

# Mapfre, S.A. BME:MAP

## FQ1 2017 Earnings Call Transcripts

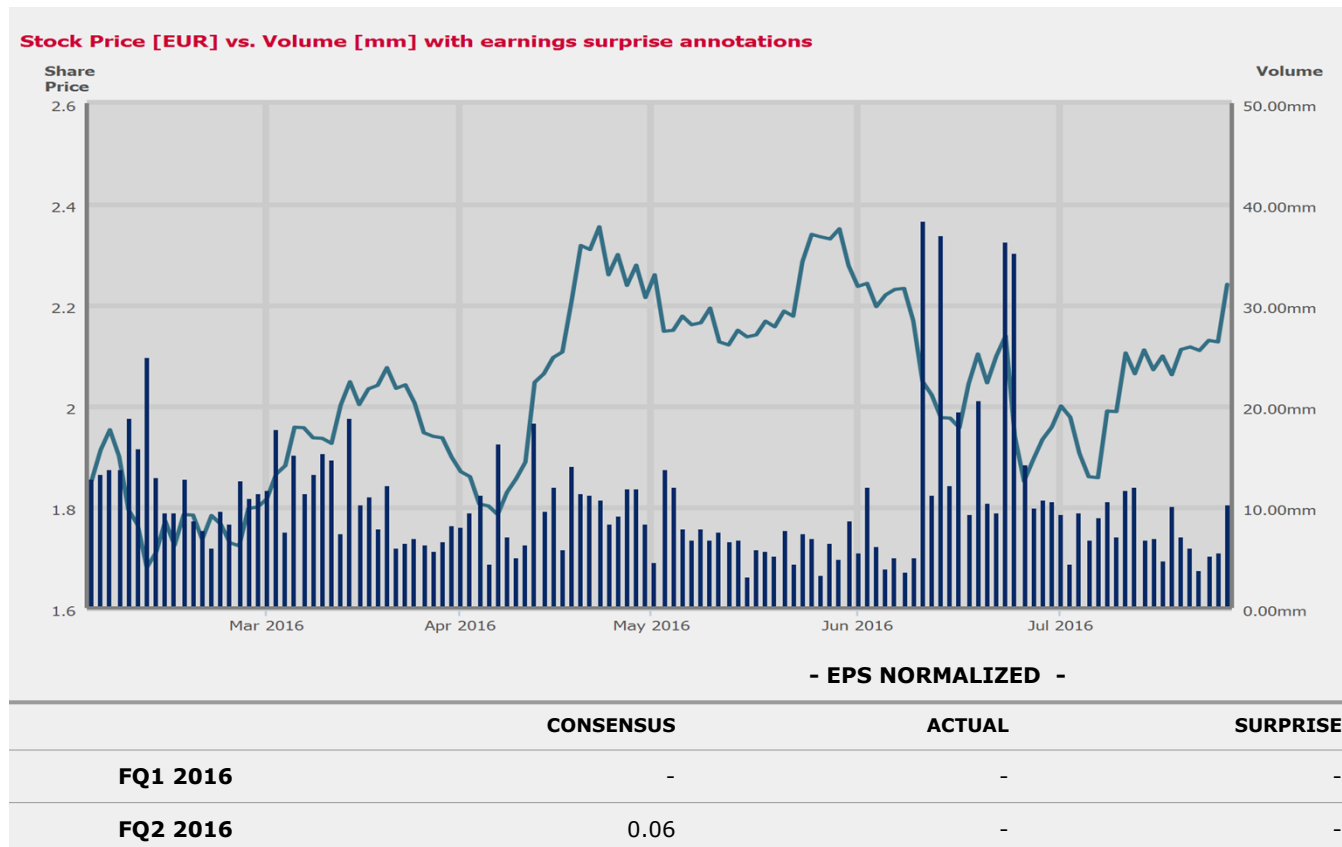
Friday, April 28, 2017 11:30 AM GMT

### S&P Capital IQ Estimates

	-FQ1 2017-			-FY 2017-	-FY 2018-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE
<b>EPS Normalized</b>	-	-	-	0.26	0.29	-
<b>Revenue (mm)</b>	6600.00	6674.60	▲1.13	24185.15	25596.78	31000.00

Currency: EUR

Consensus as of Apr-21-2017 12:16 AM GMT



# Call Participants

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## EXECUTIVES

**Antonio Huertas Mejías**

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

**Carlos Barahona Torrijos**

*Assistant General Manager of  
Control and Financial Information*

**Fernando Mata Verdejo**

*Executive Director*

**Natalia Arana**

**Unknown Executive**

# Presentation

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## Natalia Arana

Good afternoon, ladies and gentlemen. Welcome to the presentation of MAPFRE's results for the first quarter of 2017. It is a pleasure to have here with us Mr. Mata, Mapfre's CFO, a member of the Board. He will go through the key highlights of the quarter and will give you an overview of these exceptional main figures and business trends during this quarter. Today, we also have the honor to have here with us Mr. Jose Manuel Inchausti, CEO of the Iberia unit. He will give us some details of his business and also participate in the Q&A session afterwards, if you need further information. In order to improve our financial disclosure and respond to the feedback we have received over the last few months, this quarter, we have introduced a series of improvements to increase the quality and transparency. We hope this more detailed analysis helps you gain better insight into our businesses. If you have any difficulties finding any information, the investor relations team is available to help with whatever you need. Along with this document, there is a presentation, and MD&A report on an excel spreadsheet, have been made available for all of you in our web page. According to this new structure, in-depth information on our business has been provided with the presentation only showing the key highlights. As usual, at the end of the presentation, as time permits, we will answer all the questions that were sent to the specified e-mail address. The Investor Relations team will contact you later on to answer pending questions if any. Fernando, the floor is yours.

