

# Mapfre, S.A. BME:MAP

## FY 2015 Earnings Call Transcripts

Wednesday, February 10, 2016 9:00 AM GMT

### S&P Capital IQ Estimates

	-FQ3 2015-	-FQ4 2015-		-FY 2015-	-FY 2016-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	0.11	-	-	0.25	0.27
<b>Revenue (mm)</b>	-	5496.00	▲ 11.27	22136.70	22354.87

Currency: EUR

Consensus as of Feb-09-2016 7:03 AM GMT



# Call Participants

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## EXECUTIVES

### **Esteban Tejera Montalvo**

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

### **Marisa Godino Alvarez**

*Former Secretary of Investor  
Relations*

### **Natalia Nuñez**

### **Unknown Executive**

# Presentation

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## **Esteban Tejera Montalvo**

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

Good morning, ladies and gentlemen. Welcome to the presentation of MAPFRE results for the full year 2015. As usual, I'll lead the overview of the results and the main business development. And later, Mrs. Natalia Nuñez, will explain the financials in detail.

We will answer the questions that have been submitted at the end of the presentation, and if any further questions arise during the call, please send in to the specified e-mail address, and we will answer them if the time permits.

Let's now turn please to Slide #3. As you can see from the figures, MAPFRE continues growing thanks to the Non-Life business coming from the international units. That has also benefited from the improvements in the Spanish market, where I would like to point out the return to growth in Motor. In addition, the consolidation of DIRECT LINE and the strength of the U.S. dollar contributed to offset the impact of the depreciation of the Venezuelan bolivar. That is one of the main impact of the years in and in the Brazilian real during the year.

The combined ratio increased 2.8 percentage points, due to seasonally strong snowstorms in the United States that were reported during the year. And this explains almost half of this increase.

The Life business has contributed positively to results thanks to improvement in both the underwriting result in the financial income in Brazil as well as the resilience of the profitability in the Spanish business despite the fall in premiums we have suffered in this market.

The total results of the EUR 708.8 million includes a net gain of EUR 155 million from the sale of CatalunyaCaixa's insurance business as well as several extraordinary negative impacts stemming from an increase in reserves and the vindication [ph] of unprofitable business segments, mainly MAPFRE ASISTENCIA, in the last quarter. We are placing special emphasis on underwriting policy in line with MAPFRE's profitable growth strategy.

Funds under management fell slightly due to CatalunyaCaixa operation. But if we exclude this effect, managed savings would have increased slightly by 0.3%, which is quite noteworthy in the midst of a very difficult market environment.

Shareholders equity has fallen during the year mainly due to the reduction in the market value of the financial investment portfolio and the depreciation of our main currencies against the euro, except for the U.S. dollar, although, we did see some improvement in the fourth quarter.

The Board of Directors has agreed to propose to the Annual General Meeting a final dividend of EUR 0.07 per share, thus taking the total dividend proposed against 2015 results to EUR 0.13 per share.

Please, let's move on to Slide 5.

Here, you can see several measures we have been taking to pave the way for profitable growth in the near future. The measures included: alignment of underwriting standards, mainly in MAPFRE ASISTENCIA; increases in reserves with a special mention of the Motor and General TPL business in Spain as well as in Turkey, Colombia and Mexico; identification and cancellation of unprofitable business segments, especially of MAPFRE ASISTENCIA; optimization of cost structures; implementation of the regulatory changes; tariff increases in key markets and the adaptation of the current economic context. It can be seen in the lower level of the realized gains compared to 2014. These extraordinary measures have had an impact of roughly EUR 185 million on the results of this year.

Please move to Slide 6, where we saw as -- how is evolving the MAPFRE Brazil business. If we look at our business in Brazil, we can see that we have a leading market position and resilient underlying growth. Even with the tough economic bad growth, we are still seeing growth in local currency terms. Motor is

growing by 1.1% and the total premiums are growing by 3.6%. We saw recovery in the other business as we witnessed year-on-year growth of 13.2% in local currency compared to a decrease of 38.1% at June despite the delay in the federal subsidy program.

As you can see on Slide 7, MAPFRE Brazil has a proven track record in profitability with solid combined ratios, less than 94%, and excellent return on equity, higher than 15%. The net result increased by 16.9% in 2015. And we also saw strong growth in the client base, which increased by 12.2% in the year, reaching 11.3 million customers.

As you can see on the next slide, the outlook for the insurance market in Brazil is still positive despite the macroeconomic slowdown and thanks to the low levels of insurance penetration in the growing middle class. According to CN Seguros, the Brazilian insurance association, expectation of growth continued in the main lines of the business, especially in Life Risk and in Motor and in other P&C, where we have a strong presence. In addition, measures have been implemented at MAPFRE to increase the already high levels of profitability, and these measures include cost-reduction plans, increased distribution platforms, increased client penetration and cross-selling initiatives.

