



Investor &  
analyst call -  
Edited  
transcript

**FY 2018**

February 7th, 2019

**Company participants**

- Antonio Huertas Mejias, Chairman and Chief Executive Officer
- Fernando Mata Verdejo, Chief Financial Officer and Member of the Board
- Natalia Núñez Arana, Investor Relations & Capital Markets Director

## Presentation

### **Natalia Núñez Arana**

Good morning, this is Natalia Núñez, Head of Investor Relations. We would like to welcome you to MAPFRE's results presentation for the full year 2018.

On this occasion, it is a pleasure to have Mr. Antonio Huertas here with us, our Chairman and CEO. He will give us a brief review of the main highlights of the 2016 to 2018 Strategic Plan, as well as comment on the recent developments in our bancassurance agreements. At the end of the presentation he will also participate in the Q&A session. It is also a pleasure to introduce our CFO and member of the Board, Mr. Fernando Mata, who will take you through the main trends and figures of the year, as in previous quarters.

Just as a reminder, during the Q&A, we will answer all questions received at the Investor Relations department, at the email address we have made available for you.

The IR team will be available to answer any further questions you may have at the end of the presentation.

With no further ado, let me hand the call over to our CEO.

### **Antonio Huertas Mejias**

Thank you, Natalia, and good morning, everyone. We appreciate you joining us today.

I would like to begin the presentation by sharing a few reflections on what MAPFRE has accomplished throughout the last three years.

First of all, we have been working hard to transform MAPFRE's business model in a complex market, which will better position MAPFRE to meet the challenges of the coming years.

The main focus of our strategy is profitable growth. The drivers of profitability are a focus on core businesses, streamlining and downsizing by eliminating loss making business, while the drivers of our growth are bancassurance and the digital transformation.

We can highlight:

First, IBERIA which is the perfect example of the outcome of a successful profitable growth strategy, where we now have a best in class combined ratio - under 91% in Motor, well below our peers.

Second, the success of our 80/20 plan. It has been successfully implemented across regions, and over 1.3 billion euros in unprofitable business premiums were cancelled over the last 3 years.

Also, in the US, the exit plan was carried out quickly and with a limited impact on our P&L accounts. In addition to that, we have streamlined organizational structure and simplified operation in the US, as well as at GLOBAL and ASISTENCIA, while strictly monitoring costs across all geographies.

Moreover, on the growth side, we have enhanced our bancassurance footprint, through our agreements with Banco do Brazil, Bankia and Banco Santander Spain, which I will discuss later on.

Finally, we are very committed to investing in innovation and our digital transformation. We are adapting our business to changing market and client needs. For instance, last year the digital business was up 56 percent in Spain.

Please turn to slide 3.

We faced several headwinds during the last three years.

Firstly, foreign exchange movements. The dollar was down 6 percent over the three-year period, the Brazilian real was down 14 percent, and the Turkish lira 45 percent. On average FX movements lowered our annual premiums by 0.8 billion euros per year.

Secondly, capital markets have also been a drag on results. We saw a strong fall in yields in Spain, as well as in Brazil, with yields down over 700 basis points. Also equity markets have been highly volatile.

Finally, there was a higher frequency of natural catastrophes. In 2017, hurricanes, earthquakes and the Coastal Niño had a net impact of 184 million euros on our accounts. This year we faced a 108-million-euro loss from the typhoons in Japan and US winter weather.

Please turn to the next slide.

Despite these headwinds, we continue demonstrating our strong commitment to shareholders. For 2018, the final dividend to be proposed to our AGM stands at 8.5 euro cents. Therefore, the total dividend for the year will amount to 14.5 euro cents, which is equivalent to an 84% payout

ratio, or 64% when adjusting for goodwill writedowns. Our financial strength and capacity to pay dividends remains unaffected by these writedown, which are non-cash items.

The 5.5 percent dividend yield for 2018 results is based on an average annual price of 2.65 euros per share.

Please turn to slide 5.

I would like to briefly comment on the recent developments in our bancassurance agreements.

Last November we formalized the reorganization of our agreement with Banco do Brazil. This reinforces the existing agreement with our partner. It enables us to leverage MAPFRE's expertise and proven track record in the Motor business. At the same time, we are simplifying business strategy execution. The consideration was 519 million euros.

