



Investor &
analyst call
- Edited
transcript

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Company participants

- Fernando Mata Verdejo, Chief Financial Officer
- Natalia Núñez Arana, Investor Relations & Capital Markets Director

Presentation

Natalia Núñez Arana

Welcome to MAPFRE's Results Presentation for the Second Quarter of 2018. As usual, we welcome Mr. Fernando Mata, our CFO and Member of the Board, who will take you through the main trends of the period.

Just as a reminder, during the Q&A we will answer all questions received at the Investor Relations email address. As you know – for all of you that don't know me, I'm Natalia Núñez, Head of Investor Relations – the team and I will be available to answer any further questions you may have after that. And with no further ado, let me hand the call over to Fernando.

Fernando Mata Verdejo

Thank you, Natalia, and good morning everyone. It's a pleasure to be here with you for our second earnings call of 2018. Let's begin on slide 2 where you can see the main figures. Revenue and premiums are both down over 8%, largely impacted by forex. As you know, our exchange rates have fallen year-on-year on most of our currencies. U.S. dollar, Mexican peso and Peruvian sol, all down 9%, approximately. Brazilian real, 16.6%; Turkish lira, 19.8%; and the Argentinian peso, the worst, with a 35% decrease.

At constant exchange rates, premiums are down 2.3%, with around 2% growth in Life and a 3.4% decline in Non-Life, as a result of our multi-year PEMEX policy issued in 2017. Without this, premiums would have increased by 1.6%.

Financial income is also lower due to the interest rate environment in LATAM, especially in Brazil.

Our combined ratio was stable at 97.4% despite several extraordinary impacts during the year. The expense ratio reached 28% ,in line with our target. The net result stood at nearly €386 million, down around 7%, while the adjusted net result was up 1.1% year-on-year. The annualized ROE was around 9%, excluding the impact of 2017 catastrophes.

Please turn to page 3. The quarter has been a mix of different trends but with solid underlying and improving fundamentals. First of all, I would like to mention two non-recurring impacts from corporate restructuring plans. The completion of the U.S. exit plan, which had a €7 million negative impact, and an extraordinary adjustment in Brazil as a result of a more prudent balance sheet valuation, with a €9 million negative net impact.

On the other hand, our focus on profitable growth and technical management in Non-Life is showing results with excellent performance in Iberia and MAPFRE RE. Also, we have consolidated combined ratios close to 95% in LATAM North and South as a result of our efforts over the last years.

There have been remarkable improvements in Italy and Global Risks, and in MAPFRE ASISTENCIA where the transformation plan is delivering results. Our strict cost contention policies have also been effective, with the expense ratio at 28%. Finally, we reported a small negative run-off from 2017 cat events , which is not relevant.

Trends are improving in Life with a pickup in Savings products in Spain in the second quarter, as well as a return to growth in Life Protection in Brazil. Higher acquisition expenses and a fall in financial income in Brazil have been a bit of a drag on results, but they're now stable. Currency movements are still negatively impacting both the P&L and net equity with an estimated €18 million reduction on the net result and €144 million decrease on net equity. Finally, I'd like to highlight our excellent Solvency II position which closed March at 203%.

Please turn to slide 4. On the right, you can see the development of the main results by region and business unit which we will discuss in more detail in the following slides. Regarding attributable result, Iberia stands out with €250 million, by far the largest contributor. Excluding last year's extraordinary result from the cancellation of a bancassurance provision and also real estate gains, profit would have grown by over 20%. MAPFRE RE continues to be a strong profit contributor with a €102 million net result. The turnaround at MAPFRE ASISTENCIA and better claims experience at Global Risks have also improved results this year.

Brazil is still facing strong headwinds from the currency and interest rate environment, and the fall in the result in North America was impacted by a higher level of winter-related claims, €11 million in the first quarter, and the execution of the exit plan, €7 million in the second quarter, as well as a still complicated market situation particularly in automobile.

Finally, the decline in Eurasia reflects the situation in Turkey from the 2017 MTPL regulation as well as the depreciation of the lira.

Please turn to slide 5. We continue seeing value creation across our main markets, as premium growth in local currency is well-above inflation rates in many countries. Non-Life premiums are down over 3% at constant exchange rates while Life premiums are up nearly 2%. Excluding the already mentioned multiyear PEMEX policy issued last year, total premiums are up 1.6% year-on-year at constant exchange rates.

On the right, you have several core business segments which have had exceptional performance. Iberia grew over 7% with the positive developments in main Non-Life business as well as a pickup in Life sales, especially in the Agent channel in Q2. The recovery of lending activity in Brazil has led to 9% growth in Life premiums and in local currency.

LATAM North is benefiting from the recovery in Mexico where premiums have grown 17% in local currency, excluding PEMEX, with positive trends in Motor and Health. There is also double-digit growth in the Dominican Republic, Costa Rica, and Honduras. In LATAM South, the positive trends in Peru are also worth highlighting with nearly 11% local currency growth. Finally, Puerto Rico is up

25% year-on-year as a result of higher tariffs in commercial lines. And in North America, the Northeast continues growing over 2% in U.S. dollars. The Puerto Rico 25% growth is in U.S. dollars as well.

There are a few other regions that are lagging in premium growth. But we are setting the foundations for future profitable growth. In Brazil, General P&C premiums are down slightly, and improvement in Motor has been modest. Chile and Colombia continue cancelling unprofitable business in Non-Motor lines. In Turkey, the portfolio is still being reduced in the context of the 2017 MTPL regulation. And finally, business restructuring in Global Risks, ASISTENCIA, and a decline in the non-Northeast region in the U.S. have also contributed to a fall in premiums.

