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