In Spain, MAPFRE VIDA will acquire 51% of the insurance entities, formerly belonging to BMN, now owned by BANKIA, for 110 million euros. The scope of the current alliance for Non-Life will be extended to the BMN network, with a payment of a little over 51 million euros. This strengthens our distribution footprint in Spain, bringing in 400 branches more in exclusive agreement with MAPFRE.

Finally, we recently announced a new exclusive distribution agreement in Non-Life in Spain with Banco Santander, that establishes a new company in which MAPFRE will hold 50.01%. This company will distribute Motor, Commercial and SME Multirisk and TPL products through Santander's network in Spain (with over 4,000 branches). The payment for this deal will be 82 million euros and operations are expected to begin by the last quarter of 2019.

With these new bancassurance agreements, we now have more than 10,000 branches selling our products. It is probably the most extensive bancassurance network in Spain selling insurance products.

Please turn to slide 6

As a summary of the main figures for the 3-year period, I'd like to remark: The technical account has been affected by Nat Cats in 2017 and 2018, which hurt our Combined Ratio considerably with an impact of over 1 percentage point in 2018 and 1.75 percentage points in 2017.

The expense ratio has surpassed the target. We have managed to maintain this ratio within the targeted limit while at the same time reinforcing investment in innovation and digital transformation.

Regarding income, the headwinds from currency movements and the volatility in capital markets have been a drag on the top line figures. Despite consistent local currency growth, depreciation of the majority of currencies has hurt euro figures.

The ROE reflects the previously mentioned headwinds, so it has been tough to reach such a challenging target.

Despite all these headwinds our commitment to shareholders is firm and we have managed to pay almost 1.4 billion in dividends during the 3-year period.

Thank you and I will now hand the call over to Fernando.

### **Fernando Mata Verdejo**

Thank you Antonio. Good morning and thank you all for being here today. Let's begin on slide 7, where I will run through the main figures.

First of all, I would like to highlight that our annual key figures show that we are still facing significant drag from currency movements, especially from our two largest exposures, the US dollar and the Brazilian real, but to a lesser extent during the fourth quarter. Premiums are down 4 percent, but are up 2 percent at constant exchange rates.

The net result stood at around 529 million euros, down over 24 percent, driven by goodwill writedowns. Excluding this effect, the net result would have exceeded 700 million euros. Shareholder's equity is down 7% year to date, as a result of market volatility affecting currencies and the financial investment portfolio, and also the impact of the Banco do Brasil agreement.

Our combined ratio closed at 97.6% and reflects the strong contribution of the business in IBERIA, as well as the impacts from typhoons in Japan, US snow storms, and balance sheet adjustments in Brazil.

The ROE was 8.4 percent, excluding goodwill writedowns.

Please turn to the next slide and I will comment on the goodwill writedowns.

The current macroeconomic context is creating uncertainty and volatility in the market. The main factors are, first, volatility in emerging countries; second, social and political instability in Europe; third, a gradual slowdown in global economic growth and last, an increase in frequency in catastrophic events.

We believe that these factors will continue affecting the business in the future. In this context, we have slightly lowered the medium and long term outlook for some of our units, and consequently we wrote down 173 million euros of goodwill from MAPFRE USA, VERTI Italy and ABDA at year end. The details are on the slide.

Finally, I would like to highlight the 1.3 billion reduction of intangibles since 2012, following MAPFRE's prudent approach. These reductions have left our balance sheet in a healthier position for the future.

Please turn to slide 9.

Currencies had a relevant impact from January to September, but the good news is that the Turkish Lira, the Brazilian real and the US dollar were up in the last quarter of the year. We expect the drag from forex movements to be lower in the coming months.

The restructuring process is gaining momentum this year in the US and Brazil. In Brazil, the appointment of a new CEO and the implementation of MAPFRE's Non Life business model, will be important catalysts for improving results in Motor.

In North America, Puerto Rico is performing well after 2017 NatCat events, while we are still closely monitoring loss-making states in the Non-Northeast region. We expect this year to be a turning point for the US and Brazil.

