

Mapfre, S.A. BME:MAP

FY 2016 Earnings Call Transcripts

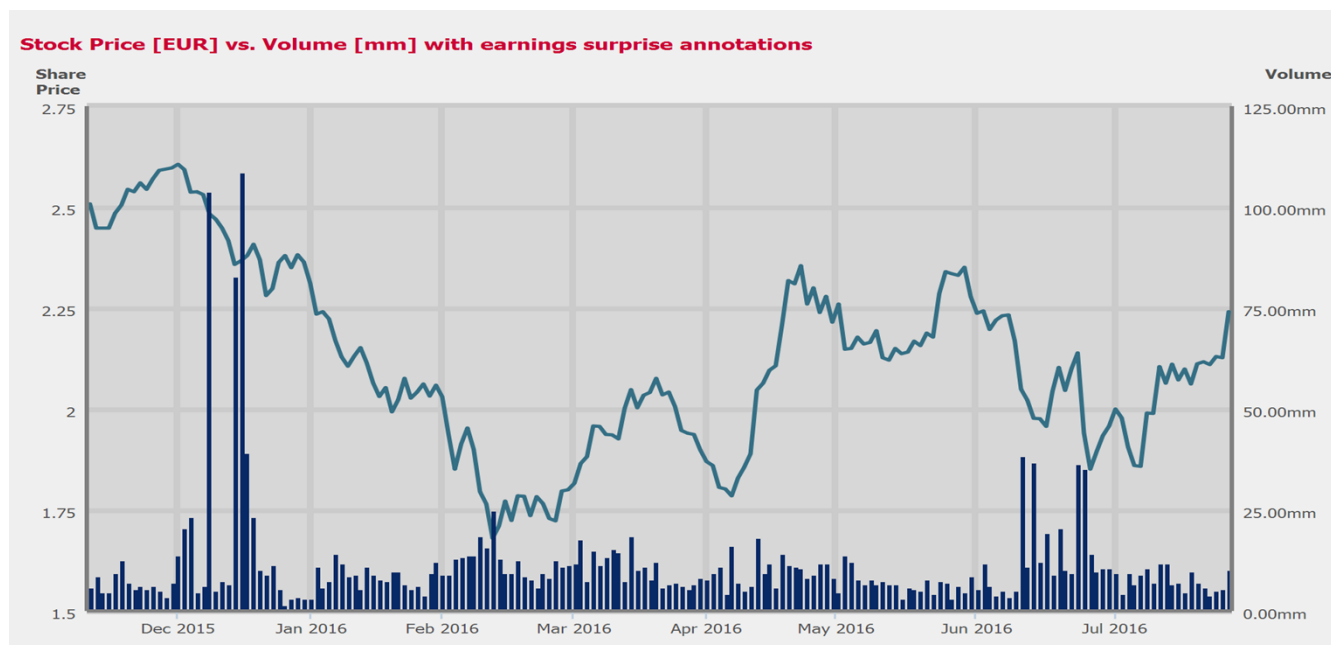
Wednesday, February 08, 2017 9:00 AM GMT

S&P Capital IQ Estimates

	-FY 2016-	-FY 2017-
	CONSENSUS	CONSENSUS
EPS Normalized	0.24	0.26
Revenue (mm)	23117.65	23748.06

Currency: EUR

Consensus as of Feb-06-2017 1:14 PM GMT



Call Participants

EXECUTIVES

Antonio Huertas Mejías

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

Fernando Mata Verdejo

Executive Director

José Luis Jiménez

Natalia Arana

Unknown Executive

Presentation

Natalia Arana

Good morning, ladies and gentlemen. Welcome to the presentation of MAPFRE's results for 2016. On this occasion, it's a great honor to have Mr. Antonio Huertas, MAPFRE's Chairman and CEO here with us today. He will give the opening speech with the key highlights of the results. And then, Mr. Fernando Mata, our CFO, and I, will provide you with an overview of main figures and business trends.

We have included new information in this presentation, thanks to questions we have received from investors and analysts over the last few months, and we trust you will find interesting. From now on, different executives from the company will join us during this presentation in order to give you more details about their areas. Today, we have the pleasure to have here with us Mr. José Luis Jiménez, MAPFRE's Chief Investment Officer, who will participate in the Q&A session afterwards if you need further information. As usual, at the end of the presentation, the first part, as time permits, we will answer all the questions that were sent to the specific e-mail address. The Investor Relations team will contact you later to answer any questions we don't have time for today. At the end of the Q&A session, Mr. Antonio Huertas will give you the final remarks.

So and now, please let me introduce our Chairman, Antonio Huertas.

Antonio Huertas Mejías

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

Thank you, Natalia. Good morning, everybody. I am delighted to have the opportunity to share the highlights of MAPFRE 2016 results with you.

I can say that we are still in progress, improving little by little. The summary, starting with the main figures. I can say that based on our planned results obtained in the year, we're good, very good, I would point out, in terms of both revenues and earnings. Total revenues reached EUR 27.1 billion, up 1.5%. While premiums increased by 2.2% to EUR 22.8 billion. Consolidated earnings after taxes and unconsolidated interests were EUR 775.5 billion, up 9.4%, more than in 2015.

As you know, 2016 was the third year of implementation of MAPFRE's three-year strategic plan with the slogan focused on profitable growth. And I can say that we are actually on track doing -- accomplishing these objectives. Noteworthy also, the following ratios achieved as the result of our management is of course over the course of the year. The ROE was 8.8%, an increase of 80 basis points. Improved efficiency helped us reach an expense ratio of 27.4%, that's improvement on 120 basis points. And a combined ratio of 97.4%, down by 120 basis points. Solid technical management made it possible for the loss ratio to remain stable at 70%.