## Fernando Mata Verdejo

*Executive Director*

Thank you, Natalia, and good afternoon, everyone, and good afternoon, Jose Manuel. It's a pleasure for us to have you here. And regarding the new set of information, we hope it would be extremely helpful for you. This is a new set of documents and this is well-framed in the new increase of transparency. The transparency plan implemented by the Chairman and also to increase our communication with the stakeholders. Let me take you through the highlights for the first quarter. During this period, we have seen an increase of over 9% in premiums, due to an impressive 34% rise in the Life business, and nearly 4% growth in Non-Life premiums. Revenue shows a similar trend with 9% growth. We saw positive developments in the majority of the regions and business units. With outstanding performance of MAPFRE 3 largest direct operations as well as MAPFRE RE. I would like to point out that excellent performance of the Life business in Spain. Thanks to the successful launch of new products and sales promotions, especially in our agent channel. We have also seen a pickup in production in our Life, which is a noteworthy when considering the ongoing process of canceling nonprofitable portfolios. Currency conversion have also had a positive impact on top line figures thanks to the appreciation of the U.S dollars and the Brazilian real. Finally, there was a slight fall in financial income, but this is still proving quite resilient given the low interest rate environment in Europe.

Let's move to the next page. Regarding the combined ratio, it stood at 97.5% at the close of the first quarter. Expense ratio improved by 70 basis points to 26.7% thanks to steep cost containment policies. And the claims ratio stood at 70.8% at the close of March.

These reflects improvements in the loss ratio that have been taken place in several markets, including first, Motor lines in a Spain and Turkey. Second, general P&C lines in Brazil and finally, homeowner insurance in the United States. On the other hand, adverse weather condition in Southern Spain, heavy rain and winds and in Peru, the coastal Nino phenomenon also impacted our operations. We estimate both events cost 1.2 pp loss ratio increase. There were relevant, but there were also several large industrial claims at the MAPFRE GLOBAL RISKS. The net result, down the page, grew by 7.5%, reaching EUR 206 million with an ROE of slightly over 9%.

This reflects a high profitability in Life business in Brazil and Spain, in part affected by the reversal of some provisions in the bancassurance business. Finally, Non-Life results continued to be quite solid in key regions. Let's turn -- please turn to Slide 6.

Looking at shareholders' equity. We can see that it has been quite stable in the period on the back of lower market validity and currency movements with a slight decrease of EUR 74 million, mainly due to the deduction of the final dividend to be paid and improved by -- at the recent AGM. Assets under management have grown by almost 3% year-to-date, supported by: First, the line business acquired by BANKINTER VIDA in Portugal, second, a positive evolution of the mutual fund businesses with over 6% growth trending in -- starting to grow in AM, Asset Management.

Third, the value in equity markets during the period. And finally, the appreciation of the Brazilian real, 2.5% more or less. Let's turn to Slide #7. I would like to point out MAPFRE's dividend policy, very well known by the year, which is focused on creating shareholder value, with net results of the main driver for growing dividends. As you already know, our final dividend of \$0.085 was approved by the AGM, taking the total dividend proposed against 2016 results to \$0.145 per share.

The final dividend will be paid on June 20. Let's turn to next page. And on this slide, we can see the overall distribution of our business by regional areas. Just as a reminder, regional areas include business for insurance units as well as the business for MAPFRE GLOBAL RISKS and MAPFRE ASISTENCIA corresponding to each region. The ASISTENCIA business comes mainly from EMEA and North America, while let them in Iberia the most significant regions for GLOBAL RISK. As you can see, MAPFRE continues benefiting from a very well diversified business profile, and with a good balance between mature and emerging countries. The following slide will take a closer look at the results by business units and also by region. As you can see in the chart on the left, the insurance unit 3% over 70% of the MAPFRE's business, another 16% approximately comes from MAPFRE RE and the remainder is a split between GLOBAL RISKS and ASISTENICA. Focusing on our territorial areas and business units, I would like to point out the following: First, the Iberia accounts for over 32% of the total premiums as a result of the continued pickup in production, main lines of businesses. Second, LATAM accounts for 27% of total premiums, which have grown by over 18%. Thanks to the resilient local currency growth in Brazil, and also the appreciation of the real. International was around 17% of premiums, is growing thanks to a positive development in Massachusetts, our core market in the United States. And also with an additional push from the appreciation of the dollar.

Next MAPFRE RE represents around 16% of the total premiums and continues growing on nearly 7%. Performance on the non-group business remains quite stable.

And finally, GLOBAL RISKS is also growing at steady rates and MAPFRE ASISTENCIA has seen falling premiums due to not very well as well the current [indiscernible] process that we currently now in this unit.

Let's turn to the next slide to look at the main movements in attributable results. It is worth pointing out the notable improvement in profit in Iberia were the positive developments in Motor together with the reversal of a provision for continued payments in the BANKINTER VIDA channel, both contributed to offset the bad weather conditions in South of Spain during the quarter, mainly generally in February. In the National, the improvement in the net results is due to outstanding performance in Turkey. Businesses are doing very well there, and to a lesser extent, an improvement in The United States. Third, GLOBAL RISKS experienced a falling profit during the year as a result of several large industrial claims and a concentration of claims. This was oil refinery in Abu Dhabi and also other significant losses in EMEA.

MAPFRE ASISTENCIA continues with a business structure and losses are mainly coming from operations in the U.K. Please now turn to Slide 11, when Jose Manuel Inchausti, CEO of Iberia will present the information for the business unit he runs.