Turning to the next slide. We can see how we have managed the business during the last 3-year period. During this period, MAPFRE has continued creating value for its shareholders. And as you can see, the average share price from 2010 to 2012 was EUR 2.35, whereas, the average during the 2013 to 2015 increased to EUR 2.85, which implies a 6.6% increase. The payout has been consistently above the 50% target with a 5.6% annualized average dividend yield. And the shareholders' equity has increased by close to 10% since 2012.

On the next slide, you can see that the last 3-year period has been an important stage of MAPFRE's development as a global company. New global corporate structure has been fully implemented and helps along with us for decentralized management with -- and homogenous operational framework, strong management and supervisory teams at the head of each regional area. And this structure is helping us to achieve higher levels of monitoring and supervision while allocating resources more efficiently and leveraging synergies within the group.

On the next slide, we take a look of MAPFRE's 3-year strategy plan, which is based on 4 pillars: excellence in technical management, digital transformation, client orientation, and culture and human talent management.

Regarding technical management. We will continue with our special focus on underwriting, pricing, increased [ph] management, and we aim to outperform the market in technical profitability in all products.

Regarding digital transformation. There are over 200 projects in process. In this area, VERTI will be the brand for the digital type of business worldwide. And we will continue with integration of DIRECT LINE Italy and Germany.

In client segmentation project, projects have been rolled out to our main markets in Spain, Brazil and the U.S.A., among others. And the Net Promoter Score will be implementing for every country in the next year. MAPFRE will also continue with its strong focus on human talent and fostering geographic and internal mobility.

On Slide 12, we continue to reaffirm our key strategic objectives. The combined ratio finished 2015 above the target due to extraordinary losses in MAPFRE USA as I mentioned before as well as the increase in reserves during the year. But we will continue with our target of being at the end of this year in 96% combined ratio. The payout ratio has exceeded the target at 56.5%. And this is -- this shows the MAPFRE's commitment to our shareholders. The expense ratio has fallen 0.5 point from the 29.1% since the announcement of the strategic objectives, leaving another 0.5 point to be reduced to reach the target during this year.

And finally, the EUR 30 billion revenue target was heavily impacted by currency movement that implied more than EUR 2 billion in this period, especially due to the deterioration of the currency in Venezuela and in Brazil.

On Slide 13, we can see how MAPFRE continues to maintain a balance between mature and growing markets. During 2015, we have seen the following variations in the premium distribution: a reduction in Iberia from 29.4% in 2014 due to the sale of CatalunyaCaixa to roughly 28%, which is a small reduction, and as we can see later, in homogeneous terms, we have registered growth in Iberia.

A fall in the conclusion in Brazil of 3.7 percentage points and 3.8 percentage in LatAm South mainly due to the depreciation of the real and the bolivar, respectively. Increases in LatAm North and increases in EMEA due to the consolidation and ragged [ph] line in the organic growth of the business, and an increase in North America thanks to the development of the business and the appreciation of the U.S. dollar. And I would like to remark the increase in MAPFRE RE from the '14 -- in 2014 to 15.6% this year.

With regards to attributable results, the distribution has experienced large variations due to the net losses in North America and EMEA and the falling profits in LatAm South and we've registered an increase in the weight of the activity of results in Iberia by 13 percentage points, Brazil by 4 percentage points and MAPFRE RE by 3 percentage points.

Now I will give the place to Mrs. Núñez that will explain in figures details. Natalia?

### **Natalia Nuñez**

Thank you, Esteban. Good morning, everyone. Please, let's move to Slide 15 to take a look in depth at the Non-Life accounts.

On a yearly basis, Non-Life premiums have grown out a healthy 6.5%. We are seeing the following trends there: growth in EMEA thanks to the consolidation of DIRECT LINE, which implies EUR 374 million per -- in premiums; an increase in LatAm North in industrial risk and transportation due to the issuance of the PEMEX policy, which was of EUR 387 million in Mexico in the second quarter; improvements in Iberia, which -- with a return to growth in Motor as well as the positive evolution of home and burial business lines. Overall, good organic growth in North America mainly outside of Massachusetts as well as in Turkey, Beirut, Chile, Colombia, Argentina and Central America; a positive year at MAPFRE RE thanks to resilient performance of nongroup business despite the difficult market environment. These improvements offset the strong decline in LatAm South due to deterioration of the change rate in Venezuela, especially in the quarter. We are seeing also healthy local currency growth in Brazil with total premiums increasing by 3.6%, Motor increasing 1.1%, other P&C increasing 11% with agroinsurance going up 13.2%, although premiums fell EUR 405 million due to the depreciation of the Brazilian real.