Please move to the next page. On slide 6, you can see the breakdown of key Non-Life figures by region and unit. Here, I would like to highlight the improvements again in Iberia, which I will cover in more detail later.

Regarding Brazil, the combined ratio stood above 100% due to extraordinary balance sheet adjustments. Excluding this, the combined ratio would be 93.5%, despite the challenging market situation in Motor. And finally, LATAM North and South continue showing improvements across the board.

Please turn the page and I will go through the performance of Non-Life business in more detail. We'd like to highlight the excellent results of the business in Iberia where we're growing and gaining market share in key business lines with exceptional profitability levels, especially Motor, with our combined ratio below 90%.

We will discuss these results later, but I would like to briefly mention the General Baremo provision. As you may recall, there were €20 million remaining at the beginning of this year. During Q2, we reallocated this IBNR to case by case reserves, mainly resulting from the application of the new Baremo income compensation to bodily injury claims from the old Baremo. This affected a small number of claims and the impact was €13.5 million in Motor and €5 million in Commercial TPL. The remaining €1.5 million was released, and this is the net effect, €1.5 million profit, in the profit and loss account for this six-month period. In Brazil, results were affected by several non-recurring adjustments which I will discuss later on.

Please turn to slide 8. There was a slight increase in the loss ratio at MAPFRE RE due to a higher level of attritional claims, and a decline in premiums due mainly to currency movements. As you know, a large part of the business is in foreign currencies.

In the Northeast U.S.A., the positive premium trends are mitigating the fall in other states. Regarding result in the U.S., there have been extraordinary impacts from winter weather and the cost of the exit plan. We are already seeing the fruits of the profitable growth strategy in LATAM North and LATAM South where combined ratios are showing positive trends. Premiums are

growing across the region in local currency except in Colombia and Chile due to the cancellation of loss-making portfolios.

Please turn to the next page. In Eurasia, German and Italian premiums grew around 1%, in line with current market trends. Turkey showed a decline in premiums as a result of stricter underwriting guidelines, as expected in the context of the 2017 MTPL regulation, and the related increase in the Motor combined ratio.

Premiums at Global Risks were down, negatively affected by Forex movements, but the loss experience was positive in the quarter. Business volumes were down at ASISTENCIA, as expected, as a result of portfolio cleansing and office closings, with a significant, extremely relevant €22 million reduction in losses at June. It is noteworthy that ASISTENCIA reported a small profit during the second quarter.

On slide 10, you can see an update of last year's cat events with a €6.7 million negative run-off during the first half of the year, affecting mainly Puerto Rico where over 7,000 claims – new claims – were reported after March this year. Obviously, this trend wasn't expected at that time.

Please turn to slide 11. We've seen improving trends in Life but it continues to be negatively impacted by currency movements, with premiums down by 4%. In Iberia we have seen improvements especially in the Agent channel, thanks to sales campaigns. Last year's results included one-offs stemming from the cancellation of a provision for bancassurance contingent payment, as well as the Duero Vida gain.

In Brazil, premiums are up 9% in local currency but continue to be hurt by currency depreciation. Results here are still affected by higher acquisition expenses in order to boost sales, especially in the bancassurance channel, as well as the fall in financial income, around €57 million due to lower returns on floating rate and inflation-linked bonds.

Let's skip page 12, where we show Life highlights. On slide 13, I would like to talk about the extraordinary items that have affected MAPFRE's net result. The first quarter's result was affected by multiple but not severe storms in the Northeast U.S.A. with an €11.5 million net loss we already reported in the first quarter, and this figure compared to a €43 million net loss from the Coastal Niño last year.

There were several corporate transactions in 2017 comprising the sale of the Unión Duero business, the sale of the Life annuity business in Peru, the gain from the purchase of minority stakes in ABDA in Indonesia, and the restructuring at MAPFRE ASISTENCIA. These had a total net impact of €16 million – positive - in 2017. This year, corporate transactions include the negative €7 million euro impact from exiting business in the U.S. Realized gains are down this year due to the absence of real estate gains, compared to the €20 million net impact in 2017. And finally, 2017 figures also reflect a €27 million net gain from the reversal of the provision for contingent

liabilities in bancassurance. All in all, excluding this impact, the adjusted net result is up approximately 1.1%.

Please turn to slide 14. Now, I would like to discuss the good performance of the Non-Life business in Spain, which is a clear example of the success of the profitable growth strategy. The Non-Life transformation process implemented in 2015 led to an increase in pre-tax profit from €259 million to €454 million in two years. The main driver of this was the improvement of the combined ratio from 97.2% to the 93.7%. Currently, the combined ratio remains quite stable at 93.7%.

In the first half of 2018, MAPFRE has continued reinforcing its leading position in the Non-Life Spanish market, gaining market share in Motor, Commercial, Health business, and Condominiums. Despite the stricter underwriting policies and tariff discipline, MAPFRE outperformed the market in Motor with 2.9% premium growth, 2.9% as well in retail and a moderate return to growth in fleets at 2.4%.

On the bottom right, you can see average Motor premium growth. In the first half of 2018, MAPFRE's growth was negative 0.7%, in line with the market, negative as well, 0.5%. In the previous three years, MAPFRE growth was well above the market, reflecting MAPFRE's strategy focused on profitability. The current excellent combined ratio allows us to be more competitive in tariffs and return to certain segments such as small fleets.

Since December 2017, the Motor combined ratio has been around 5 points below the market, as a result of initiatives to control and reduce claims and expenses. At the close of June 2018, MAPFRE's Motor combined ratio stood at 89.3%.

Please turn to slide 15. On June 26th, we announced the update of MAPFRE's strategic alliance with Banco do Brasil.