## Unknown Executive

Thank you, Fernando, and good morning, everybody. So a pleasure to be here today with you. Going to the my first slide, we are in Page 11. I have to say that MAPFRE result in the first quarter has grown by 27%. This extraordinary growth reflects an important improvement in primarily as a result of the cancellation of our reserve for contingent payments in the bancassurance channel totaling EUR 27 million after taxes. We have had an increase in loss ratio going for weather-related events in the property lines that were compensated by the positive development of the combined ratio in other lines, especially

Motor. The company MAPFRE Iberia, MAPFRE Spain is implementing transformation process based in a number of initiatives. I would like to highlight better customer value proposition focused on what we call the platinum customer, including free phone line for this type customers, personalized services and the preferred renewal conditions. We are in the process of implementation a new broker segmentation with the correspondent value proposition. We have divided and splitted our brokers depending on criteria regarding size, relationship with MAPFRE and of course, profitability. We are in the -- starting a very deep digitalization of our claim processes. We have quarterly claimed these number of projects within this big objectives. Modification on the reimbursement processes for medical and pharmaceutical services enabled online appointments in the customer area in MAPFRE Equinix and also in our APP, implementation of claims monitoring, et cetera.

We are launching new mobilized solutions for pricing, policy writing, especially in Motor, Homeowners and Health, and we are having succeeded in these developments. Regarding the -- going to the next slide, sorry, going to the next part of life insurance premiums. We have to say that we have a good growth of about 46%. MAPFRE growth in the Spain is about 8-point above the average market growth with a special emphasis on growth in savings both in MAPFRE network that has climbed to 52% and also in Portugal, which we are collecting a very good results. As I have said, weather-related events going to the combined ratio analyzed. Weather-related events in the first quarter have had a very important impact -- significant impact on the combined ratio. We have about 60,000 claims out of the business as usual with a total cost of EUR 60 million, which implies 4 points in the general insurance business combined ratio.

In the next slide, you will find -- on Page #12, you will find more in-depth analyze on the Spanish motor business. Our premium growth in retail, speaking about retail, grew by 1.7%. And this has impact by the cancellation of our basic product that is not longer being sold as a result of the -- its high loss ratio. MAPFRE growth is based on profitability. As you can see, by the average premium growth, which is from 2015 constantly up than the market average. Continuing with this strategy for profitable growth, MAPFRE Spain has implemented a series of measures to control and to reduce claims and expenses. All of these measures altogether has -- going to a drop in 2 points -- our combined ratio, which is 2 points below the market. At the close of the first quarter of 2017, we have this combined -- motor insurance combined ratio improved by 2.7 points compared to March 2016. So now we have combined ratio in 91.5%, which is a very good number for us. We have reduced cost in property damage about 6.5%. And we are still reviewing our nonprofitable business, mainly fleets, professional third-party liability and group accidents in a project that we call internally project 80-20. And we are working on that since 2015. We are in a process, as I've said of digitalization of some of our main claim processes. And this is giving us an improvement on the cost ratio associated with these processes. Finally, as I have said, we have a better, an improving, 2.1 points below the market. Regarding my last slide, we are in Page 15 now. Talking a little bit about Baremo implementation. We have to update our prices in 2015. And also we adopt -- we constitute a sufficient reserve -- a solid reserve for the new criteria about in an order of EUR 55 million, a little over a year has passed since the new Baremo came into force. We have some conclusions. We think that the majority of the cost increases happened in 2016. We reduced that about 12.5%. So we think that in 2017, it can still continue to rise, but in a lesser extent. In the first quarter, we measured about 1.6%. We carried out our rate increases in previous years, and I think we have increased our rates during 2015 and 2016 enough. And we believe that Baremo should not impact our rate increases anymore or not in a significant way. There are no changes in our reserves. We are making provision of that reserves on a quarterly basis. And we don't think that we should need any further development on that reserves. And the reserves established for Iberia on for worst-cased claims were calculated and updated with the latest information available and always with a criteria of prudence required by MAPFRE. Thank you; that is all information regarding Iberia. And I -- now I giving the floor back to Fernando Mata.

**Fernando Mata Verdejo**  
Executive Director

Thanks very interesting. On Page 15, I would like to take a closer look at the main drivers of the net results. The changes compared to the previous year and also non-recurring items, extraordinary items. As the chart on the top shows a variation for the net results for both periods, 192 and 206 net results for each period.

First, I will explain the change in Non-Life. There was a EUR 4 million increase in the underlying Non-Life technical results. Thanks to improvements in technical management and the already mentioned cost containment initiatives. Second column, the EUR 5 million reduction in the financial results is in line with the low-interest rate environment in Europe. And finally, for Non-Life, there was a EUR 27 million decrease, mainly due to the coastal Nino phenomenon. There's a full disclosure of further extraordinary events at the bottom of the page. I would like to point out a typo at the bottom of the page, Life has ordinary impacts in 2016. There is a typo that covered the year is 2017. Second, let's move to Life. Life business profit increased by EUR 55 million due to improvements across the board. Iberia Brazil being the most relevant. Additionally, there was a reversal of provisions. The bank [issued] internal in Spain totaling EUR 29 million. Third, taxes have decreased as a result of a different business mix, and Spain is the largest contributor, and also the country with one of the lowest tax rate. Another reduction of this -- taxes paid in Brazil, in that case is due to the agricultural business, which has a tax release. And lastly, an increase in non-controlling interests is due to the increase in Life profit in Brazil, largely driven by the currency appreciation in Spain. On the next page, we will see the information about Non-Life premiums. Non-Life premiums have grown by 3.8%, again driven by growth in our main markets. In Brazil, we've seen solid local currency growth, especially in industrial reaps and agribusiness lines as well as the impact of the appreciation of the Brazilian real. Second, the health line in Spain is performing very well and keeping the same trend from last 8 years. And third, in the United States, we have seen growth in Motor premiums in Massachusetts is mainly supported by tariff rises. GLOBAL RISKS is mainly going in Iberia, Brazil and LATAM North. And finally, MAPFRE RE also continues growing at a healthy rate as a result of the positive evolution of the non-group business. Please turn to the next slide, Page 17. We will take a look at the combined ratio. Steep cost containment strategy continued showing results, especially in Iberia, LATAM North and EMEA. There was a positive claims experience in our main markets during the quarter. First in the Spanish Motor, we are seeing lower frequency and a positive evolution of both these business. Agriculture and lines in Brazil have been positively impacted by mild weather. Third, the homeowner insurance in the United States, mainly in Massachusetts, also affected MAPFRE because of the quarter share insurance duty. Tariff increases and underwriting improvements introduced in 2016 in Motor in Turkey. And finally, MAPFRE which is benefiting from a reduction in the expense ratio. In that case, due to a lower commission that offset some increases in the loss ratio.