Iberia, LATAM NORTH & SOUTH and MAPFRE RE maintain excellent profitability levels. ASISTENCIA and Global Risks have improved significantly, with pre-tax results at ASISTENCIA now near breakeven.

Trends are improving in the Life business, with underlying profitability in Spain growing. Life-Savings premiums in Spain have also been excellent, even when excluding a large Group policy issued in the third quarter. In Brazil, there has been a modest return to growth in Life Protection, but profitability is still catching up.

Our capital position remains strong, with a Solvency II ratio at almost 208% at the end of September, and a pro-forma ratio of nearly 196 percent, adjusted for the closing of the new agreement with Banco do Brasil that took place in November.

I would also like to mention that MAPFRE's strong financial position and outlook have been confirmed or upgraded by the main rating agencies.

All of this has allowed us to deliver dividend stability, reaffirming our commitment to shareholders, with a final dividend proposed to the AGM of 8.5 euro cents

Please turn to the next page.

On the right side you can see the main drivers of results by region and business unit.

IBERIA continues being a strong profit contributor, with a 481 million euro net result and solid underlying performance. As you remember, last year's result included extraordinary profit from the cancellation of a bancassurance provision, and the sale of the UNION DUERO business.

MAPFRE RE was the second largest contributor with a 149 million euro net profit, with strong performance despite NatCat events. LATAM NORTH and SOUTH continue contributing significantly to the Group's results, while it is still too soon to see the results from restructuring measures in Brazil. Finally, the turnaround at MAPFRE ASISTENCIA and GLOBAL RISKS has also helped support results this year.

Please turn to slide 11.

In IBERIA, we are seeing excellent growth levels, both in Non Life, at 7 percent, and Life at 5 percent, and we are outperforming the market in our main lines of business. The combined ratio is under 94 percent, with an outstanding 90.8 percent in Motor, well below the market average.

In Brazil, we are beginning to see a pick up in local currency growth, 4 percent in Life, and 6 percent in General P&C, while Motor growth is still flat as a result of our stricter underwriting approach. Regarding profitability, the Motor business is still underperforming, but we expect profitability measures to deliver in the coming quarters, and we reaffirm the combined ratio target of below 100 percent in 3 years. At year end, certain Non Life balance sheet adjustments were reclassified from P&L to reserves, to be consistent with local accounting standards, with a positive net impact of 27 million euros on results. Finally, lower financial income and higher acquisition expenses are also still weighing on results, especially in the Life business.

In LATAM NORTH and SOUTH, there are positive premium trends in Mexico, up 9 percent in local currency, in Peru, up 10 percent, and there is solid growth across Central America. Premiums in Chile are still down due to cancellations of unprofitable business, which is having a positive impact on results. In addition, the sale of a building had a 25 million euro net impact on Group results. Finally, in Colombia additional provisions have been made in Annuity and Workers' Compensation run off portfolios as a result of updating long term financial assumptions.

In North America, stable premium trends in the Northeast USA are helping mitigate the fall in other states, while premiums in Puerto Rico are up 23 percent in dollars as a result of higher tariffs in commercial lines.

Please turn to slide 12

In Eurasia, Italy continues growing with an improvement in the technical result. Turkey is facing a reduction in its Motor portfolio, which has a higher combined ratio due to both the 2017 MTPL regulation and higher inflation. In Malta, premiums are up 11 percent year on year, thanks to Life Savings.

Profitability is excellent at MAPFRE RE, despite large NatCat claims in the second half of the year. The typhoons in Japan and US winter weather related claims had a total impact of 97 million euros. Again, business diversification and effective risk management have been key to maintaining consistent performance.

Finally, ASISTENCIA and GLOBAL RISKS continue reducing premiums as a result of ongoing business restructuring. As you can see, the improvement in underlying results in ASISTENCIA was nearly 60 million euros, and profit before tax is now very close to breakeven. The turnaround at GLOBAL RISKS was also impressive, with an improvement of 90 million euros in absence of relevant Cat losses.