On this slide, you have the main features and fundamentals of the transaction. The base price was agreed at BRL 2.4 billion, around €515 million at the end of June, adjusted for dividends, equivalent to approximately 1.5 times book value. The expected return on investment is 10%. And we have set three-year targets for the Brazilian business, including over 6% average total premium growth; combined ratio below 96%, below 100% in Motor; and ROE above 12%.

On slide 16, you can see historical and June data by holding and entity in Brazil. This is new information. This is the first time we disclose these entities' numbers. The June results were affected by several extraordinary adjustments as a result of a more prudent – I will repeat – more prudent and conservative balance sheet valuation. There were around €24 million in negative adjustments affecting SH2, and a €15 million positive adjustment in SH1. Full disclosure of the adjustments are at the bottom of the slide.

Please turn to the next page. We have successfully completed, and in less than six months, the exit plan for the U.S. business that was announced at our last Investor Day. These transactions had a

total €7 million negative impact on June's net result, which we consider small, considering the scope of the transaction.

On the right, you can see that our core business region, the Northeast, is very profitable, with a €22.6 million net result despite the impact of the winter storms and the challenging Motor market conditions. The losses in the non-Northeast have fallen by over a third, to €9 million. And as we have mentioned, there are several profitability initiatives in place to continue improving results including tariff increases, predictive analytics, and agency channel management.

Regarding Verti, running expenses are budgeted for the launch of operations, especially IT-related. And marketing expenses are quite low to date.

As already announced, the board of directors agreed to reorganize the Global Risks business. This slide presents the rationale behind this operation. The new structure offers us greater stability and efficiency, greater client focus, and better control of exposures.

On the following slides, I will discuss the balance sheet items, Solvency II, and Embedded Value. Please turn to slide 19. Shareholders' equity has fallen by over €154 million from December to June, to around €8.5 billion. The net unrealized gains of the available-for-sale portfolio fell by over €150 million and currency conversions differences fell by over €140 million.

These declines were driven by several market movements, the depreciation of our main currencies during the period, as we already mentioned, higher yields in Europe and in the U.S., and the fall in European equity markets during the period, both Eurostoxx and also IBEX 35.

Please turn to slide 20. On the left, you can see that assets under management are down slightly since the beginning of the year. This is mainly a result of the impact of currency movements on assets in Brazil and other non-euro countries, as well as the volatility in peripheral bonds. The breakdown of the investment portfolio is on the right. Asset allocation has been a stable throughout the year.

Equity and mutual fund exposure has slightly fallen due to market impacts during the second quarter. On the right, as you may see, the largest exposure corresponds to Spanish sovereign debt with €16.2 billion, followed by Italian sovereigns with €2.3 billion as well.

Finally, I would like to mention that we have achieved our target of €450 million invested in alternative assets, including real estate and private equity funds, principally, with an expected yield in the range between 4% and 6%. Non-Life realized gains in the first half of 2018 amounted to around €63 million, €29 million lower than last year due to the lack of real estate gains.

During the second quarter, Spanish debt, which is the main asset in our investment portfolio, has been very volatile though we have been able to take advantage of market volatility to slightly increase or reduce duration and prepare the portfolio for an increase in interest rates expected for

the second part of next year. It is worth pointing out the high accounting yields in our portfolios, over 2.3% percent in Non-Life and nearly 4% in Life, well above market yields.

Please turn to the next page. On the left side, you can see the breakdown of the capital structure which amounted to €12.6 billion. We had €260 million undrawn on our credit facility at June 30, and we have significant Tier 2 capacity for new issuance.

Let's move on to Solvency II. The Solvency II ratio stood at 203% at March 31, up 3 percentage points this year, confirming MAPFRE's strong Solvency position and low volatility. We have a high quality capital base with 93% of Eligible Own Funds in Tier 1.

Let's move on to the slide 24. Embedded value grew over 60% in 2017. This improvement is explained by the inclusion for the first time of Life and Burial business in Peru and Brazil Life. So, it's an increase in scope. And second, the improvements in the financial margins of a Spanish Life Savings products net of credit risk. Our return on embedded value is high, over 18%.

Please turn to slide 25. To change the focus, before coming to the end, in MAPFRE, business is measured in more than numbers. And behind the numbers, there are people. So, from now on, we will include non-financial indicators in our presentations. These indicators are representative of our social commitment, and that a company, in addition to being profitable, must be sustainable and contribute to social development. On this page, you can see the most important indicators.

The first one is that we are moving ahead on our commitment to equality. We are already very close to complying with the target of 40% of women in managerial positions which was set for the year end. MAPFRE also wants to be recognized as an inclusive company which provides opportunities to everyone. We have already exceeded the target of at least 2% of our workforce comprising people with disabilities. Regarding the personal and professional growth of our employees, at the end of the first half of 2018, 7.2% of our workforce has changed positions. The target for the full year is 10%. We are extremely happy with the performance of these three indicators.

Our investment portfolio has been adapted to ESG standards. And 80% of corporate issuers have a sustainability rating. And 95% of the market value of this group of issuers has an above average scoring.

To wrap things up, I would like to make a few closing remarks. First of all, we have achieved our restructuring targets for Brazil and the U.S. and are ready to enter into a strategic execution phase. We are quite pleased with our current business footprint and focus which is now aligned with our strategy and risk appetite.

Finally, this first half of the year has been positive in terms of profit generation in a quite challenging environment. And we are confident in MAPFRE's ability to continue creating value,

while meeting our commitments with our shareholders and society as a whole in a sustainable and responsible way.

That's all from my side. Thank you. And now I will hand the call over to Natalia to begin the Q&A session.

Natalia Núñez Arana

Thank you very much, Fernando. It's been a very comprehensive presentation.