Other balance sheet highlights of the year are the total assets amounting to 7 -- EUR 67.8 billion, an increase of 6.9%. And consolidated shareholders' equity rose by EUR 553 million to EUR 9.1 billion. Given these results, I'd like to mention that MAPFRE has obtained excellent results in Iberia in terms of both growth and profits. Focusing on profitable growth was the management driver in the group's principal geographical business units, where improvements were seen across all technical and operating indicators. Revenue is up 6% to EUR 9.2 billion and net profits of EUR 582 million are clear evidence of a brilliant, brilliant year achieved as a result of intense efforts in pursuit of improved efficiency and profitability.

The positive performance of the economic situation in Spain, with an overall increase in activity, also served as a tailwind to power the group's growth. There was outstandingly strong growth in life products, thanks to the development of new saving investment products as unit-linked.

The reinsurance units, performed exceptionally as well in what was again the best year in its history with over EUR 4 billion in premiums, with an increase of 13.5% and net profit of EUR 186 million, up by 20%. These units have become the group's second biggest net earnings contributor, accounting for 20% of the total.

GLOBAL RISKS as well did well too. But suffered at the end of the year an increase of frequency in the second half of the year. The North American unit returned to producing positive results after the extraordinary losses arising from the winter storms in 2015. The planned to improve and to model lower ratio outside Massachusetts is underway and will continue through the continuous improvement of these results in 2016 and beyond.

Talking about Brazil. This company is showing an excellent performance and a strong resiliency despite the tough economic conditions. The results of LATAM North were good, although slightly lower than the last year due to Mexico. In LATAM South, we have strengthened our balance sheet. We increased technical reserves in Colombia and settled our outstanding liabilities in Argentina. Regarding the sale 4 [ph] years ago, of the workers compensation portfolio. Also, we've spent an increase of catastrophe losses in Chile.

The results in ASISTENCIA and EMEA, were poor, I can say that. In the case of ASISTENCIA unit, the process of breaking down of collectible accounts and other impairments continued. And there was further strengthening of reserves with the aim of concentrating the unit's strategic positioning in more profitable and sustainable businesses. Of the EMEA countries, Italy's performance was, as well particularly poor. In the first full year of this operation and integration within MAPFRE, very prudent decisions were taken to write down goodwill amounting to EUR 40 million. The workforce was also restructured in order to gain efficiency at the cost of almost EUR 20 million.

Now let me say a word about dividend. The Board yesterday approved the final dividend that amounted to EUR 0.145 per share, including the interim and the final dividend versus the EUR 0.13 paid -- paid out against 2015's results, which is an increase of 12.7%, higher than the rise of -- in net earnings. It's actually 9.5 -- 9.4%. The payout at 57.6% is higher than the last year, which was 56.5%. Taking the average price over the course of the year, the shares are returning 5.8% a year. That continues to be one of the highest in the Spanish market and which is paid completed by cash.

So now to recap, as you can see in the slide, the -- let's move on to this later. Only in the Page 3. Remarkable performance in the 3 largest direct operations, with a focus on underwriting management and cost containment: Spain, Brazil and U.S.A. Double-digit growth in premiums and profit at MAPFRE RE. Losses in EMEA stemming from businesses transformation and restructuring of MAPFRE ASISTENCIA. Conservative impairment of goodwill and other intangibles from Italy and Spain and active balance sheet management.

In conclusion, we are pleased with the progress of the good planned growth, strong and profitable. There is room for improvement in several business areas and undergoing restructuring. The programs for improved efficiency automation and cost reduction and transforming the group and helping us to exceed the target of annual savings of EUR 50 million, a large portion of which is being invested in the digitalization of operations which, in the medium-term, will deliver a greater return.

Now to conclude, I -- a great pleasure to me, to talk about the new CFO. But as you know -- you already know that Esteban Tejera, who was formerly -- first by Chairman is already retired. Now Fernando Mata, the new CFO, it's -- he's leading this area and Fernando has an extensive experience of leading many areas in MAPFRE, both in Spain and abroad, with a strong financial background. Fernando has also recently been appointed as a member of -- from a MAPFRE SA Board, and I am totally sure that Fernando will be very successful in his new responsibilities, leading an excellent team. Thank you very much.

Fernando, now you have the floor, please

Fernando Mata Verdejo
Executive Director

Thank you very much, Antonio and good morning, everybody. First of all, it's a great pleasure and honor for me to be here with you today, in my first investors and analyst meeting as MAPFRE's CFO.

Let's move to Page #4. In 2016, we have seen a 1.5% increase in revenues due to a 5% rise in the life business and a 1.5% growth in non-life premiums. This stems from MAPFRE's 3 largest direct operations, which had an outstanding performance. First, Spain, due to a strong contribution from MAPFRE's agent

network, Red MAPFRE and a pickup of Life sales. Second, MAPFRE RE, with double-digit growth. And last, a positive development at MAPFRE U.S.A.

Regarding the combined ratio, under strict underwriting guidelines and cost containment initiatives resulted in a 1.2 percentage point decrease, bringing the ratio down to 97.4%. Strong improvements have taken place in Spain, particularly in Motor in Brazil, where a plan to reduce expenses was implemented at MAPFRE RE, which has benefited from an absence of CAT losses and in the U.S., where the combined ratio has recovered after the 2015 losses.