Finally, there has been a positive impact in the -- of the appreciation of the U.S. dollar at North America, MAPFRE ASISTENCIA, MAPFRE RE end MAPFRE GLOBAL RISKS.

Regarding the fourth quarter, premiums fell 11.6% with -- due to lower volumes in Brazil, EUR 202 million less, driven by the decline in our insurance production in the quarter after the strong performance in the third quarter of 2015. There has been also seasonality effects on issuance at MAPFRE RE and positive developments in Iberia, EMEA, LatAm North. And Chile, Colombia and Peru helped to mitigate these declines. The combined ratio increased from 95.8% to 98.7% for the reasons we will now discuss on Slide 18.

The claims ratio has increased 2 percentage points in the year as a consequence of exceptional claims in homeowner insurance in North America, we have said, during the former quarters due to the strong snowstorms in the U.S. This added 1.3 percentage points to the loss ratio.

In Iberia, there was a large claim in commercial insurance in the third quarter, an increase in Burial technical reserves, higher frequency in Motor, Home and Commercial General Liability as well as increases in reserves in Motor and commercial general liability. There has been also the deterioration in the loss ratios in EMEA as a result of unprofitable contracts at ASISTENCIA, especially in France, and an increase in severity and frequency in Turkey.

The deterioration also in loss ratios in LatAm North, in Mass Market Multi-Peril lines in Mexico.

Increases in losses in APAC due to Motor lines at MAPFRE INSULAR as well as at MAPFRE ASISTENCIA.

On a positive note, we have seen an improvement in the loss ratios in LatAm South, specifically in Argentina and Chile and a relatively benign loss experience at MAPFRE GLOBAL RISKS.

Please let's move on to Slide 19, where we can see the main drivers of the quarter. In the quarter, the loss ratio has increased 1.9 percentage points mainly as a result of the following trends: a higher ratio in Spain due to reserve increases; a higher frequency in EMEA due to the unprofitable contracts in ASISTENCIA, especially in France as well as higher reserves in Turkey; deterioration of the loss ratio in Brazil due to a large industrial claim at Global Risks and an increase in losses at MAPFRE ASISTENCIA; also has been higher losses from industrial events at MAPFRE RE. These increases were partially offset by improvement in loss ratios in Chile and Peru.

Please, let's turn to Slide 20. The 0.8 percentage point increase reflects -- rising expenses reflects rising acquisition costs in Spain, Mexico, Argentina, Colombia and Chile. The consolidation of DIRECT LINE has also impacted the expense ratio. The EUR 25 million decrease in financial income mainly reflects the lower level of realized gains and reimbursement yields in Europe, which is consistent with the current market environment. This decline was partially mitigated by the high interest rate environment in Brazil. The positive impact of the strength of the U.S. dollar on exchange rate gains has also contributed to the financial result.

Please let's move on to the Life account on Slide 21. The result of the Life business has increased by 5.9% despite a fall in premiums and this is mainly driven by Spain. The 10.6% decrease in premiums volume has been affected by 3 main movements: a decline in Iberia in Life-Savings insurance due to the low interest rate environment; a corporate policy in the bancassurance channel of EUR 75 million in the first quarter 2014, which has not repeated this year; and the consolidation of Aseval and LAIETANA VIDA since the 1st of November, 2014, which contributed EUR 90.8 million to total premiums in 2015.

In Brazil, we have seen also a slight decrease in Life business in local currency, minus 0.4%, due to weaker production in the fourth quarter of 2014 -- '15 compared to the previous year; a contraction in issuance in LatAm South as a result of the cancellation of unprofitable contracts in Colombia, partly offset by continued strong growth in Peru. We are also seeing the following positive trends: growth in LatAm North due to a large Life-Protection policy in Mexico; over 44% growth in Life-Savings products in Malta; new business at MAPFRE RE; and increases of 9% in Motor fund and 6.9% in pension funds in the agents' channel in Iberia.

In the fourth quarter, the significant growth in business volumes implies an increase of 27.9% and reflects the good performance in Iberia due to the agents' channel and the recovery of BANKIA channel in the fourth quarter, and increases in Brazil resulting from Banco do Brasil's sales campaigns.

Please let's move on to Slide 24, where we'll see the result of other business activities. The result of this line, of other business activities, has been impacted by lower net operating revenues in MAPFRE ASISTENCIA due to the identification of unprofitable contracts and optimization of the structure, especially in EMEA, North America and Brazil, as well as higher expenses at the holding companies due to the implementation of the regional structure and expenses related to integration of Direct Line.