As I already explained, increasing the claims ratio is due to adverse weather condition in Southern Spain and the effects of the coastal Nino in Peru. Second, several large industrial claims at MAPFRE RE GLOBAL RISKS and less higher claims in Motor in Brazil and Mexico is the same trend that we already discussed in last year.

On Page 18, as you can see in the chart, the financial results on Non-Life fell by around EUR 23 million compared to March of the previous year. And this fall reflects the following: First, low-interest rate environment; second, we also seen a falling financial income in Brazil due to a lower interest rate and inflation, which was partially mitigated by the appreciation of the real; third, they were also lower foreign exchange differences, it was minus EUR 10 million compared to the previous year, which were positive in 2016 and slightly negative in 2017. And finally, higher realized gains. It was taken -- we took advantage of the rally in equities in the first quarter of the year, mainly in Spain. Gains reached around EUR 31 million compared to EUR 21 million at previous year. The largest increases, as I mentioned, to place in MAPFRE RE in Iberia. Slide 19 it shows the premiums and results of the Life business. In Iberia, premiums grew by almost 46%. Thanks to successful launch and new savings product and sales campaigns in Iberia, especially, unit link products. Once again MAPFRE RE proves to be a very valuable distribution channel for MAPFRE. We're also seeing -- we've seen a local currency growth in Brazil, nearly 1%, despite the complicated economic contest leaving the country. And also we have seen some improvements in margins in the risk products sold through the bancassurance channel as well as the positive impact from the appreciation of the Brazilian real.

It is important to mention as well the bancassurance channel in Malta that continuously performing well. MAPFRE RE continues showing strong growth as well and profitability in part due to higher realized gains. We also seen higher realized gains in Iberia as well as the already commented EUR 29 million impact from [ Magna insurance ] contingent payments. Turning to next slide, please. This slides shows the evolution of our capital base. On the left, you can see the shareholders equity amounted to over EUR 9 billion at



the end of 2016. And market volatility affected our financial results was offset by shadow accounting and currency movements were reduced as well. In summary, the reduction is due to the dividend distribution of approved by AGM to be paid in June, since revaluation and realized gains are particularly fully offset net of shadow accounting, fully offset by currency conversion differences.

On page 21, we will take a look at the investment portfolio. In the first quarter of the year, the investment strategy has continued to be marked by a low-interest rate environment in Europe despite the fact that the increase of political risk in some countries, cost pickups in interest rates for preferred debt, mainly in the Spanish and MAPFRE. In this context, regular economic growth and improved expectations for company profits, investment in fixed income has been reduced quite limited little-by-little and position has been taken in equities, and to a lesser extent, alternative assets, mainly [indiscernible] and positions in real estate.

The 4 exposure to national and corporate debt in the investment portfolio has gone from 57.2% and 20.2% to 50.8% and 19.2% of the portfolio, respectively. Now turn to Page 22 please. Here we'll take a moment to analyze our capital structure and net position. The left said, you can see the composition of the capital sector as of March 2017, amounts to over EUR 14 billion and the largest for the weight is equity with 80% of the total, 20 is our leverage. On the right side, you can see that our leverage is low compared to peers 20, as I mentioned, increased during the quarter due to the issuance of the EUR 600 million of ordinary debt in March with a fixed interest rate set at the 4.375% for the first 10 years and our call options of 10 years. Finally, interest coverage also compared favorable to peers to 23x earnings before interest and tax. On the next few slides, we'll take a closer look at our Solvency II information, which is referred to at December 31, 2016. On page 23, Solvency II figures confirmed MAPFRE's strong solvency position. The 210% Solvency II ratio is based on high-quality capital structure of more than EUR 9.6 billion in eligible on funds of which 94% is on receipt at Tier 1 capital, the remaining 6% is ordinary debt. As you can see, our solvency margin has been quite stable through the year, despite certain market volatility. Please turn to next slide. Here we can take a look at capital generated on the Solvency II during 2016. The MAPFRE Group has a solvency margin of EUR 4.2 billion at the end of 2015, which increased by over EUR 800 million to EUR 5 billion at the end of 2016.

Main drivers of these improvements were as follows: First, a EUR 578 million increase in IFRS equity, excluding retained earnings means that these movements are mainly due to the growth in unrealized gains of the available-for-sale portfolios as well as our positive currency conversely on differences. So let's say that those are nonorganic growth, and mainly caused by market conditions.