All these improvements have led to an extraordinary 9.4% increase in profits and an ROE of nearly 9% despite the losses in EMEA from the restructuring of MAPFRE ASISTENCIA and Italy's direct insurance business. There was also a EUR 50 million impact on results from the impairment of goodwill and other intangibles from -- mainly from Italy and Spain. It is also important to mention that we have benefited from the current financial marketing scenario and the recovery of the real estate market in Spain, incurring lower financial expenses and actively realizing gains on investment portfolio. Including, as Antonio mentioned, an EUR 88 million net gain from the partial sale of the MAPFRE tower in Barcelona in the fourth quarter.

On Page 5, looking at shareholder equity, we can see a significant increase of 6.4%, equivalent to EUR 553 million, due to a strong net result, together with the appreciation of the main currencies, especially the Brazilian real and the U.S. dollar. Assets under management have also grown by 7.6%, supported by the rally in fixed income markets during the year, positive evolution of the mutual and pension fund business with over 10% growth, the appreciation of the Brazilian real, plus 25.8% and the Life business acquired by BANKINTER VIDA in Portugal.

Please, let's now turn to Slide #6. Let's move on to one of the most significant topics for the shareholders, dividends. I would like to point out MAPFRE's dividend policy, which is focused on creating shareholder value, with net results as the main driver for growing dividends. So the Board of Directors yesterday agreed to propose a final dividend of EUR 0.085 per share to the AGM, taking the total dividend proposed against 2016 results to EUR 0.145 per share. This will bring total dividends paid against results in 2016 to over EUR 446 million, adjusting for treasury stock, shareholder remuneration will increase by 12.7%. In absolute terms, it is the largest dividend in the last 5 years. If I remember well, I think it's the largest since 2011. This year, payout amounts to 57.6%, slightly higher than last year and in the middle of the agreed payout range of 50% to 65%.

And now, Mrs. Núñez will continue with the next slides, explaining the key highlights from the P&L account.

Natalia Arana

Thank you very much, Fernando. It's worth highlighting. Now -- okay, I will explain the main business developments by region. But first of all, on Page 7, I would like to mention that the economic scenario has been quite different in each region. We have seen an economic recovery in Spain and the U.S. and a difficult scenario in LATAM, particularly in Brazil.

Iberia accounts for nearly 30% of total premiums as a result of continued pickup in production in the main non-life business lines and the increasing life sales in the agents' network. Once again, Red MAPFRE proves to be a very valuable distribution channel. Brazil contributes 18.5% of total premiums despite resilient local currency growth. Premiums have been impacted by the depreciation of their real. North America is growing, thanks to positive developments, both in Massachusetts and elsewhere in our main lines of business. EMEA now represents over 10% of premiums, with an increase of nearly 30%, stemming from the full consolidation of the direct business in Italy and Germany, tariff increases in Motor in Turkey and the good performance in the Life production in Malta.

MAPFRE RE shows remarkable growth of 13.5% in most lines and represents 17% of total premiums and continues benefiting from the solid performance of the Non-group business. The positive trends have offset defaults in the rest of LATAM, where unprofitable contracts have been canceled in all regions, the most significant being in Mexico and Colombia.

Please let's turn now to the next slide to look at the main movements in attributable result by region. It's worth highlighting the strong profitability in Iberia. Excluding the impact of CatalunyaCaixa businesses in 2015, the attributable results would have increased by 8 -- 68%. Brazil is down as a result of the economic slowdown. We are also impacted by 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 the absence of catastrophic losses and other large claims and higher realization gains too. On the other hand, EMEA has suffered from extraordinary losses. The most significant being the following: first, negative run-offs and results from multi-year contracts in ASISTENCIA; second, several large corporate claims at GLOBAL RISKS; and third, higher integration costs and claims experienced in the direct business in Italy, as well as a write-down of goodwill and other intangibles.

Finally, in APAC. Results were impacted by the Taiwan earthquake in the first quarter of the year as well as expenses related to licensing and set up of operations in China. The result of the non-life business grew by 34%, driven by a solid underwriting result, which almost doubled compared to the previous year and brought the combined ratio to 97.4%, as our Chairman mentioned before. It's important to mention the 1.2 percentage point improvement in the loss ratio. A stricter underwriting guidelines, tariff increases adjustments, improved claims handling, cost containment and digitalization of process in main markets were the main drivers.

In Iberia, these improvements have played an important role in offsetting the impact of the new Baremo, a higher frequency from an increase in car use with a sharp increase during the holiday season. In Brazil, cost containment initiatives are helping to mitigate the increasing claims, resulting from the economic contexts and weather conditions. We have already commented on the deterioration of results in EMEA. But it is worth mentioning the higher underwriting result in the Motor segment in Turkey due to important tariff increases. Regarding North America, together with improved technical management, lower weather-related claims are boosting results.

Please turn to Slide 10, so we can take a closer look at the financial results. The financial results of the non-life business has grown by 18% and mainly coming from an increase in realized gains, especially in Iberia from the sale of the MAPFRE tower in Barcelona, which generated EUR 117 million pretax gain. In LATAM, we'll have seen higher financial income for inflation-linked investments in Colombia and U.S. dollar-linked investments in Argentina. There was also a EUR 53 million negative impact from the write-down of goodwill and other intangibles from Italy and Spain.