On Slide 27, we will look at the main drivers of the consolidated results. The year-on-year contraction in the bottom line has been due to 3 main causes: exceptionally large weather-related losses, especially in North America; the extraordinary measures that Esteban explained in the beginning of the presentation regarding reserve increases; and a lower level of realized gains in both Life and Non-Life. We have also seen an increase in income tax when compared to the previous year due to a reduction in 2014 from the impact of deferred taxes in Spain after the decrease in the corporate tax rate. Profit was supported by a strong result in the Life business in Brazil as well as the resilient result in Iberia despite a low interest rate environment. And a net gain of EUR 155 million from the sale of CatalunyaCaixa insurance business.

Now we will take a look at the balance sheet on Slide 28. During 2015, the main movement of the balance sheet include: the sale of CatalunyaCaixa's insurance business; the consolidation of DIRECT LINE; a decrease in the market value of the investment portfolio in Europe as a result of market turbulences despite improvement in this fourth quarter; and currency movement have had a strong negative impact, especially in Brazilian real, which has fallen 25% in the year, and the Venezuelan Bolivar, too.

Let's move on to slide -- next to take a see -- to the investment portfolio. Here, you can see the breakdown of the investment portfolio. Total investment decreased around EUR 306 million since June, the last time the portfolio was presented, which is mainly explained by the falling investment at MAPFRE Brazil due to depreciation of the real. There are no material changes in the asset mix compared to June 2015 save for the reduction in the weight of Latin America in the government bond portfolio, which was driven mainly by currency movements. The movement also reflect a fall in market prices due to market tensions in Europe, the reimbursement of maturing corporate bond into higher yielding, a more liquid public debt in Spain and the appreciation of the U.S. dollar. It's also worth mentioning that real estate investment are booked at cost value and that our real estate portfolio has around EUR 975 million in unrealized gains at year-end.

In the quarter, total equity -- total equity increased by over EUR 76 million, whereas, shareholder equity fell by EUR 46 million. There were 2 positive impacts on equity in the quarter: lower negative currency conversion differences mainly due to the positive evolution of the Brazilian real as well as the Turkish lira; and improvement in the market value of the financial investment portfolio after the market turbulences we experienced in Europe in the second quarter of the year. Another important change during the year was the sale of CatalunyaCaixa, which especially impacted noncontrolling interest.

Now we can turn on to Slide 32 for a review of the capital structure. The variations in the capital structure during the year are mainly explained by the reduction in shareholders equity as we have seen on the previous slide. There was also the maturity of November 2015 senior bond of EUR 1 billion, which was refinanced by credit -- with credit facilities. As you can see, we've increased in bank financing from 1.4% to 9.6%. Our coverage and leverage ratios continued to be very much consistent with our operating levels and are among the strongest of any European insurance group.

On Page 33, you can see our financial and subordinated debt structure. It's worth pointing out that the maturity of the syndicated credit facility was extended from December 2019 to December 2020 as stipulated by contract, which gives MAPFRE a high level of financial flexibility.

I will now hand back the call to Mr. Tejera to start to -- with the Q&A session. As you are aware, we will answer the questions that most of you have sent us throughout the morning. If any other issues arise during the Q&A session, please send us an e-mail and we will be delighted to respond if time permits.

### **Esteban Tejera Montalvo**

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

Thank you, Natalia. Well, I will start with the Q&A session. And please, you have the first questions.



## Question and Answer

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### **Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

The first set of question is with regards to Solvency II. Niccolo Dalla Palma from Exane BNP Paribas, Avinash Singh from Nomura and Paz Ojeda at JB Capital Markets asked the following questions. Could you please provide an update on where you stand on Solvency II? Why have you chosen not to disclose it when you have already provided a guidance? When do you expect approval? Would you still guide the Solvency II ratio slightly above 160%? What kind of impact on Solvency II has resulted from Brazilian rating downgrade to junk?

### **Esteban Tejera Montalvo**

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

Well, taking into account that we are among the first insurance companies to report the full year results, we have preferred not disclose a figure in Solvency II due to the fact that we are yet in the -- reviewing the calculation methodology and the review of the last year, in any case, I will reassure you that our position is very comfortable. As we showed in previous presentation, I remember it was in June, we released our figures of Solvency II that was higher than 160%. We had reported to EIOPA as of September 2015 and the ratio of Solvency II was 168%. And even if the final figures of Solvency II will be released in the first quarter results, I can give you guidance. Now the Solvency I figures for the full year 2015 was 255%. And I hope that the figures of the full year will be higher or around the figure we delivered to EIOPA as of September in the -- near 100%, but the final figure will be released in the first quarter results. In terms of what kind of impact on Solvency II have resulted from the Brazilian rating downgrade to junk, the impact is insignificant in our accounts due to the fact that we have our investment in Brazil fully matching our liabilities there as you know very well.