Q&A

Natalia Núñez Arana

So now we will start with the Q&A session. The first question comes from Michael Huttner from JP Morgan. It's regarding the ASISTENCIA business. The question is, ASISTENCIA worsens to 104% combined ratio in 2Q 2018 from 102% in 1Q. When will this business deliver on your expectations and your targets? Do you need to consider another round of large provisions like what was done now in Brazil?

Fernando Mata Verdejo

Thank you, Michael. Looking at the numbers reported by ASISTENCIA, it looks like there are still very few things left to change and we're quite happy. After two years, we thought that the changes, or the fruit of the changes, would come earlier. But in the end, this is the first year that we're happy and we are harvesting the fruit of the implementations made.

ASISTENCIA's combined ratio increased 1.7 percentage points to approximately 103%, basically due to the pressure from expenses where reductions are underway. Let's say that restructuring measures are being successfully implemented. The loss ratio had a significant improvement of 3.6 points, to a quite low level, approximately 62%. And the main driver of the improvements comes from the other activities rather than the insurance side's result, which is already giving positive figures with an almost €18 million improvement. So let's say, out of this €22 million reduction in losses practically 85 percent are coming from other activities rather than insurance.

Regarding future adjustments, as I said, there are very few things left in the assets of ASISTENCIA. So we're quite comfortable. Perhaps there are small adjustments in the future, but quite small. Also, we expect, this year, a single-digit loss, and this indication will include any potential adjustments. And as we said as well, and it's included in the financial report, we reported a small profit in the second quarter and we're quite happy with this performance in the second quarter.

Natalia Núñez Arana

Okay, thank you. The next block of questions is concerning MAPFRE Brasil. The first one comes from Andrew Sinclair at Merrill Lynch. Even excluding one-offs, the Brazilian Non-Life technical result in Q2 was negative. How soon do you expect to be able to return to a positive technical result?

Fernando Mata Verdejo

Thank you for your question, Andrew. Yeah, you're right, the Non-Life technical result in Q2 in Brazil was negative €32 million. The pre-tax and minority impact on the balance sheet adjustment in Non-Life was around €90 million, a little bit lower, I think €88 –€89 million. Therefore, the technical result was roughly €56 million and the combined ratio excluding this impact was around 93%. The underlying performance has been satisfactory. We're confident with the three-year targets we announced for Brazil for our Non-Life combined ratio below 96% and motor below 100%.

Natalia Núñez Arana

Okay. Thank you. The next question also comes from Andrew Sinclair. If we can confirm that there is no change in ownership of Companhia Seguros Aliança do Brasil from the proposed Banco do Brasil transaction, and yes, we can confirm.

Fernando Mata Verdejo

Yes, Andrew, thank you. We can confirm that the stake in SH1 remains 25%.

Natalia Núñez Arana

If I may add something - this is the Life company for the bancassurance business. And it's the same, with the same stake. The next one is also from Andrew Sinclair, and it is, what changes do you expect for “holdings, other business and consolidation adjustments” as a result of the transaction? Can you confirm what the pro forma group earnings would have been if the transaction had been completed in 2017?

Also regarding this topic, Michael Huttner from JP Morgan has this question: If I work backwards, it implies that the underlying profitability of this business in the past five years would have been €15 million pre-tax lower and that also changes the valuation on your €0.6 billion investment from say, 10 times historic average earnings to around 11.5 times. Is this assumption right?

Fernando Mata Verdejo

Thank you both of you for the questions. As I said, this is the first time we're giving you historical data and a breakdown by holdings and entities. And I guess with this information, you're able to make a better estimate. Also as we mentioned in the past, these minorities that we're acquiring

will have contributed around €420 million over the seven years of the agreement, from 2010 to 2017. We prefer not to give any further disclosures regarding pro forma figures until the transaction is closed, but we feel you have enough data to make your own estimates, together with the guidance we have given.

A couple of comments regarding the adjustments in SH2. As I mentioned they were based on a more prudent accounting basis and also, as some of you are mentioning, let's say that the majority of adjustments were allocated to prior years. And they are just a more prudent basis; it means that we will see in the future whether or not we'll see a positive or negative development of the adjustment made in reserves. But what we want is to have a more solid and robust balance sheet before the transaction date, in line with MAPFRE's standards.

Natalia Núñez Arana

Okay, thank you very much, Fernando. Now this block of questions is concerning Iberia. Sofía Barallat at Caixabank BPI, Niccolo Dalla Palma at Exane BNP Paribas, Ivan Bokhmat from Barclays, and Michael Huttner from JP Morgan have asked about the good evolution of the trends affecting the Iberian motor insurance and the Baremo provision.

Motor in Iberia is now at 90% combined ratio. How much is sustainable and how much is due to reserve releases from the Baremo extra reserving in 2015, 2016? Can you talk about the pricing and claims trends, please?

Fernando Mata Verdejo

Thank you all for the questions. My first conclusion is that we're extremely happy with Iberia's performance. Looking back three or four years ago, in the depth of the Spanish crisis, we were suffering. I remember a 13% decrease in premiums and a combined ratio near 100%, and our captive agent distribution channel suffering because of the fixed cost of this channel. And now we can see the numbers and premium growth, unit growth, combined ratio below 90%. We're extremely happy. We did our homework and we want to implement similar initiatives in the rest of the countries where they are still underperforming and with combined ratios over 100.

Our goal in Iberia is to grow profitably, but without losing our competitiveness. As I mentioned, this is the first time that we, after three or four years, are growing in some segments of business such as small fleets. But we believe that with this combined ratio, there's still room for further improvements without jeopardizing our excellent technical result. In the long run, we should consider 92% as a more reasonable level of combined ratio for automobile. It doesn't mean that there is room for a price war, forget it, I don't want you to think that.