Slide 11 shows the result of the life business, which rose by 6.8% mainly thanks to the contribution from Iberia and Brazil. In Iberia, the Life segment continues to perform positively, recording an increase in sales through the Red MAPFRE channel and the issuance of corporate savings policies. The fourth quarter was especially positive, thanks to new product launches and specific sales campaigns, moving from traditional saving products to unit-linked products with a higher investment component.

In the case of Brazil, results remained stable despite the lower credit activity and the depreciation of the Brazilian real.

Please turn to Slide 12. Financial expenses at the holding company have decreased significantly, going from EUR 107 million in 2015 to EUR 64 million in 2016. On the other hand, the negative impact from multiyear contracts and extraordinary costs from the reorganization of MAPFRE ASISTENCIA have led to a fall in net operating revenues and expenses. The effective tax rate reached over 30% of results, relatively stable compared to the previous years, since increases in corporate tax in Brazil were offset by a decrease in Spain. Finally, lower profit in Brazil led to a decrease in the result attributable to noncontrolling interests.

Now, Mr. Mata, will analyze in more detail the evolution of net profit.

Fernando Mata Verdejo
Executive Director

Thank you, Natalia. And this is a new slide we included in our presentation. At this point, I would like to take a closer look at the main drivers of profit this year. The first column on the left is last year's result. In the second column, or the first box in gray is the Non-Life underwriting result, which has increased by EUR 184 million, thanks to the improvements in technical management and the cost containment initiatives that we have already mentioned, mainly in Spain. The second column in -- or second box in gray, the underlying financial result in Non-Life has increased by 11 -- sorry EUR 19 million. Higher financial results in LATAM offset the decrease in yields in the Eurozone. Next box, the extraordinary non-life financial results has improved by EUR 131 million and reflects the following events: In 2015, net realized gains amounted to EUR 119 million; and in 2016, net realized gains of EUR 137 million, as well as EUR 117 million in gains from the partial sale of MAPFRE tower, as we mentioned before.

Next column, the Life result has added EUR 48 million to the result, due to the positive development in Iberia already mentioned. And finally, the EUR 240 million decrease comprised the profit from CatalunyaCaixa insurance business in 2015, amounting to EUR 187 million and write-downs of goodwill in 2016 of EUR 53 million, this amount is before taxes, EUR 53 million.

Next page shows the evolution of our capital base. On the left, you can see that shareholders equity amounted to over EUR 9 billion at the end of 2016, a 6.4% increase. This is due to the strong result from the period and the positive development of currency conversion differences.

Regarding our equity structure. As we mentioned during the Investor Day, I would like to highlight two main factors generating volatility in our equity base, which you can see in the chart on the right. First is the unrealized gains on available-for-sale investments. And second are the currency conversion differences.

As you can see on the chart, there is a negative correlation between both variables which helps us to mitigate the impact of volatility. As you can see, during the fourth quarter, there was a reduction of unrealized gains, mainly due to the rise of interest rates while the negative currency conversion results decreased in the same period due to a reevaluation of the Brazilian real and the U.S. dollar.

On Slide 15, we will take a closer look at our capital base. On the left side, you can see the breakdown of the capital structure as of December 2016, which amounts to over EUR 13.6 billion. The largest part is equity with 84% of the total. Despite a slight increase in leverage, this year, with a EUR 1 billion senior debt issuance in May. Leverage is still very low at 16%, among the lowest in the European insurance sector. Last but not least, interest coverage improved significantly due to the reduction of financial expenses already mentioned.

Please turn to Slide 16, where we'll take a look at our Solvency II numbers. Solvency II figures as of September 30, 2016, since the year-end figures are not available yet, confirm MAPFRE's strong Solvency position. The 200% Solvency II ratio is based on a high-quality capital structure of more than EUR 8.5 billion in eligible-owned funds, of which, 93% is unrestricted Tier 1 capital and the remaining 7% is subordinated debt. As you can see, our Solvency margin has been quite stable throughout the year despite market volatility. Solvency requirements are unchanged as they're calculated on a yearly basis, as we explained during Investor's Day, according to Solvency II regulations.

Now Natalia will give the final details regarding the investment portfolio.

Natalia Arana

Thank you, Fernando. Now before our Q&A session starts, let me give you some figures about our investment portfolio. During 2016, the 10-year Spanish government bond yield fell over 50 bps to 1.4% and the Brazilian real recovered nearly 26%. MAPFRE took advantage of the market environment to actively manage its fixed income portfolio and optimize ALM strategy as well as market corrections, for example, U.S. election, Brexit, to increase its equity exposure. Our fixed income portfolios are very well-positioned to weather the low rate environment in Europe. Around 60% of the fixed income portfolio is actively managed. The remainder are mainly immunized portfolio with limited reinvestment risk.

On the next slide, we will take a look at our largest actively managed portfolios in Iberia, MAPFRE RE and GLOBAL RISKS, which represent over 80% of the unrealized gains in our balance sheet.

On this slide, you can see the combined portfolios of Non-life Iberia, MAPFRE RE and GLOBAL RISKS are over EUR 7.5 billion with duration around 6 years and their current yield around 2.7%. The actively managed portfolios in Life in Iberia amount to almost EUR 7 billion. The duration is around 7 years and the current yield is over 4%. Regarding the strategy, we expect rates in Europe to remain low and we are adapting our investment strategy to mitigate this impact. This includes an increase in exposure to equity markets as well as alternative investments, including private equity, private debt and real estate. Our asset management business is doing very well and grew by 10% in 2016. We'll continue strengthening MAPFRE AM through various initiatives, that's on top of Luxembourg Sicav, partnerships with Carmignac, with new pension funds and the launch of MAPFRE Gestión Patrimonial. This is all from my side. And now, we will move on to the Q&A session to answer the questions that you have sent to us through the morning. If any other issues arise during this time, please send us an e-mail, and we will be delighted to respond, if time permits.