Second, EUR 447 million increase in IFRS retained earnings. That's organic growth. And finally, change in the solvency capital requirement mainly in market risks driven by larger exposure to equities and an increasing value of other assets. In conclusion, we're pretty happy, changes driven by this under-formula were not relevant and mainly organic. In the 3 following pages, you have more EBITDA information regarding Solvency II, which are limited changes and trends and also sensitivity analysis. And -- but very, very few changes compared to previous years. That's all from me. And thank you for your attention. And now, Natalia will begin with -- there is nothing to say, with a Q&A session

### **Natalia Arana**

Thank you, Fernando, and thank you Juan Manuel, thank you everyone for your attention too. We will now move to the Q&A session. Fernando, Juan Manuel and myself will be answering the questions you already sent. And just as a reminder, if you -- if there are any questions we don't have time to answer. The Investor Relations team will get back to you as soon as possible. So we can start with Q&A session.

## Question and Answer

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### Operator

[Operator Instructions] The first question provides to Iberia's operations. These questions are from Niccolo Dalla Palma from Exane BNP, Andrew Sinclair from Bank of America Merrill Lynch, [indiscernible] from JP, and Ivan Bokhmat from Barclays. How you explain the degree of improvement in the combined ratio for a Spanish Motor? You explain Baremo has increased average claims by 12% in 2006 and 2% so far this year, but we can't see any of the impacts in your numbers?

### Fernando Mata Verdejo

*Executive Director*

It is true that finally over the increasing the Baremo, into Baremo, we didn't [take the 260] now our combined ratio. And this is because we have work on other aspect of our combined ratio in Motor insurance, especially in profitable growth strategy. We are working on the 80-20 project, in fact, our fleet businesses, we took about 20 points down in our combined ratio going from the fleet businesses. We improved costs and claims with property damage. And finally, we have -- we are working on digitalization of our processes and that makes our internal expense ratio comes down.

### Operator

The next question is about the topline Spanish motor. How much fleet business do you still have in the books? How worried are you yield about your loss of market share that continues in the retail motor business?

### Antonio Huertas Mejías

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

We maintain -- now it is less than 10% of our book in the fleet businesses. Our objective is to maintain only the profitable fleet businesses. In fact, we are trying to bring in new fleets, but with a smaller size, typically less than 100 cars per fleet. Unfortunately, market data do not separate growth in fleet, but we estimate, our best estimation is that our difference that we have with the market growth in the retail business is 1 point or less. We will start a series of measures aimed at customers with high return on the low conversion ratio, is starting in the May 1. We have completed the design all of these measures and we will come to in-force immediately. So we think we will take good results from that measures.

### Operator

The next question was about Spain. The expense ratio improved visibly. Was there anything exceptional or do you expect to -- excuse me, was there something exceptional or do you expect to maintain this rate of improvement throughout 2017?

### Fernando Mata Verdejo

*Executive Director*

This is Fernando. First of all, I would like to point out that one year is, perhaps, I mean, is enough experience as for the accident 2016 accident year, but the there are few things to come. But so far, and after the first quarter, the development of 2016 accident year, I mean, is quite neutral. So -- as far as we know, and according to information available, we believe that the majority of 2016 cost related to Baremo were booked in 2016 accounts. And so our perspective for 2016 is very positive. As we disclosed and we took a sample of significant claims, and we monitor the developments of those claims in 2017, the first quarter. And we saw this negative loss development between 5%, 6%, 6% or less. We considered it to quite reasonable and it was covered by the increasing IBNR that we did last year. So in summary, I mean, the rate increase in 2016 and also the proper appropriation of reserves both case by case and also IBNR, and also, the special Baremo reserve, we can conclude that there is enough in order to cover any potential division in the future, which at that point, we consider won't be in any case material, insignificant from that.



**Operator**

Thank you very much, Fernando. Now discuss, the gain was more focused on expense ratio and improvement. So Mr. Inchausti will answer about this improvement.

**Unknown Executive**

I will have some specific information about the expense ratio. We do not consider exceptional, the improvement on the expense ratio during the first quarter. We are working very hard in the internal and external expenses. And we have a slightly decrease in our internal expenses compared to an increase in our premium income. So we are constantly looking for this ratio have that positive figure. And we are working in many fields. And we do not consider extraordinary the results of the first quarter. So we think that more or less we will have a good expense ratio during the year.

**Operator**

The next question. You mentioned exceptional weather losses in Iberia. Can you quantify how much of these claims was exceptional versus your normal budget?

**Unknown Executive**

Yes, we have mentioned on Page 11 on my presentation. We had 57,000 claims for a total of EUR 16 million, which only implies 4 points of Iberia general insurance combined ratio.

**Operator**

Next question is regarding health insurance. Can explain the western income combined ratio? Are you carrying out any restructuring in this business?

**Fernando Mata Verdejo**

*Executive Director*

Okay. The first thing to say is that typically combined ratio in health insurance is higher during the first quarter, and then it comes down in the next quarter. The second thing is that we have had a slightly increase of claims growing from group contracts, and we are working on it. And we have taken some measures in 2017 renewal -- premium renewal. And the third thing, I would like to say is we have reorganized our internal expenses based on a more sophisticated model. And this has results having the same expenses to share with other branches that new reorganization have result in an increase of internal expenses linked with the health insurance businesses. So in generally speaking, we're not worried about this increase on the [ feeler ] base on these reasons.

**Operator**

And the last question regarding Iberia is about Life results. Can explain the reversion of the contingency payment in the specific bank assurance agreements?

**Unknown Executive**

Yes, unfortunately, we cannot disclose the joint venture and we'll explain later with the reason. I mean, we have in our liability side of the balance sheet different contingent payments regarding bancassurance channels. They are pretty common in the bancassurance channel in Spain. Some of them -- there are additional commissions that's being paid regarding some long-term goals, and I know there are some announced to be paid and they're coming from some acquisitions. In that case, I mean, it's EUR 29 million is a reversal of under that. But we don't disclose our partner involve. I'm afraid, and we do not speak about the long-term goals business plan with our partners.