In the two, three past years, we abandoned some of the segments of clients and also we increased tariffs, and now our objective is to have both premiums increase and also units increase in order to gain market share in both premiums and number of vehicles.

Regarding the Baremo, we're very happy. And looking back as well in 2015, let me wrap up what we've done with Baremo. In 2015, we increased our IBNR approximately €35 million in order to cover potential increases in previous years' claims as a result of the new Baremo implementation. I guess – and the numbers said that we were right - it was a prudent accounting basis and after one and a half years of experience, last year, we released €15 million of this provision and it was taken into the profit and loss account.

After two and a half years of experience, with our actuary teams we reevaluated the increase in the average cost claims and also new trends, I think we have enough experience in order to reallocate this IBNR reserve to individual claims.

So, in the books, what we had is a reduction of the IBNR reserves for €20 million, €15 million in automobile and €5 million in general TPL, an increase in the case by case reserves by €5 million in general TPL and €13.5 million in automobile case by case reserves.

This increase affected just, if I remember well, 30 individual claims. They were severe claims and what we're seeing is an increase in the cost of some indemnities for severe disabilities and also deaths. The majority of the judges are applying, for previous Baremo claims, the higher range, which are indemnities quite close to the new Baremo.

It is like a social attempt to equalize both Baremos for some severe claims. So in the end, the net effect in the profit and loss account in this first half of the year is this €1.5 million before tax, which is non-relevant. And in terms of combined ratio, if I'm working out the numbers correctly, it is like a 15 basis point reduction in the Spanish automobile combined ratio.

It was nothing relevant. For MAPFRE, the Baremo discussion practically is over. And now, what we have to monitor is just the development of these individual 38 claims in order to see if in the end, the final cost is the one we have reserved today. And that's basically, the Baremo. The Baremo fortunately is over, we were right when we increased the IBNR, perhaps more prudent than we should have, because there was a release of provisions in two years, one non-relevant in 2018 and €15 million last year. But as always, MAPFRE will follow a quite prudent accounting basis regarding technical provisions.

Natalia Núñez Arana

Okay. Thank you very much for your comprehensive response and thoughts about the Baremo and Iberia. Thank you very much. I hope it helps. The next one comes from Ivan Bokhmat from Barclays. The combined ratio in the second quarter appears to be weaker despite reserve releases and due to weather claims. What do you consider to be the appropriate run rate for 2018?

Fernando Mata Verdejo

Well, it's very difficult to calculate the run rate for these lines due to the impact of the seasonal weather related claims. The increase in the combined ratio in the second quarter was due to bad weather conditions that affected homeowners, condominiums and agricultural insurance. There were several fire claims in the commercial line as well as higher frequency in the transport line. But the fundamentals are good and we believe that we shouldn't expect any negative trend in the future affecting the combined ratio.

Natalia Núñez Arana

Thank you. This one is regarding the life business. Sofía Barallat asks about the expected evolution of life insurance premiums in Spain going forward.

Fernando Mata Verdejo

Thank you, Sofía. As you know very well, it's practically impossible to forecast the expected evolution of the life insurance premiums in Spain. There are ups and downs of a premium growth of 30% one year without any actual explanation behind it. In Spain, the majority of the life business premium trends are driven by financial institution appetite. In the majority of the cases, they follow different strategies at different financial institutions when they want to increase either deposits or insurance products.

What I can say is that the expected evolution for MAPFRE, which is the one we monitor. The first quarter wasn't a good one and we practically didn't have redemptions in the first quarter, so the volume of premiums decreased. But the second quarter has been more positive and more promising.

And we expect the trend of the remaining quarters to be positive as well. We have been actively launching several unit link products over the last few months. And even just this week we announced a new campaign for Dividendo VIDA which is a recurring product, the unit link that invests in Spanish shares with high dividends. But this is a permanent product, and it's performing extremely well. So all in all, the third and the fourth quarters should follow the second quarter trend rather than the first quarter.

Natalia Núñez Arana

Thank you so much. Now, the next block of questions is regarding MAPFRE U.S.A. The first one is coming from Michael Huttner at JP Morgan and it's regarding the combined ratio in North America in the second quarter which was 99.8%. Can you say how sustainable all of this is?

Fernando Mata Verdejo

Well, as I said for Iberia, Michael, we're quite happy as well with the end of the restructuring plan in the U.S. Now, we are in the execution phase, and figures are more promising as well. We also see strong improvements in the non-Northeast region with an over 35% reduction in losses. I didn't say it during my presentation, but I can add that a few relevant states have already been reporting profits over the last few months, including California with token profit in June. We are quite happy with this result. California is a quite challenging state as well with a lot of competition.

Regarding VERTI, the business plan is an initial launch, it's a soft launch, and we have been quite conservative. As I've said, marketing expenses, they're still quite low. And as we said as well during the Investor Day, the launch of the Verti business in the U.S. will be revisited every two years in order to monitor performance and premium growth. Regarding the outlook in the U.S., the second half of the year is usually better in terms of profitability, but in the long run, for MAPFRE and for MAPFRE U.S.A., day one will be January 1st, 2019.

Natalia Núñez Arana

Okay. Thank you. The following question is from Andrew Sinclair at Merrill Lynch. What level of premium increases have you been able to put through on your U.S. portfolio?

Fernando Mata Verdejo

Okay. We usually don't disclose this information but we have it and we're going to do it. We are quite optimistic with the numbers and it is basically due to the rate increases. Rate increase of 5% in Massachusetts in May, 6% in Rhode Island in January. Several additional filings in California, as well as in Connecticut and Washington, among others. Most filings have been in excess of 5%. We expect these hikes to be big enough in order to offset the current increase in average costs and frequency we are seeing in the United States particularly in motor lines. In Massachusetts, we've already seen a number of players taking rate increases as well and following MAPFRE's trend. You know that MAPFRE is the leader in terms of market share in Massachusetts, which is a good sign for the market.