Question and Answer

Antonio Huertas Mejías

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

Thank you, Natalia. As you mentioned at the beginning of this presentation, we're going to have a guest at each and do some presentation from the top executives of MAPFRE. Today joining us, José Luis Jiménez, he's our Chief Investment Officer, and he will be more than happy to answer any question regarding MAPFRE's investment strategy or any portfolio detail.

Unknown Executive

This question is with regard to the evolution of business at MAPFRE U.S.A. Paco Riquel [ph] from Atlantre [ph] Equities asks the following. The combined ratio in U.S.A. has increased quarter-on-quarter to 101.6%. Can you comment on the evolution of the fourth quarter? And if you are so confident in reaching your target of below 98%?

José Luis Jiménez

Yes, thank you, Paco [ph]. As you already know, I mean, the seasonality impacted in both claims and expense ratio, it has been a trend that has affected all the industry during the fourth quarter. And as has been said and published, distractions and other weather-related claims has affected this increase of frequency. Also higher bodily injuries are very [indiscernible]. And regarding our target below 98%, I think is still in place. So we believe we can achieve it.

Unknown Executive

The next question is from Paz Ojeda at JB Capital Markets. And she asks the following. Digitalization, what is the current status of VERTI U.S.A. What is your strategy? And what is the amount of investment you plan to make?

Antonio Huertas Mejías

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

About -- Antonio speaking. About digitalization, we are on track with our announced plans to be one with the global leaders in digital distribution. In terms of our new operations, talking about VERTI in U.S. and VERTI in China, we are still in progress, more better in the States because we expect that in the second half of the year -- by the second half of the year, we will be ready to launch in Pennsylvania, the first operations of this new company. In China, we are still waiting for it. But in any case, our plans are very limited. We know that we have to be very conservative in the development this business. And as well, we would like to take advantage of the synergies of the businesses in different geographies. Spain, Brazil and the states, we are developing, inside of MAPFRE, not only VERTI, we're developing complete digitalization strategy in order to have a better approach to the customers and to reduce costs and be more efficient. All of our plans are on track.

Unknown Executive

The next set of questions comes from Michael Huttner from JP Morgan. And he mentions that the Investor Day suggested that 9% ROE is attainable from operating profit and 11% with realized gains from real estate. Is that still the current thinking? What could be the run rate of realized gains from real estate? And regarding the ROE target, Paz Ojeda from JB Capital Markets, would also like to know the ROE for 2016 was 8.9%. Will the target for average ROE in 2016 to 2018 be maintained at 11%?

Antonio Huertas Mejías

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

Thank you, Michael and Paz. If I remember well, what we suggested at the Investor Day regarding ROE is that the average 11 was one of the toughest targets, including the three-year strategic plan. But I didn't remember any mention between where we split 9% and 11%. And after 1 year of the 3 years, the

plan -- I think there is still 2 years ahead and still too early just to qualify the current three-year 11% -- average 11% ROE. Regarding real estate portfolio, a couple of things I would like to mention. First, MAPFRE has been extremely active always in this market and realize -- a lot of these -- the market has been quite cyclical between 2006 and 2011, almost EUR 300 million was realized in real estate gains. What happened is during the real estate crisis between 2011 and 2015, I mean, MAPFRE took a big hit and also the shareholders and almost EUR 250 million were provisions allocated in our balance sheet and write-downs. We believe and with the booming of the real estate market in Spain, it's time to come back to realization. And I think MAPFRE deserves it and also our shareholders. And it was the right moment, I mean to have an inflow cash in our balance sheet. So we're back to this current situation, and we believe that perhaps in the future, and market condition permits it, we will be able to realize more gains from real estate.

Unknown Executive

The next question is from Andrew Sinclair from Merrill Lynch, Bank of America. And he asks the following question about mergers and acquisitions. Your capital position look strong. Are you considering deploying capital through acquisitions? Michael Huttner from JPMorgan also asks, MAPFRE's peers are looking more at deals in order to grow. Is that also the thinking of MAPFRE? And where could the funding from deals come from? What is the debt capacity of the group?

Fernando Mata Verdejo

Executive Director

Okay, actually, we should say that our slogan in the current strategic plan should be focused on profitable organic growth. We are not active, looking for new acquisitions, and we are totally focused on our current business. So for that, we are not -- we don't have real concerns about future funding of new operations. Our strategy is clear. We are always looking for opportunities. But we are not an active player in doing that. We have enough food in our plate. And we think that we have to consolidate to get the maturity of our businesses coming from States, from Europe and to reinforce our market presence in our strategic main operations like Spain, Brazil and the States.

Antonio Huertas Mejías

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

Yes, regarding that, and as you know, MAPFRE's an operational organization, we are quite comfortable with our current leverage. It's among the lowest. I mean, in the -- among the largest insurance European entities. But the Board and MAPFRE, we're quite comfortable at this percentage.

Unknown Executive

Thank you very much. The group has done its first Investor Day and is opening up more to investors. Can you say what the tangible benefits are? Is it a quicker or cheaper, for example, to raise that funding?