**Operator**

This next set of questions is with regards to evolution of business at MAPFRE U.S.A.. Niccole Dalla Palma from Exane BNP Paribas would like to know, can you update on your US strategy. Which areas are you growing and which ones are you exiting? Also Ivan Bokhmat from Barclays asks the following.

The combined ratio outside Massachusetts remains very high. How much of that is extraordinary loss experience and how much is management actions to take market share?

**Fernando Mata Verdejo**

*Executive Director*

I mean we are growing around 10% in Massachusetts with positive trends in both Motor and Homeowners. And basically the results say that tariff increases in Motor are quite recent and in homeowners due to 2015 snowfall. Going forward, on growth we will focus on Motor lines and there are several states that we consider core. And this topic was very well explained by our Chairman at the AGM in March. Those are Massachusetts, New Jersey, Connecticut, California and Florida. I'm not sure if I'm missing 1, but this is the core of the states. As we already mentioned before, expenses unit cost on we have had to pay a new business premium. We've been actively monitoring our business in non-core states and we'll gradually begin to stop underwriting new business in some of them. And from now, we stopping, I mean, marketing and sales promotions on those states we do not consider to be core business.

**Operator**

This next set of the questions is regarding the evolution of MAPFRE ASISTENCIA. Niccolo Della Palma from Exane BNP Paribas asked, ASISTENCIA had again some unfavorable development. What is driving this? Has growth been too aggressive in recent years?

**Carlos Barahona Torrijos**

*Assistant General Manager of Control and Financial Information*

Yes, there is some question regarding the assistance and I'll say a little more about this. [Indiscernible] already mentioned that the last year, we expect 2017 to be breakeven. And frankly, I mean, we expected a better result in assistance. I'm not that good in Spain as we have unfortunately, I mean, good things had bad news, I mean, they are being compensated in MAPFRE, and this is a good thing of a having a proper diversification of business. In 2016, we had a bad experience in travel assistance in France, as you remember. We expected more or less a neutral results in the business coming from the U.K., but both, I mean, negative development of the run off in some multi-year policies in the UK and also the Brexit and different currency conversions, we sold multi-year policies in the Sterling bonds, and now we're paying claims in Euros and dollars and both they are deteriorating loss ratio and combined ratio in ASSISTENICA. I mean, it is difficult too for accounting what is going happen in the rest of the year, I mean, we're working hard in order to fix this operation, ASSISTENICA, mainly in the U.K. We're trying to reduce losses at that point, we consider it quite challenges to breakeven in ASSISTENICA business in 2017.

**Operator**

The following question refers to GLOBAL RISKS business. Niccolo Della Palma from Exane BNP Paribas asks what is your reinsurance strategy in GLOBAL RISKS?

**Natalia Arana**

Okay, MAPFRE GLOBAL RISK reinsurance strategy is consistent over time. They may highlight about that. During the last year, we have maintained as exactly the same protection MAPFRE GLOBAL RISKS. That's mainly -- MAPFRE GLOBAL RISKS protects mainly through non professional reinsurance. So net claims are aligned with the financial capacity of this unit. Given the volatility of this business sometimes accumulation is sits, and is what has happened during the first quarter of this year. This has reflected in the results, but this doesn't entail at all a risk of threat in the short term from this business unit.

**Operator**

[Indiscernible] at JB Capital Markets and Ivan Bokhmat from Barclays asks the following. GLOBAL RISKS has experienced a very strong performance last year, close to 0 contribution this first quarter. What is the reason for this deterioration? What is the normalized combined ratio for the business and why is it so high right now?

**Carlos Barahona Torrijos**

*Assistant General Manager of Control and Financial Information*

MAPFRE GLOBAL RISKS combined ratio due to increase in large screens, especially in the LATAM, which has resulted in higher loss ratio. I will elaborate, I would like to elaborate a little bit longer regarding the Nino phenomenon. Because from our side, you could expect a larger loss in MAPFRE RE and a smaller in GLOBAL RISKS. And, but due to the, let's say the [delivery] by chance, but anyway, the rains affected a power station in Peru that was covered by GLOBAL RISKS. So the main effect from the Nino phenomenon is affecting GLOBAL RISKS. Also it was a blast in oil refinery in Abu Dhabi. We both consider it -- them as an extraordinary event. And regarding the underlying loss ratio or the combined ratio currently is well above 100 and we expect it to have it lower than 100. I mean, as we reported from previous year. We're keeping the same underlying guidelines in those businesses, but some of those claims sometimes happen. And unfortunately, it was a rise in our claims in the first quarter.

**Operator**

This next block of questions is concerning the development in Brazil and Mexico. They are sent by Niccolo Dalla Palma from Exane BNP, Andrew Sinclair from Bank of America Merrill Lynch. Regarding Brazil, in Motor, your combined ratio keeps creeping up. The same is true in Mexico where you referred to problems in multi-year group policies. What is the outlook?

**Carlos Barahona Torrijos***Assistant General Manager of Control and Financial Information*

Well the outlook for those countries is following. Brazil focused on profitable growth and better economic environment will allow a reduction in combined ratio. As we already mentioned, we're reducing our fleet. There is like a 9% reduction, I'm not sure, we have to confirm this figure with Natalia, but there is a reduction in units in both significant development in Brazil and Mexico in order to limit our exposure in this market. And regarding Mexico, the company's concerning nonprofitable contracts. And there was some of 3 multi-year contracts. And I mean it's too early as well to give a proper guidance, but we'll see the effect of the strategy probably at the end of this year. And that's all, reduce -- reduction of exposure, increase of tariffs and cancellation of nonprofitable portfolios. I mean, that's the same we see we have for both countries.