Please turn to slide 13

Here I would like to summarize the extraordinary impacts that affected results. Losses from weather-related and NatCat claims are 75 million lower compared to the previous year. Hurricanes and earthquakes affected direct insurance, MAPFRE RE and Global Risks in 2017. This year there have been severe winter storms in the US in the first quarter, with an 11.7 mn euro net loss for MAPFRE USA and another 9 million approximately for MAPFRE RE. Also, typhoons in Japan in the second half of the year, mainly Jebi, had an 87 million net impact on MAPFRE RE accounts.

There were several corporate transactions in 2017, disclosed on the slide, with a positive total net impact of around 14 million euros. This year, corporate transactions include the negative 7 million euro impact from the US exit plan and a 9.4 million hit from the restructuring of GLOBAL RISKS offices in Europe.

Realized gains are slightly up year on year. Real estate increased as a result of the sale of a building in Chile, as well as other real estate gains, mainly in IBERIA. Gains from financial investments are down in a volatile market context.

Finally, 2017 figures reflect extraordinary income from the US, Brazil and Spain, for a total of 93 million euros. You can see the breakdown on the slide. Taking into account all these impacts, the adjusted net result is up over 5 percent.



Please turn to slide 20 where I will briefly comment on the balance sheet and solvency. Shareholder's equity has fallen this year by over 600 million euros to around 8 billion euros. The two main reasons behind this change, apart from results and dividends are, first, market movements, mainly the fall in the value of the AFS portfolio as a result of the drop in equity markets at year end and a rise in yields in the US and Italy, as well as currency conversion differences. And second, around 200 million euros are due to the reorganization of our agreement with Banco do Brasil.

I would also like to highlight the important role that the US dollar has played as a natural hedge on our balance sheet. As you can see on the chart on the right, the US dollar appreciation has helped offset other negative currency movements from Brazil and Turkey.

Please turn to slide 21.

On the right you can see that Assets under management are down slightly since the beginning of the year. This is driven by volatility in stock markets and peripheral bonds, as well as currency movements, mainly the Brazilian real.

The breakdown of the investment portfolio is on the left. Asset allocation has been relatively stable throughout the year. Our cash position is up from 1.9 to 2.2 billion euros at year end, mainly as a result of temporary cash balances at operating units, mainly Iberia. The largest exposures correspond to Spanish sovereign debt with 16 billion euros. In Italian sovies our exposure is 2.9 billion euros, close to the 3 billion euro limit recently approved by the Board. It's worth highlighting that over two thirds of these positions are located in immunized portfolios, as you can see on the bottom right chart.

On slide 22 we will look at our actively managed investment portfolios.

Our portfolio yields are still quite high, 2.1 percent in Non Life and nearly 4 percent in Life, well above market yields. Duration in Non-Life has slightly increased throughout the year, to keep accounting yields stable.

Realized gains in the Euro area reached 144 million euros during the year, with outstanding performance given the current challenging context. Again, we highlight the flexibility of MAPFRE's portfolios to generate gains even in an adverse financial scenario.

Please turn to the next slide.

On the left, you can see the breakdown of the capital structure, which amounted to 11.9 billion euros.

Our credit metrics remain quite strong, with leverage under 23% and interest coverage of 18 times earnings before interest and tax. Our financial strength continues to be affirmed by the main credit agencies. Fitch just recently affirmed MAPFRE's issuer rating at A-, while upgrading the financial strength rating of our subsidiaries in Spain from A to A+. We now have 510 million euros undrawn on our credit facility, which gives us significant financial flexibility.

On the next slide we will take a look at our Solvency figures.

The Solvency II ratio stood at almost 208 percent at September 30th, above our 200 percent target range, confirming MAPFRE's strong and stable solvency position, even in a year marked by high volatility in capital markets. These figures include 500 million euros of subordinated debt issued last September within Tier 2 funds.

The reorganization of our agreement with Banco do Brasil will have a 12 percentage point impact on our year end solvency ratio, which pro-forma stands at 196%, 177% fully loaded, with 88% of Eligible Own Funds in Tier 1.

Thanks. That's all for me for now, and I hand the call back to Antonio Huertas for the closing remarks.

### **Antonio Huertas Mejias**

Thank you. Fernando. Before the beginning of the Q&A session, I would like to reflect again on the achievements of the last few years.