Antonio Huertas Mejías

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

Yes. Transparency is a plan that has been -- it's been implemented across the board at MAPFRE. And one is -- for investors as well. Our first Investor Day was just one of the several initiatives focused on improving transparency. Obviously, this transparency has many intangible benefits for all stakeholders which had, in my view, difficult to quantify. And as we saw in our senior debt issue in May, there are always opportunities for MAPFRE to issue at attractive levels, given our strong credit quality and also as we are a known frequent issuer.

Unknown Executive

Thank you. Farquhar Murray from Autonomous asks the following. Unrealized gains, please, could you explain why you have not included the slide including the net realization gains total, as in previous quarters, specifically Slide 61 from the 9-month 2016 presentation? Please, could you provide the total realized gains for the full year 2016 that tallies to the EUR 152.3 million reported for 9 months? And Paco Raquel [ph] from Atlantre [ph] Equities also has a question regarding the extraordinary results. Can you

please comment on the extraordinaries in the fourth quarter results? I can see a CAT gain from the sale of the MAPFRE Tower in Barcelona for EUR 117 million and the write-down of intangibles for EUR 53 million. Are there other negative one-offs?

Natalia Arana

Okay, we have decided at this time, in the disclosure we have given to you to focus exclusively on the actively managed portfolio as this truly reflect our ability to realize gains and these realization gains are in portfolios that are normally a consequence of sales to meet liquidity needs. This portfolios include Iberia Non-Life, MAPFRE RE and GLOBAL RISKS. And in September, we were over EUR 30 million in nonactive portfolios, mainly in international and America, which were not included in December. If you need any further information reconciling the figures, our Investor Relations team will be available after the call to answer any questions. In any case, perhaps, Mr. Jiménez wants to add something important to this question regarding the strategy.

José Luis Jiménez

Sure. Thank you, and good morning to everyone. Yes, regarding capital gains, probably as you have heard in our actively managed portfolios, we took profit last year above interest rates. If you remember, by the mid-year, the 10-year Spanish bond rate is almost 0.9, which was a record low. And right now, it's 1.7. So this is one of the reasons that we actively manage that portfolio in order to do some gains. But this is something that we are doing on a regular basis as part of our activities.

Natalia Arana

Thank you very much, José Luis.

Unknown Executive

Thank you very much. Regarding dividend, Farquhar Murray asks, the dividend of EUR 0.145 was slightly better than expected. Should we regard this as a nominal base level from which MAPFRE commits to increase in the future? And also on the dividend, Andrew Sinclair from Merrill Lynch asks, can we expect to see your payout ratio increasing further? Or would we anticipate it the middle of your payout ratio?

Antonio Huertas Mejías

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

Yes, thank you. A couple of things here, Farquhar and Andrew. The increase in dividend was based mainly as the main driver, these are our growing profits. But we consider a couple of things as well. First, the cash, in the sense of cash in our balance sheet since the EUR 50 million reward expenses in the goodwill deterioration it is a known cash transaction. So effectively, I mean, in terms of cash, the profit is approximately EUR 825 million. And the second is also our current capital structure, our Solvency II margin, which is about 200%. So both things, I mean, allow us to be a little bit more generous in terms of dividend.

Fernando Mata Verdejo

Executive Director

And regarding the range, I mean, we sit just in the middle by chance. We didn't force it. But we would like to emphasize that the range between 50% and 65% is still in force, and we'll try to keep it during the 3-year strategic period.

Unknown Executive

Thank you very much. These next questions are considering the developments in Brazil. Paz Ojeda from JB Capital asks, very positive evolution in Brazil but there is deterioration in claims ratio in Motor even though MAPFRE is not decreasing tariffs. What's the outlook for 2017?

Natalia Arana

Okay Paz regarding these questions. Obviously, we've seen worse combined ratio in Motor. This is due to frequency linked to delinquency and the theft. And this is also the effect on claims costs. This is due mainly, as we have explained during the presentation, to the slowdown in the economy in Brazil. But anyway, we feel optimistic for next year, and we expect a better economic environment in 2017 on lower level of inflation. So we expect this will translate to a better level of combined ratio.

Antonio Huertas Mejías

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

Antonio speaking. I would like to add some ideas about the situation in Brazil. As you know, we know better. We know very well Brazil, its economy and how Brazil is embracing the current tough environment. Our forecast for 2017 is very positive, could be the first year leaving back the recession and the beginning of the new leader in this country. Brazil is one of the largest economy in the world, and we are very confident with the evolution. It's true that there are still ahead of us several uncertainties about the political situation. But Brazil can deal with that, and we believe strongly that the evolution of the economy should be very, very positive. In terms of lending, banking operations, insurance distributions and insurance penetration as well, we have a lot of opportunities ahead of us. Our partner is, as well, very, very confident, Banco do Brasil, with positive forecast of the economy and MAPFRE has a very, very relevant market position to take the opportunity -- to continue being the leading company in the country. For that, we don't see any uncertainty in the evolution of our operation in this country. We can say that we will get more successful businesses in the upcoming years in this country.

Unknown Executive

Thank you very much. These set of questions is with regards to the evolution of the business at MAPFRE ASISTENCIA. Paz Ojeda at JB Capital Markets asks the following question on ASISTENCIA in Italy. It seems that the operating result has not improved in 2016 versus 2015. Could you please provide an outlook for 2017 and also indicate if you expect additional restructuring costs in 2017? And Juan Canovas from Fidentis would like to know, can you please explain the strong increase in losses and other business activities in the fourth quarter? How much corresponds to ASISTENCIA? And how much to multiyear contracts? Why did these multiyear contracts have such high losses?