Natalia Núñez Arana

Okay. Thank you very much. Now the next one comes from Ivan Bokhmat from Barclays. What would you consider to be the normalized operating profit run rate after the footprint is complete in the U.S.? It appears 2Q 2018 results saw both a €7.2 million impact from disposals and a €3.5 million hit from Puerto Rico results. Adjusting the result for these moves, should we think of €10 million profit per quarter as a base case that you could aim to improve on, going forward?

Fernando Mata Verdejo

Thank you, Ivan, for your questions. First, let's say that the footprint, the restructuring in the U.S., or the current footprint is not the one we expect it to be in the future. As you remember at our Investor Day, we split the United States in three different categories. First is Northeast - Massachusetts and the four surrounding states-, the exit states and another category in the middle, where there is a bulk of states including California and Florida as well. But, those are the states in which we have the agreement with the AAA motor club. It means that this middle category is under review on a permanent basis. We monitor it closely - any state, any line of business and any change of trend in order to make corrections or in order to put in the exit room these operations in these states.

Regarding guidance for the U.S. business, the only thing that I can say at this moment is that we've reaffirmed the 2020 targets announced at our last Investor Day. For MAPFRE Insurance excluding VERTI, it is a 4% average growth in U.S. dollars and a combined ratio around 97%, and VERTI U.S.A. will add around 1 percentage point to this target and the expected ROE is in line with the U.S. ROE and around 8%.

Natalia Núñez Arana

Thank you very much. Paz Ojeda would like to know also regarding VERTI U.S.A. The net loss of €5.5 million in the first half of 2018, should we expect a similar impact in the second half? When will you reach breakeven?

Fernando Mata Verdejo

It's a difficult question, Paz. Let's say that most of the loss is overheads because currently – our portfolio is nearly \$300,000, more or less. So, let's say that most of the result is overheads. And let's say that the €5 million loss is in the budget range and the second quarter overheads will depend on how good we are in these fine tuning adjustments of tariffs in order to promote and increase premiums during the second half of the year.

Natalia Núñez Arana

Okay. Thank you. There is another question from Paz Ojeda regarding the U.S. business. Can you explain the cost of the minus €7.2 million impact from the exit states? Does it include New York and New Jersey? Should we expect additional impacts in 2018?

Fernando Mata Verdejo

Thank you, Paz. These impacts are a result of the three completed sales: the Life business, the renewal rights transfer in Tennessee, Kentucky, and Indiana, and the third one is the sale agreement for New York and the renewal portfolio rights for New Jersey. The New York operation is still pending the regulatory approvals.

We do not expect a relevant additional impact in 2018, the remaining part of the year. This is our first estimate because we expect the completion date will be the fourth quarter and the final consideration is quite similar to Brazil. It will depend on the net equity after adjustments in net equity such as dividends. But we do not expect any relevant additional impact on these results.

Natalia Núñez Arana

Okay. Great. Now, we are changing topics. We are moving to MAPFRE RE and Global Risks. Michael Huttner at JP Morgan and Ivan Bokhmat from Barclays have asked about the increase in the impact of 2017 nat cat losses. The hurricane loss is continuing to drift upward albeit modestly. Can you explain the driver to this? Also peers have recently seen negative loss development for Irma and Maria. Is there room for further reserve strengthening?

Fernando Mata Verdejo

Thank you, Michael. This increase is the result of the new claims reported in Puerto Rico in the first half of 2018, and principally in the second quarter. But as you may see this amount is not relevant. If I remember well, it was like 7,000 new claims filed in Puerto Rico for hurricane Maria after March.

The net cost is still practically in the middle of the range, between €150 million and €175 million. I know that there was a positive release, quite small in the first quarter because we are permanently evaluating any potential negative or positive development in the run-off of the cat losses. And once again, we want to highlight MAPFRE's excellent reinsurance program and the professional capacity of MAPFRE RE's executives in order to assess the best estimate for the cost.

Let me say that MAPFRE was the first reinsurer to publish an estimation comprising the four catastrophes presented in the third quarter 2017. And I'm sure MAPFRE RE is the best reinsurer estimating any change in the net cost of those catastrophes on an ongoing basis.

Natalia Núñez Arana

Thank you very much. Andrew Sinclair from Bank of America Merrill Lynch and Ivan Bokhmat from Barclays have asked about the increase in attritional claims. Were there any particular trends here or any specific countries affected?

Fernando Mata Verdejo

Yes, thank you, Andrew. The second quarter we have not been affected by catastrophic events but we have seen a higher frequency of attritional claims. For GLOBAL and for MAPFRE RE, attritional claims are between €1.5 million and €5 million, more or less. But anyway these claims are within the loss budget and we haven't seen any particular trend. The frequency is as usual and the attritional trend is quite similar to previous years. But what's different was the lack of attritional

claims in the first quarter, but this second quarter follows similar trends of what we have in previous years.

Natalia Núñez Arana

Okay. Andrew Sinclair also wants to know, how much did reinsurance protection cover renewals increase after the success of your reinsurance program last year?

Fernando Mata Verdejo

Yeah. Thank you, Andrew, again. With respect to the renewal season, MAPFRE RE rates were renewed between June and July in several main markets including the U.S., the Caribbean and LATAM, and follow the structure that Eduardo Pérez de Lema presented at our last Investor Day. We haven't changed our structure, and the structure performed very well last year and we want to maintain the same cat protection.

Nevertheless, the total cost of our reinsurance protection in this region, I mean in the U.S., the Caribbean and especially in Puerto Rico, remains stable. Because we have reduced our exposure to these risks, mainly at Global Risks, in order to compensate the increase of rates.