**Operator**

Why did the Life-Protection result in Brazil not grow as fast as the top line?

**Carlos Barahona Torrijos***Assistant General Manager of Control and Financial Information*

This is due to high level of claims in the first quarter 2017 together with lower amount of financing income.

**Operator**

Can you provide any more detail on the suspector [indiscernible] driven rate reductions in Brazil and what we can expect for the rest of the year?

**Carlos Barahona Torrijos***Assistant General Manager of Control and Financial Information*

Yes, we'll cover this topic and also Turkey as well. We've seen some intervention of the governments in the free market, and also, the transparency of tariffs in Brazil and Turkey. So in case of Brazil has implemented 30% reduction in the tariffs say for third-party liability across the board, I mean the different percentage according to the regions, but it is important to take into account this cover has a quite low weighting in MAPFRE Brazil portfolio. We have to confirm this number as well, but I don't think at as compulsory insurance in Brazil being larger than 15% of the total order portfolio. Regarding Turkey, and we cover this topic as well. And has a full disclosure on our management discussion and analysis and subsequent events. Recently it was approved by the government, reduction as well average 50% across the board. In that case, the effective compulsory insurance. And in that case, our portfolio has a larger

portion of the total fleet, and it should be like a 60% and we have to confirm. Yes, Natalia saying like a 60% more or less. And in that case where we're doing, we expecting something like this and we are reducing our fleet. And also increasing in tariffs. I mean, it will -- probably we'll have an impact on the short term, but due to our reduction in fleet and increase of tariffs in other coverage, we believe we could compensate the increasing loss ratio with improvements in combined ratio and other line of business.

**Operator**

Regarding severe claims and industrial risk in Brazil, can you please quantify this against your budget?

**Carlos Barahona Torrijos**

*Assistant General Manager of Control and Financial Information*

I'm sorry. I didn't hear it. Could you repeat it please.

**Operator**

Of course, regarding severe claims and industrial risk in Brazil, can you please quantify this against your budget.

**Carlos Barahona Torrijos**

*Assistant General Manager of Control and Financial Information*

Yes, there has been a relevant impact on severe claims in industrial risk in Brazil. But we haven't included positive information and any quantification on this effect.

**Operator**

And the final question regarding Brazil. Does the first quarter's financial income provide a good run rate for the rest of the year?

**Fernando Mata Verdejo**

*Executive Director*

Well, the financial income in Brazil is linked today evolution of the Selic rate. And so if inflation is reduced is reasonable to expect a further reduction as well in Selic. This will have an impact on financial income.

**Natalia Arana**

If I may, say something, this evolution is mainly because the investments there are floating and are linked to inflation and interest rates. That's why we are seeing, perhaps a decrease, a slight decrease in the financial income coming from Brazil. So according to the reduction of the Selic, we could continue be affecting of this reduction.

**Operator**

We have also received several questions regarding the December 2016 Solvency II figures that were released. Regarding capital generation Andrew Sinclair from Bank of America Merrill Lynch asks the following. Thank you for the new disclosure today. Can you confirm how many points of capital you think that MAPFRE organically generates each year? It isn't clear to me from Slide 24, how much is organic generation versus how much is due to market moves? Also can you please confirm how much of the capital generated is cash? And in the same line, Niccolo Dalla Palma from Exane BNP Paribas would like to know, can you give us your read of the Solvency II movement in quarter 1? How much was underlying? How much market movement and then dividend accrual?

**Carlos Barahona Torrijos**

*Assistant General Manager of Control and Financial Information*

Yes. Regarding these 3 questions, on Slide 24, and also in the management discussion and analysis, there is a full disclosure. You can see the breakdown of over EUR 800 million increase in our solvency margin. We mentioned during the presentation. Large part of this improvement is due to higher IFRS equity in the back of growth in unrealized gains on -- of the available for sale portfolio as well as positive currency

conversion differences. And there was -- let's say that the capital generation from outside. And there was also a positive contribution from IFRS retained earnings that we considered it as being organic. We have not provided a disclosure of cash flow generation. For the timing being, there is no previous standard criteria on the Solvency II for this concept. I mean, my view is regarding Solvency II difficult to see cash generation since you have to, I mean, to change the part of financial instruments that there are matching MAPFRE Corporation are financial instruments linked to equity and also cash link with equity as well. And anyway, if you need assistance going through the big data on these numbers, which are fully disclosed. And I said in the presentation and also management discussion analysis. Natalia and the rest of her team will be available after this call to assist you.

### **Operator**

Farquhar Murray from Autonomous also submitted several questions regarding Solvency II. Could you please explain and ideally decompose the EUR 989 million increase in Solvency II capital quarter-on-quarter between September -- between third quarter 2016 and full year 2016? What precisely drove this material increase in the quarter? And how do we tally it to the previously disclosed sensitivities? Why have the Solvency II sensitivities -- why do the Solvency II sensitivities look to have changed markedly between full year 2015 and full year 2016? In particular, the sensitivities to interest rates and corporate bond spreads seems to be notably different? What precisely drove that?

### **Carlos Barahona Torrijos**

*Assistant General Manager of Control and Financial Information*

Yes, regarding sensitivities reducing in the year due to smaller duration in that, which has led to a smaller duration between market moves and of assets and offset liabilities. As we mentioned before, MAPFRE adheres to very conservative ALM strategies with cash flow much induration strategies applying a large share -- of a large portfolio mainly in Spain, which limits sensitivity to changes in rates. And also the change between September and December figures mainly due to the best estimate of liabilities of the application of more conservative criteria for liabilities -- to liabilities and their IFRS, which reduced their adjustments necessary on Solvency II. Again if you need any help going through, I mean, these specific numbers, the IR team will be available after the call.