Fernando Mata Verdejo

Executive Director

Yes, thank you. And first of all, I would like to point out that the net losses for ASISTENCIA in 2016 amounted to EUR 55 million, both -- I mean, I don't have the disclosures with me, but I'm sure Natalia will give you the details in -- next week. ASISTENCIA and multiyear contracts are basically the same. So the majority of the policies are 2- or 3-year length. And regarding the disclosure and what we did in ASISTENCIA last year, first, to reduce our capacity. So there were a number of countries that stopped operations, and so we reduced the capacity in our contact centers. We reviewed our assets in order to allocate provisions in order to cover the bad debts and other intangible assets. And also, I mean, it's difficult to predict, but the loss ratio for these multiyear contracts for next year, we believe that the majority of the losses have been captured in 2016. But perhaps, I mean, certain negative loss development could be -- come up in 2016. We are quite confident that perhaps, I mean, we will have a loss in 2016. But I'm sure it will be just one-digit loss.

Natalia Arana

If I may add something, regarding there is another impact in the other activities account in the fourth quarter, which is the GALENO. You can find it in our annual accounts. This GALENO group filed an arbitration claim in 2015 against MAPFRE. This claims has been settled down right now. And in conclusion, the amount we have to pay was 14.20 -- EUR 14,002,500 and we have already reserved EUR 5 million. So there is an increase of losses of EUR 9 million in the fourth quarter. This can also help you to identify the losses in the other activities' account.

Unknown Executive

Thank you very much. The following question is with regards to Iberia's operations specifically in Motor and the worsening loss experience in the fourth quarter 2016. In this way, Michael Huttner of JPMorgan, Farquhar Murray of Autonomous, Paco Raquel [ph] of Atlantra [ph] and Juan Canovas of Fidentiis and Paz Ojeda of JB Capital ask, what was Spanish Motor claims inflation in 2016? And what does MAPFRE expect for claims inflation in 2017? Can you explain the sharp rise in Motor combined ratio in Spain in the fourth quarter? And what are the prospects of claims ratio for 2017?

Fernando Mata Verdejo

Executive Director

Yes, thank you. This Fernando speaking again. What we saw in the fourth quarter is a significant increase in both frequency and severity. I'll give you all some figures regarding frequency. There is a 6% increase in the use of vehicle. We have peak of almost 25% increase of the use of vehicle during the Christmas season. 5.5% increase of gas consumption in November. And also, an increase in severity as a -- was an uptick of cost of basically debt coverage due to the Baremo implementation. We expected something like this and because during the first 3 quarters, and we explained -- I mean, it was difficult to adjust those claims regarding severe losses and due to the implementation of the new Baremo. What happened is regarding debt and there was a significant increase as of September, the average increase was in the 60%, more or less. And for MAPFRE, during the last quarter, jumped to 90 -- the low 90s, 92% I think it was, the average cost. In terms of tariffs. As we already mentioned, our rate increase in 2016, we consider enough to cover the Baremo increase. And at the year end, we can confirm that we are between the 80%, 85%, of the percentile regarding the tariff increase. So there's like a 15% room space -- negative space further development perhaps in 2017. So the first conclusion is that the increase of rates was, as we mentioned, in line with the cost of Baremo. Also something I would like to point out, did you see the numbers and the average premium for automobile for the total sector. Our estimation is 2.5%, the average premium. While MAPFRE's is 3.6%. It's basically reduced because there is a reduction in exposure in the MAPFRE portfolio while in the total sector, it increased nearly 720,000 new cars in 2016. For 2017, we're applying the same stricter rules on our rates, and we, proposing an increase of tariffs, a higher of inflation, in order to cover basically an increase of frequency since we believe our provisions as well regarding Baremo are quite prudent and very well stated at year end. Another thing I would like to point out as well our IBNR, regarding federal liability, increased by 18% at year-end. So we believe that our provisions are quite prudent, and we do not expect any negative development from the Baremo reserves.

Unknown Executive

Thank you very much. These next set of questions is with regards to the evolution of the business at Direct Line. Michael Huttner of JPMorgan, Farquhar Murray of Autonomous, Juan Canovas of Fidentiis and Paz Ojeda of JB, would like to know, what is the experience of the group with the Direct Line deals in Germany and Italy? How has the integration progressed? What is the return on the original investment in those two acquisitions?

Antonio Huertas Mejías

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

Antonio speaking. Again, thank you. In fact, we are very happy with the acquisition of Direct Line in Italy and Germany. We believe that both were very relevant -- very relevant opportunities to have -- to put our fleets on Continental Europe in the most interesting country for us, Italy and Germany. The reality is different in both operations. The integration has been very, very good in both cases, and we have achieved the targets that we already defined for both operations. In terms of profits and return on equity, we are observing, as you already know, a different evolution. Germany from Day 1 has been very positive, and we are making money. Probably it's not in a very full or right position to -- at the moment. But Germany is exceeding progress in integration, and we are taking advantage of the maturity of the Germany market. It's very, very different. And we have a very well-trained team working there. We are a small company. We're working on niche of the business and digital distribution work, where our competitors in the country are not totally aware about the positive evolution of this business. For us, to start doing business in Germany, have been a very, very positive step to have this platform. It has been an interesting strategic approach to develop business in the most developed automotive insurance business country. In terms of

Italy, the approach is different. As you know, in Italy, we have made different changes in our first year of integration. We knew that the integration of Italy was very different, very tough. The market environment is very difficult. The labor loss in the countries are different to ours, and we have made several changes in the territory in order to have a more efficient company product. We have strengthened our efforts in this operation in Italy to have a more efficient company. We -- our P&L in 2016 reflects this situation with important increases of reserve in terms of -- reinforce our strength and our balance sheet and the plans to that, we already made it to have a more simple and efficient structure. Now -- from now on, the evolution of our Italy business should be more positive. Probably in 2016, we can't see the positive, the total positive effects of the restructuring. But in 2, 3 years' time, we will have the best company working in a very, very flexible environment and be the leading company in Direct's business in Italy. To recap, we are happy with both our position. It has been a very good opportunity and strategic options to have an excellent platform in both countries, and we should take advantage of these deals of the company's integrated in the digital strategies of the MAPFRE group.