There were limited tariff increases in programs not affected by last year's catastrophe, between flat and 5%, which we consider as moderate due to the still high level of excess capacity, and we are still seeing soft market conditions in some regions. But not those regions affected by the cat losses last year.

Natalia Núñez Arana

Good. The next one is from Ivan Bokhmat and Paz Ojeda. They have asked about MAPFRE GLOBAL RISKS reorganization. How will your reporting change after the announced adjustment to GLOBAL RISKS' corporate structure? How much of the current premiums and operating result is related to MAPFRE Iberia, and how much to MAPFRE RE? What benefits in terms of profits and synergies can be expected from this restructuring?

Fernando Mata Verdejo

Okay. The fundamentals and the rationale behind the restructuring were very well explained in the presentation. There is another press release and there is more information in the different documents that are available on our website. Just to summarize the transaction, basically what we're doing is a transfer of insurance and reinsurance assets and liabilities to MAPFRE RE, in order to have a larger and more solid MAPFRE RE balance sheet next year.

Regarding the MAPFRE GLOBAL RISKS unit, we will keep it as the current one. GLOBAL RISKS for us is a strategic unit, and we want to keep the best service and quality levels for our clients. That

means that we have to prepare some pro forma information regarding the different primary insurance premiums that are spread particularly in Spain and in LATAM.

And then put together the profit contribution coming from the GLOBAL RISKS independent entity, also the GLOBAL RISKS business run by the different primary insurers, and also the GLOBAL RISKS business that is being retained in MAPFRE RE. So, it's just a transfer of balance sheet items to MAPFRE RE and premiums to LATAM and IBERIA. But the unit, as the one we have, will remain with the same capacities and competence within MAPFRE group.

Natalia Núñez Arana

Okay. Thank you very much. And next one is regarding Brazil. It comes from Michael Huttner, Andrew Sinclair, Sofía Barallat, Guilhem Horvath, Paz Ojeda, Farquar Murray, Silvia Rigol and Ivan Bokhmat. It's regarding the Brazil provision in non-Life that was around €88 million gross of tax and minorities. Can you explain what this relates to and what is the Life provision release of €108 million in Brazil?

Fernando Mata Verdejo

Yeah. Thank you, all of you. I guess this is the topic of the presentation, Brazil. Let me give you my explanation separating the two different holdings.

Regarding Non-Life or let's say the future Non-Life, SH2, the one that will be run by MAPFRE, 100% shareholding. As a result of the valuation process in this type of transaction, where we apply this more conservative and prudent valuation basis to the different balance sheet items. The review has been gradual and some of these adjustments -maybe as you recall- were carried out in the first quarter, there was an increase in reserves for bodily injury outstanding claims in SH2. And other adjustments were booked in the second quarter. The analysis is not finished, it's 90%-plus finished. But there is still some adjustments that may come up in July, but they are non-relevant and minor adjustments. What we want, as I said, is to have quite solid and robust balance sheet items at the transfer date and following MAPFRE accounting standards.

Regarding Life, SH1 will remain with the current structure. In the case of this holding, the reversal of what we call the unexpired risk provision -this concept's probably familiar to you- which covered premium deficiency of loss-making products, was a result of a change in the GAAP accounting standards. These reserves that are coming from previous years, quite long ago, were calculated on a product by product basis rather than by line of business, which is normal in Europe, particularly in Spain. And now the calculation is made on a more aggregated basis and as a result of this, there was a partial release for MAPFRE.

Partial means that probably over two-thirds of the adjustment has been booked as of June 30 but there is still further analysis that is being carried out in July and August in order to fully comply with IFRS accounting principles which is the accounting system that we use to report at MAPFRE.

So these adjustments were identified and considered during the assessment process of the transaction. So let's say that the adjustments, or the value of this adjustment, were considered in the assessment of the entities that form an integral part of the agreement with Banco do Brasil.

All in all, we do not expect in July and nor in August any net impact or any further adjustment to be significant; we consider them as a whole to be neutral for the profit and loss account of MAPFRE.

Natalia Núñez Arana

Thank you so much. And they also wanted to know why you do not adjust for these impacts on page 13 of the presentation (attributable adjusted results).

Fernando Mata Verdejo

Well probably you're right, but we consider the majority of the adjustment as a prior year adjustment. What is important is that this is a one-off for the net profit generation or contribution of this year, and we should remove it for future projections. We do not adjust as 2018 pro forma because we should adjust as well 2017 and prior years. So, if you want to do it, it is quite simple, but we can consider this as an adjustment not to be adjusted in 2018 net result.

Natalia Núñez Arana

Okay, thank you. With regards to the Banco do Brasil transaction, could you clarify whether the 10% ROI on the Banco do Brasil acquisition includes synergies. And over what timeframe do you expect to reach the 10% level?

Fernando Mata Verdejo

First of all, the synergies are not the main drivers of ROI improvement. I mean, the main driver is the room for change that we have identified particularly in Motor line business in Brazil and that we are currently implementing.

Natalia Núñez Arana

Okay. The 12% ROE in three years' time implies, on my numbers, more than doubling the current run rate of profits, which may be challenging taking into account the volatile dynamics of the country's economy and currency. Does this target include some actions in the equity part of the equation, i.e. a capital repatriation?

Fernando Mata Verdejo

I don't think so. It is still too early to conclude on this topic. But what we disclosed is that the excess of equity and also the cash available at the holding will be fully devoted to paying part of the consideration. And we expect the most from the Brazilian economy. So, we retain some of the

results in our equity in order to fund the premium growth we're expecting in Brazil. So, roughly speaking and to be honest at this point, we do not consider any potential repatriation from Brazil.