### **Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Thank you, Mr. Tejera. The last set -- the next set of questions is with regards to the assistance business. Carlos Peixoto at BPI and Paz Ojeda at JB Capital Markets had the following questions. What happened at MAPFRE ASISTENCIA. The combined ratio went up significantly in the quarter? Can we expect further provisioning in 2016?

### **Esteban Tejera Montalvo**

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

When we started at a full review of the MAPFRE ASISTENCIA operations in the second half of the year, then we had -- we find some surprises, especially in our operations in Europe due to very specific operations, especially in France, where we are acting rapidly and that have impacted mainly in the travel assistance lines. This includes higher frequency and severity in the operations in France and the U.K. in travel assistance. But we had also introduced a special provision in order to restructure the business in Venezuela, Brazil and the U.S.A., where several big contracts have been canceled due to the high frequency in [indiscernible] assistance. And where we had cut costs in order to use [ph] our restructure due to the fact that we have now less business there. So we have acted quickly in order to reduce the structural costs that we had to provide service for this context. This is one thing that we have done, and we don't expect to really want further provisioning from 2016. And we would expect to recover profitability within the year or during the year. I think that this is -- most of the deterioration would have included with one-off the [indiscernible] rates.

### **Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Niccolo Dalla Palma from Exane BNP Paribas asks the following question: At MAPFRE U.S., your profitability has been terrible. As you saw on Slide 22, and in 7 years you only got back 31% of your initial investment, as you saw on Slide 17, why don't you exit unallocated capital to something else?



**Esteban Tejera Montalvo**

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

Well, this is -- of course, in that time, we have mentioned several times to you, the position of MAPFRE in the U.S.A. is a position that started in this way -- in this strong way in 2008 with acquisition of commerce. When we acquired commerce, the main concern was how we will be able to maintain our position in Massachusetts when and there is a -- there will be a liberalization of the market. We get the position there. We maintained combined ratios in Massachusetts. In fact, growth, as you can see in our presentation in the statistical appendix we have made, and from the point of view of profitability, we have repaid the debt in the company. We have upstreamed dividends since the acquisition for 31% of the investment. And we had funded the expansion in other segments of the business and especially in other territorial areas where, as we are starting the business there, the combined ratios are higher than the combined ratio would have been in Massachusetts. This is a process where we have the control, that we can monitor, and that we expect to keep in control during the next years and the special losses of this year due to the fact that there's no storm warning and out of the usual coverage of the reinsurance that we have changed with increasing tariffs, increasing deductibles and changing our reinsurance program, allow us to continue with our strategic approach to the U.S.A., that is to keep our position there and continue to grow organically with greater diversification.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Silvia Rigol from BBVA asks the following. Will you have to write down the goodwill at MAPFRE U.S.A?

**Esteban Tejera Montalvo**

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

For the time being, there is no reason to do so. And we submit this business every year to a stress test of the [indiscernible] goodwill and the business plan allow us to keep in the same position we have.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

From Paz Ojeda from JB capital Markets has the following question on MAPFRE U.S.A. What is the reason behind the worsening of the combined ratio during the fourth quarter?

**Esteban Tejera Montalvo**

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

This is due to the combination of several factors. It was the worst loss experience in personal auto outside of the state of Massachusetts. And a one-off in payment of the investment in [indiscernible] that we have done. Stand-alone MAPFRE ratio for MAPFRE U.S.A. have improved during the quarter.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

[indiscernible], Silvia Rigol and Andy Sinclair from Merrill Lynch and Avinash from Nomura ask about the reserves increases in Spain in 2015. The Baremo impact in 2016 was estimated at around 5 percentage points in terms of combined ratios. How much of this impact, if any, would you say that it has been frontloaded to 2015? Why do you not communicate earlier that you were doing reserve strengthening? Are there more reserve strengthening to come in 2016?

**Esteban Tejera Montalvo**

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

Well, the effect of the provision increase that we take into account the difference between the appropriation of the [indiscernible] reserves in 2015 and 2014. MAPFRE FAMILIAR and MAPFRE reserves have located a bigger amount of IBNR [ph] in 2015 for increases in frequency. And we have reinforced our already strict policy on technical reserves. In this area, we've had go ahead in the sense that as you know, during the last years, we made special provisions in order to increase the provisions and to be

comfortable when the Baremo will come. Now Baremo is here and we have to reinforce our position, our proven position in this area.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Paz Ojeda at JB Capital sends a question about VERTI. Could you give estimate result of VERTI? Are you going to improve on the underwriting policy in this subsidiary?