Unknown Executive

Thank you very much. On the goodwill write-offs, what was the rationale for the goodwill write-offs in Italy?

Fernando Mata Verdejo

Executive Director

Yes, Fernando speaking. I mean, there are 2 different explanation for this. First is with the 2016 result, it was not expected, nor budgeted. And also, we update our strategic plan for the next 5 years and also, we update as well projections -- P&L projections. So now a combination of both, I mean, cost is goodwill write-off pulling in our books.

Unknown Executive

Thank you. Should EMEA reach technical breakeven 2017 in? Could there be more restructuring costs in 2017?

Fernando Mata Verdejo

Executive Director

Well, we should expect a breakeven in 2017 in EMEA. We haven't spoken about this. But the Turkey is performing quite positively and able to offset any, perhaps, negative deviation in Italy or ASISTENCIA. Regarding the restructuring costs, the bulk of the effort has been done in 2016, perhaps there's small restructuring costs in some places or location. We're still thinking whether or not we will keep on business in the future. But the majority of the costs has been booked in our profit and loss account.

Unknown Executive

Thank you very much. The next 2 questions come from Ivan Bachnat [ph] from Barclays. Could you please provide an update on the dividend repatriation from the regional units? Do you anticipate any changes in 2017 or subsequent years?

Natalia Arana

Hi, Ivan. Regarding the upstreaming of dividend from the regional units. You can see this evening that we will release our individual accounts. They will be publicly available. If you have any other questions regarding these figures, we can answer them in the Investor Relations team. So I think in these accounts, you will see, with great detail, all the upstreaming from the regions.

Unknown Executive

Thank you very much. And the last question today, I believe, what impact will the merger of MAPFRE AMERICA and MAPFRE INTERNACIONAL have on dividend repatriation?

Antonio Huertas Mejías

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

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Antonio speaking. There is no any negative impact of the merger of both holdings. If there is any, it is a positive because a capital will be more tangible. I mean, more flexibility in terms of dividends.

Natalia Arana

Okay, thank you very much. I think this is all for today. As you know, you can call to the Investor Relations Department if you have any further questions. And now, our Chairman will give the final remarks. Thank you very much.

Antonio Huertas Mejías

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

Thank you, Natalia. Now it's time to wind up the presentation where we've seen everything that MAPFRE achieved in 2016. For example, so stemmed business growth in a very geographic region and all the main parts. Secondly, a significant decrease in cost as a result of our efforts to enhance efficiencies, simplify and automate processes and contain claim levels with excellent technical performance, better financial results thanks to the rigorous and highly professional management of our assets. All of these have a positive impact in our results with a significant improvement of -- in the ROE and a decrease in the combined ratio. Meanwhile, a high solvency margin enabled us to reinforce our commitment to shareholders, substantially increasing the dividend in terms of both payout and absolute value per share, which has now reached a 5-year high. Most important of all thoughts, is the knowledge that we can improve on these results in 2017 and thereafter as well, thanks to our focus on profitable and organic growth. Barring the one-off extraordinary items we mentioned earlier, improving total earnings and increased profitability for shareholders will remain a reality in the coming years. But in relation to that, I'd like to show you that the future is already at present at MAPFRE. Everything we anticipate on the immediate horizon, form parts of the realities that we are immersed in today and which will undoubtedly enable us to consolidate our competitiveness, efficiency and results even more.

In the context, I am referring among other things to, for example, innovation, we're currently working on insurance products are relatively to connected cars and semiautonomous vehicle, big data, cloud computing, smartphone, homes, etc., automation, with the mechanization of bulk tax and the elimination of redundant elements and processes and simplification. A new trends in insurance in needs will accelerate adapted vehicle and driver third-party liabilities to move to vehicle manufacturer liability for example and car sharing and other types of collaborative consumption.

Everything is focused on the customer, and we think that the customer should be the beneficiary of our transformation. We have to increase the -- it's her or his satisfaction. So we're clearly maintaining our public commitment that digital business continues to grow at MAPFRE. But we are not just talking about initiatives like VERTI. In Spain, there are similar things that we have put in place in other locations worldwide. This is about something more than that. It's completely transversal, now we're in transition, transformational processes are on track and the group is undertaking that in its main markets, which is going to result in the successful rollout of new ideas, technologies based on business model that unequivocally addresses the changes in consumer habits and new economic and social realities. So we are embracing this transformation in our growth with our multinational and multidisciplinary divisions. It's working on all of these aspects. Many thanks, everybody, to all of you for following this 2016 MAPFRE results and for following that so closely. Thank you very much and good morning.

Fernando Mata Verdejo

Executive Director

Thank you very much and bye-bye.

Natalia Arana

Thank you.

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