Natalia Núñez Arana

Okay. Thank you very much. And now, can you give us some color on the planned measures to bring the combined ratio to your targeted level?

Fernando Mata Verdejo

Regarding planned measures, we first take into account that we expect the transaction to close in the third quarter. And once the transaction is finished, and we will be ready to have a full implementation of all the actions and different initiatives that, as I said, we have identified in order to increase our efficiency there. But anyway, despite this transitional period, we are already implementing some minor measures to streamline organizational structures and processes. Let me say that we are working on a new organizational chart for SH2 that will take effect probably in the coming weeks.

Remember that we mentioned as well that we deployed a task force comprising a lot of talented people from MAPFRE Spain, from technical areas, actuaries... and there are a lot of initiatives currently in the pipeline that were identified by this task force in February, involving actuarial, technical, tariff, commercial functions, products, claims handling, etcetera. But all in all, as I said for the U.S. and for MAPFRE Brasil, day one will be next January 1 and the two remaining quarters will be just the initial phase of the execution plan.

Natalia Núñez Arana

Okay. Thank you very much. There are three more questions regarding Brazil. To give you a rest, I can answer them. They are straightforward answers. Could you explain the strength of the Brazilian Life technical result in the quarter?

Natalia Núñez Arana

The main figure that has come in this quarter is the reversal of the provision in the SH1 holding and it is €108.8 million gross, which is before taxes and minorities, which was €15 million after taxes and minorities. And also we have seen a better level of claims in Life-Protection.

Natalia Núñez Arana

Also, there's a question regarding the increase in minorities in Brazil. The increase of minorities in the first half of 2018 versus first half of 2017 is due to a higher amount of results coming from the Life holding in which MAPFRE has lower shareholding, 25% only.

And regarding the financing of the Brazilian transaction, are you planning to raise debt?

Fernando Mata Verdejo

Yeah. I mean, there is no change in the way we're going to finance the transaction. There is still an excess of available cash in the insurance holding in Brazil, 100% shareholding MAPFRE, well over €200 million.

And the remaining part of the consideration, currently we've got a credit facility undrawn in order to cover this part. But as I said, we want to keep our Solvency II ratio at the current level. And so the most likely situation is that we will go for a new issuance when market conditions are more favorable and it will probably be after summer. August is a quiet season in Spain.

It will be for sure Tier 2 in order to have the same capital level for Solvency II and also for rating agencies which is important as well.

We are seeing today a quite important depreciation of the real. In order to hedge part of the consideration, we bought a forward quite recently as well. Well, in fact we bought five forwards amounting to €250 million, maturity at the end of September and at a very good price.

So, we hedged the transaction, we're quite comfortable. I don't want to have additional surprises. The Brazilian real is up and down and we consider the most logical and reasonable decision to hedge this amount.

Natalia Núñez Arana

Okay. Thank you very much. There are two more questions. One is regarding ASISTENCIA, where the expense ratio is close to 40% due to the fall of business volume. It looks structural. What additional measures, if there are any, are you going to take to adequate the expense structure to the portfolio volume?

Fernando Mata Verdejo

Thank you, Paz. You're right. I remember, I think it was last quarter, we disclosed as well a lot of cost contention plans for ASISTENCIA with a lot of reductions in overheads. What we've done is to move headquarters into MAPFRE's headquarters in order to have more synergies among the different overheads and also holdings. We're pretty sure that we can reduce overheads, particularly those coming from external consultants and also to be more efficient in the different administrative procedures.

We're monitoring this on a monthly basis and there is still some room for further decreasing overheads. You're right. And also we have to look at the current capital levels in ASISTENCIA because of the reduction in premiums and risk can give us additional room to optimize the current capital levels.

Natalia Núñez Arana

Okay. Thank you. There is one question coming from Silvia Rigol regarding the Embedded Value on a like-for-like basis and this is without the increase of the scope that we have included for the first time in this business. Silvia, what we can tell you is that we can talk later on because we don't have the numbers right now with us.

So the last question comes from Paz Ojeda and is regarding liquidity and dividends. If bank debt €140 million and cash at the holding has gone down to €15 million at the end of first half 2018 from €40 million at 2017 year end and €50 million at first half 2017, and given the payments that need to be made like Brazil transaction, Funespaña and BANKIA BMN agreement, what is the outlook for dividends this year?

Fernando Mata Verdejo

Thank you, Paz. If you look at the balance sheet there is €2 billion in cash currently available. Obviously, it's well spread among the different operating insurance entities. There is not any cash restriction currently that could jeopardize the current outflow of dividends. You mentioned some small transactions. Funespaña is just 4% of the current shareholders; it's not a big amount. And also the remaining BANKIA BMN agreement is still under discussion and we do not see any particular date in order to have a cash disbursement regarding this. The different ups and downs as well in the cash position basically is due to different inflow and outflow of dividends. And our dividend budget made at the beginning of the year is totally under control and there is not any risk of the dividends to be jeopardized or be at risk because of the current transactions or any announced potential increase in funds in the future months.

Natalia Núñez Arana

Okay. Thank you very much. This was the last question. As you know, if you have a follow-up question, the Investor Relations team will be available for you to answer all of them. From my side, just to wish you a happy summer and see you in the third quarter results. So, Fernando, it's your turn to do the closing remarks.

Fernando Mata Verdejo

Thank you everybody for joining us today. This has been the longest result presentation since I took over. I think there were a lot of topics to be discussed. I guess the majority of them were answered. Just to add, we hope the information has been interesting, both what was included in the presentation and also in the speech. And just remember that as every quarter, there is a full set of documents in English available on our website where you can get more information and more explanations regarding our performance. Hopefully, we will see you next quarter and have a great summer, all of you. Thank you very much. Bye-bye.