**Esteban Tejera Montalvo**

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

Well, VERTI has a net result in 2015 of minus EUR 24 million. But this subsidiary have a very good levels of growth in premiums. And its continuity -- continuously working the orders to improve selection in policyholder and tighten expenses control. The problem here is we haven't reached the breakeven size and -- due to the evolution of the crisis, but we are in the path of reaching our objectives in the near term.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Andy Sinclair from Merrill Lynch sends a question about Iberia's Non-Life expense base. It seems to be climbing despite lower premiums. Should this higher expense base be expected to continue? Or will anything be done to cut costs?

**Natalia Nuñez**

The higher expense ratio in Iberia is due to a change in the credit portfolio mix. Currently there's a bigger weight of credits with higher acquisition costs. Additionally, there have been some marketing initiatives in Motor segment in the first quarter like the previously mentioned [indiscernible] case, and that's the main reason for the increase in the expense ratio in the quarter in Iberia.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Niccolo Dalla Palma from Exane BNP Paribas asks the following: In Brazil, your nominal growth rate is between 4% and 5% in Motor and Life Risk. This compares with 11% inflation in Brazil. Are you losing between 6% and 7% volumes in order to protect your margins?

**Esteban Tejera Montalvo**

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

Well, the reason this is performing well -- but it's true that the country is suffering a lot, and even if there is -- the good thing is that we continue to have -- and the market in general continue to have growth, but it's true that the growth is lower than the inflation. But this is by far registered in the impact of the currency. So I think that the business is doing well, and the technical results continue to be very good. The growing lower than the inflation is a normal situation in -- so volatile environment like in the volatile environment of investing today.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Avinash Singh of Nomura asks in Brazil, you expect faster growth in premium income in 2016 versus 2015, but economic downturn is getting worse. How do you plan to accelerate this growth? Price hikes?

**Esteban Tejera Montalvo**

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

Well, what we have released is where the figures of the forecast of the whole industry for the sector, not our company figures. We are performing well in this area. We will continue the trend of the market in terms of keeping tariffs. I can't say now what will be the evolution of the tariffs in the next 2 quarters. But we will be, as always, very busy around the evolution of the market in keeping our leading position there.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Silvia Rigol at BBVA would like to know our guidance for premiums in Brazil in local currency for 2016. Could [indiscernible] insurance continue to be used in premiums? What are the drivers?

**Esteban Tejera Montalvo**

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

Well in agriculture insurance, there are a lot of situations. But at the end of the year -- quarter-by-quarter, but at the end of the year, we had to register our growth of 13% giving 2015. In 2016, we expect that the federal subsidiaries continue for farmers in order to buy premium [indiscernible] to the business. We will keep our position as a leader by pass [ph]. And in other segments, the evolution is in order to the general forecasts of -- on the market.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

The next set of question is with regards to dividend strategy. Silvia Rigol at BBVA and Andy Sinclair at Merrill Lynch would like to know the following: What is behind the announced dividend cut? And should we expect further reductions in 2016? You cut the dividend, but the payout ratio remains comfortably above 50%. What is the upper limit? And you appear to be uncomfortable with 60% payouts, which would have held the dividend steady.

**Esteban Tejera Montalvo**

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

Well, we will consult with the dividend -- the policy dividend this year is our commitment to keep the profitability for shareholders. In this area, even if the net result have been reduced by 16%, we have only reduced the dividend by 7.1%. This means that we have the resilience in terms of solvency and in terms of the liquidity to always maintain our policy of dividends because we are talking about EUR 0.13 against EUR 0.14 last year. So we are maintaining, practically, the dividend. And we maintain our commitment of giving money back to shareholders. In terms of your question of -- be uncomfortable with a 60% payout that would keep the current dividend steady. Well, we were not uncomfortable with 60%, but we thought that the EUR 0.13, where our dividend, that in part reflects the evolution of the company during the year but shows the resilience of the company for coming years.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

On DIRECT LINE. We have various questions on DIRECT LINE coming from Niccolo Dalla Palma at BNP Paribas, Paz Ojeda at JB Capital Markets, Avinash Singh of Nomura, and Fernando Hill [ph] at Motor Activos [ph]. Could you provide an update on DIRECT LINE? You paid EUR 550 million for these assets and had a small loss in financial year 2015. When do you expect to achieve EUR 50 million in profits, which would ultimately justify the price paid?

**Esteban Tejera Montalvo**

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

Well, this was our first year in DIRECT LINE in Italy and Germany, and we had various extraordinary charges this year. Eliminating this, the combined ratio is at around breakeven. And we expect to achieve profitability in -- yes, we have profitability now. And we think that we can reach this target that we have showed EUR 50 million more or less in less than a couple of years. We have worked very hard in the integration of the company. We are in transition to digital transformation and the expansion of the digital guided business in Italy and Germany according with our -- the strategic lines I have mentioned at the beginning of the presentation, and we have now 2 companies that are running in the way MAPFRE run our own companies. But this implies in the first year more expenses than usual that are usually one-off expenses that are reflected in our account this year.