### **Natalia Arana**

It's important to highlight that regarding the sensitivity to bond spreads last year, the sensitivity to corporate sovereign were together. And this year we have separated. That's why you can see a slight difference. But if you compare both presentations last years and this one, you can see that the main impact is in the spreads -- in sovereign spreads mainly because the corporate spreads are lower. But if you need any further explanation, we will be available for you later on.

### **Operator**

We've also received 1 additional question from Michael Huttner. What is the sensitivity to sovereign spreads versus Solvency II?

### **Antonio Huertas Mejías**

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

It has been also explained by Natalia.

### **Natalia Arana**

Yes, it's been also to answer, Michael Huttner, on Page -- of the presentation on Page 27, you can see that the difference between the last line, which is corporate and sovereign spreads, the line before the last one, the corporate spreads that's difference, is a sensitivity to sovereign spreads.

### **Operator**

Thank you very much.

### **Antonio Huertas Mejías**

**WWW.SPCAPITALIQ.COM**

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

Thank you. I mean, thank you for your question. And we about to finish. I would just like to mention was Sebastian. I'm sorry, there are 2 more questions coming. But, yes, we'll try to answer now.

**Operator**

Sorry, about the confusion. Thank you. Michael Huttner from JP Morgan has also asked the following question. At the annual General meeting, you reduced the target ROE from previously 11% on average 2016 to 2018 to now 11% just 2018. Can you say why the change? And given you're still at 9% first quarter 2017, how confident are you of getting to that 11% next year? Where is the improvement to come from?

**Carlos Barahona Torrijos**

*Assistant General Manager of Control and Financial Information*

Michael, if I make personally correct you, I mean, the Chairman at the AGM didn't change the main strategies for the 3-year period, and the growth is still there. But he also mentioned that the average 11% ROE was pretty challenging. But he is specifically mentioned that we will achieve 11% ROE on 2018. Let me elaborate a little bit more about this. And we're still seeing a quite strong capital base in MAPFRE. We're pretty happy and with the situation. I mean, our capital is good and our solvency margins are improving. But somehow is due to rating our ROE. We believe that this will change when the interest rates will rise and also perhaps some currency conversion differences. We have to improve our net result. Basically the delta will be coming from the fixing of those operations, such as assistance. We have to improve as well our net results in Italy. And we believe with this improvement in net result and the ROE will improve much more for sure.

**Operator**

Ivan Bokhmat from Barclays has the following question. The reinsurance combined ratio remains low despite moderately active -- despite, excuse me, despite a moderately active cat in the quarter, particularly in LATAM. Was there any reserve releases of note?

**Carlos Barahona Torrijos**

*Assistant General Manager of Control and Financial Information*

No, there is no reserve releases. As I've already mentioned, the Nino phenomenon affected mainly GLOBAL RISK and a less extent MAPFRE. Another hand, in order has been reported during the first quarter. And also MAPFRE is benefiting from the quarter share, homeowners quarter share from the U.S. And that's all.

**Operator**

Michael Baltimore from KBW has sent in a question regarding financial income. If these calculations are right, the pure investment income in PNC, including realized gains and FX decreased by 30% year-on-year. What did drive this negative development? The following PNC financial income was EUR 23 million around 12%. This is very much in line with the underlying if you exclude?

**Carlos Barahona Torrijos**

*Assistant General Manager of Control and Financial Information*

The pure investment income in PNC is reducing because the low interest in Europe. And they are more, I mean, the way we are invested in new cash flow and also maturities, I mean, is in a lower interest deal. I did not catch the other question, sorry.

**Operator**

The question is what drove this negative development?

**Natalia Arana**



I will answer. We have talked about the low-interest rate environment. And this is the main reason also the ForEx movements, but that compensate the other. And as we have mentioned before, in other years, the financial income coming from Brazil, was quite notable. And also the slight fall this year is also reflected in our Non-Life financial income account, but this decrease in the interest rate is also compensates for the good development of currency rates. This is the main reason. This is the main reason we have.

**Operator**

And the last question that we have today is from Niccolo Dalla Palma from Exane BNP. And he asks regarding Spanish Life. Will you be able to take over the business of B&M following the Bankia and B&M merger.

**Carlos Barahona Torrijos**

*Assistant General Manager of Control and Financial Information*

Niccolo as we already said, we're quite happy with the current relationship with Bankia. And also, the bancassurance channel, I mean, is key for MAPFRE. And we would like to expand our business in this channel. Regarding your question, will we be able to take over the business. The thing is there is a contest between 2 financial entities and Brazil is going ahead. And once the process is finished, and we will sit with Bankia in order to see any potential developments of expanding our current agreement with Bankia to outlets coming from the potential future bank merger. But that's all. And I guess, there is no any for the questions. So we finishing. And I will just 2 points as a summary and wrap up. We're pretty happy with the results, and also the growth in the business. As a summary, I mean, Iberia is performing extraordinary well, and allow us to mitigate and to offset strong losses coming from small units, basically assistance and also some of the direct operations in EMEA, mainly in Italy. There is just a couple of countries with the small losses. In Mexico, which the losses are coming mainly from the currency conversions. We have an excess of financial investment maybe even dollar and due to the increase of the value of the Peso. And we booked some differences in the teams. And also small loss in Chile due to their wildfires during the first quarter. But we think that we will come back to profits in the rest of the year. So as a conclusion, we're quite happy and we're still working on those 4 units in order to have them fixed as soon as possible. Thank you for your presence. And any further questions or additional information you may require, Natalia is ready to answer any question. Thank you. And bye, bye.

**Operator**

Thank you. Thank you very much for being here. Thank you, Fernando. Thank you for being with us today. Bye.

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