**Natalia Nuñez**

And also, it's important to say that the amortization of the value of business acquired is how we make -- especially importance in this...

**Esteban Tejera Montalvo**

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

In these figures.

**Natalia Nuñez**

In these figures.

**Esteban Tejera Montalvo**

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

In this year.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

And what has contribution of DIRECT LINE to net results been?

**Esteban Tejera Montalvo**

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

Well, as I mentioned before, the business will be profitable this year, and we think that it could be in the order of between EUR 30 million and EUR 50 million in the year coming and the next year.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Silvia Rigol from BBVA asks what is the reason behind such a high combined ratio in EMEA? 102.7% in 2015 or 109.4% in the fourth quarter of 2015? And in Turkey DIRECT LINE, could you provide us with more information on DIRECT LINE?

**Natalia Nuñez**

On page -- I see on Page 43, you can see the combined ratio for EMEA, and it's been 102.6%. Here in [indiscernible] it's important to say that there has been the strong deterioration of Non-Life Loss ratio due to mainly the cancellation of unprofitable contracts in France from the assistance business. And also there has been, as we have said at the beginning of the presentation, every shift increase in Turkey in order to adapt to regulatory changes in that country. So now these are the main items that affected the combined ratio there in EMEA.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Niccolo Dalla Palma at BNP Paribas has a question regarding debt leverage. We are at the low end of that leverage in the sector. Other companies in your situation have promised to increase the leverage and return the money to investors. Would you consider such an option?

**Esteban Tejera Montalvo**

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

While our position in leverage is traditionally very prudent, we will continue in this way that. But this is true that we are in a position that allow us to increase leverage, but the current conditions of the markets with high volatility are not the better, but in any case, we will, first of all, we have no necessity of increasing leverage in order to maintain our dividend policy, and on the other hand, as you can see in our structure of capital, we had very low levels of debt, and we can increase debt in any case if necessary in the short term or the medium term. But the short-term conditions have not [indiscernible] for this.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Esther Castro from Bank Sabadell would like to know the duration of assets and liabilities. Are you considering real estate in the calculation?

**Natalia Nuñez**

Our asset duration is slightly under 7 years after the year now 2015. Real estate is not included in this calculation. Non-Life duration has remained normal to stable throughout the year, and regarding Life portfolios, as you know, over 40% of them are in matching -- are matched. That minimizes the interest rate risk.

**Unknown Executive**

The following set of questions come from Michele Ballatore [ph] at European Insurance Research [ph] and Rahul Parekh at JPMorgan. We have released a combined ratio target below 96%, I believe in 2018. How and where do you think you will compensate the effects of the Baremo and then the deterioration of the underwriting profitability in Spain? Can you please give us some details about 2015 total cash generation and its upstream to the holdings [indiscernible] about geographical division? Have you planned to do an [indiscernible] presentation for your 2016-2018 strategic plan?

**Esteban Tejera Montalvo**

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

Well in terms of the target of the combined ratio, we keep our target even if the conditions of the combined ratio in Spain, especially in Motor, will be tough. We have made a lot of the -- we have been taking a lot of measures in order to keep the combined ratio in Motor insurance in Spain lower than our competitors. And in levels that allow us to keep the combined ratio. The impact of the variable is an impact that will be especially strong in the first half of the year. But the increases of tariffs we have made, that will be applied -- has been applied, and we will continue to reapply, will allow us to improve dramatically the combined ratio in the second half of the year in Spain. On the other hand, the 90 -- the combined ratio of this year is a combined ratio that is especially high due to the loss ratio also in other countries where we foresee an improvement, especially in the U.S.A., where the top conditions from the last year are difficult to be repeated. In terms of the -- obviously of the dividends from the companies, Natalia, can you read off some details?

**Natalia Nuñez**

Just to say that today we will release, at the end of the day, the individual accounts of the holding company. And then you could see the upstream of dividends but not for original areas but for the legal entities that we have so you will have the chance to see the upstream of dividends -- there today, at the end of the day.

**Esteban Tejera Montalvo**

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

You will have the details in the company -- in the dividends for each company.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Have you planned to do an adopt [ph] presentation for your 2016-2018 strategic plan?

**Esteban Tejera Montalvo**

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

In terms of practicing of dividends?

**Natalia Nuñez**

About -- yes, we've seen our precedent in the general account will give us more color about this, so we think it's much better to wait till then -- that moment to the general meeting.

**Esteban Tejera Montalvo**

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

In any case, that will be this year. Last year was a year -- a special year where there were less dividends coming from the U.S.A., obviously, and more coming from Spain. In the next future, we will have more balanced contribution dividends according to the contribution of the net results that you can analyze in the presentation in a more normal situation. In terms of remembering more normal situation, usually U.S.A. represent roughly between 7% and 10% of this. And Brazil is contributing well. But LatAm contributes higher than this year also, and a special contribution of this year, and I am talking about 2015, was due to the extraordinary situation in several countries that we haven't reflected before.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

The following set of question refers to strategy. Niccolo Dalla Palma asks in the video on your website, you mention that you want to generate profits in every business line and market in which you operate. What are your return on equity targets you set yourself for each business line and market you operate in. And regarding mergers and acquisitions, do you see opportunities for other acquisitions?

**Esteban Tejera Montalvo**

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

In terms of the setting of objectives and return on equity, I think that the general meeting assembly will be the framework for the presentation for the next 3 year or certain objectives and we will release the specific figures at that time. This is next month. In any case, we think that the return on equity this year is very low in comparison with the normal return on equity we are planning for the future, but I think that we will release the figures in the next month. And in terms of mergers and acquisitions, as you know, we have an approach to the business that is mainly growth -- organic growth in the main -- in all the markets we have a presence. And we have an approach of merger or acquisitions that is only got merger or acquisitions that complement our strategic positions in strategic markets. In this way, there is no short-term operations that we are looking for but we analyze everything in the markets where we have presence.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Paz Ojeda, JB Capital, also has a question on MAPFRE's future strategy. The increasing reserves in some businesses seems to indicate that there has been a certain relaxation in subscription criteria and provisioning. What measures will be taken to control the subscription policies at these various subsidiaries?

**Esteban Tejera Montalvo**

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

No. This is clearly not -- what we have done is to be ahead of the problems as always in MAPFRE, but not that we have had a release in our provisional control and in constant review of our business. This is more an exercise of transparency, and we show the problems when the problems arise. We have a focus on profitable growth that will be especially remarked in the strategic objectives for the 3 years coming. And this is in our core underwriting policy as always. So we will continue [indiscernible] -- putting in the first place in the technical underwriting control the tariff adjustment and they've proven deserving. And we -- this is the same that we have done. And the increase of the reserving we have done this year is due to the fact that there are the new environments where we must be especially proven. The Baremo in Spain, that is a reality now. The changes in legislation in third-party liability in Turkey and the possible downturns of the economy in other countries. But this is -- this shows how MAPFRE reacts when the problems arise. And we have faced the problems immediately, not as a release of the past.



**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

We have further question on Brazil from Carlos Peixoto at BPI. What are your expectations on the evolution of the agricultural insurance business?

**Esteban Tejera Montalvo**

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

Well, agricultural insurance business is a business where MAPFRE and Banco do Brasil -- we are the leaders by far. And the reality is that is an insurance that is -- has a high demand and usually is used to guarantee the credit that the farmers get at the beginning of the crop season. And we have a market share that is very, very high. And we are the leaders by far as I mentioned. We have registered an increase in volumes in the year of 13.6%. It's true that the beginning of the year were -- our seasonality declined due to the fact that there were -- there was a lax in the approval of the federal subsidies. But when the federal subsidies finally were approved, the demand of the farmers reacted quickly. So I think that this is a healthy market. And the association of agriculture of insurers in Brazil is forecasting growth of 13% for this year also. So I think that is a business where we will continue to lead the market and to take advantage of the situation of high demand.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

We have another question from Carlos Peixoto of BPI. Should we expect financial income to remain under pressure in the coming quarters?

**Esteban Tejera Montalvo**

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

Well, clearly, the low interest rate environment in the Eurozone will clearly have an impact on the reinvestment deals. However, in the U.S.A., the interest rate have -- are heading upwards for the first time in many years and should be a positive. And there's also high interest rate environment in Brazil, and, well, this could offset the pressure we are suffering in the Eurozone.

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Michele Ballatore at Keefe, Bruyette & Woods has the following question. Could you please give us some details about 2015 total cash generation and its upstream to the holdings [indiscernible] by geographical division?

**Esteban Tejera Montalvo**

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

As Natalia said before, this is reported in the Annual Report, and you can see it. And now...

**Marisa Godino Alvarez**

*Former Secretary of Investor Relations*

Thank you for much. We have no more questions.

**Esteban Tejera Montalvo**

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

There is no more questions. I would like to thank you again for being with us in the presentation of results. And I hope to see you in several coming days in Europe, in London and in any case in the conference call in the first quarter results in 3 months. Thank you again. Bye.

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