Firstly, we have managed to transform MAPFRE's business model in a highly complex market. Secondly, we have continued with a focus on profitable growth with relevant regions contributing significantly to results – IBERIA, MAPFRE RE, LATAM NORTH and LATAM SOUTH. Thirdly, we have also strengthened our distribution capacity by enhancing our bancassurance footprint.

Moreover, we are confident in the future of Brazil. The economic and political situation is improving and we will be able to optimize the new agreement with Banco do Brasil, in a more favorable environment. On top of that, in USA, we are now beginning to see the effectiveness of the profitability initiatives already implemented, and we are carefully monitoring profitability in underperforming states.

Finally, MAPFRE has delivered dividend stability in a challenging year, proof of our strong commitment to shareholders. That's all from my side. Thank you for being here with us today. I will now hand the call back over to Natalia to begin the Q&A session.

**Natalia Núñez Arana**

Thank you very much, Antonio. We can start with the Q&A.

## Q&A

**Natalia Núñez Arana**

The first question comes from Rahul Parekh of JP Morgan and Andrew Sinclair at Bank of America Merrill Lynch. They ask about MAPFRE's exposure to the Vale event in Brazil, and how much it is reinsured?

**Fernando Mata Verdejo**

Thank you both of you. First of all, I would like to say it was a horrible loss, with a lot of fatalities. We feel quite sorry for those guys and for the people that passed away due to the loss. But the claim, even being in the headlines and the news, is part of our ordinary claims experience. As you very well know, MAPFRE has low appetite for these large industrial risks, and we have low retention levels for this type of risks. In any case, we haven't had a proper estimation so far, but in any case, according to our retention, the worst case scenario will be a single digit loss.

**Natalia Núñez Arana**

Thank you very much. Andrew Sinclair at Bank of America Merrill Lynch has sent us the following questions on MAPFRE RE: Can you provide colour on the nat cat losses in Q4? How much of the losses were from wildfires vs. Japan loss-creep?

**Fernando Mata Verdejo**

Thank you, Andrew, again. We have disclosed the most relevant losses in both our analyst presentation and also the Management Discussion and Analysis report, which is available at the CNMV website. It has not been an easy year, nor an easy quarter, last quarter, with a lot of medium-sized catastrophe events, but fortunately we've been able to manage and to handle the situation.

Let's say that those catastrophic events that we haven't disclosed in our report were not material for MAPFRE RE as a whole. And we're quite happy with MAPFRE RE's results. In a very adverse situation and very challenging context, we reported €149 million net profit. We wouldn't like to blame bad luck for the recurrence of cat losses. As we mentioned during our presentation, what we've seen is an increase in the frequency in cat loss, and the Group and MAPFRE RE have to be prepared, and they are prepared, to handle this situation.

**Natalia Núñez Arana**

Thank you. Ivan Bokhmat at Barclays mentions that MAPFRE's loss from 2017 NatCat events has come down to €155m from €164m as of 2Q18. At the same time other primary companies and reinsurers continue to experience loss creep. Can you please comment on this?

**Fernando Mata Verdejo**

Thank you, Ivan. After one year and a quarter since we released our first estimation of the 2017 NatCat losses in the Caribbean area, we're extremely proud of the estimation we made. Last year, we reported a positive loss development of retained loss. And this year, our gross losses have increased somehow – but again with a €2 million positive runoff in net losses. And it's basically thanks to our reinsurance protection. As I mentioned as well during the third quarter presentation, we are extremely prudent in the cat coverage we bought last year and we still have significant excess reinsurance capacity to cover any further potential deviation. And the net retained losses are not expected to change. So, all-in-all, for those losses, it was a deviation in the gross estimation, but in terms of retention, it was negligible.

**Natalia Núñez Arana**

Thank you, Fernando. The following question comes from Paco Riquel at Alantra equities, regarding US business:

Can you update on the restructuring plan made in the US to date? What would be the clean combined ratio and profits in 2018 with the pro-forma perimeter that you will keep in 2019? What are the new initiatives for 2019?

And along these lines, Ivan Bokhmat at Barclays would like to know the following: You've mentioned US geographic footprint is still being monitored. Should we expect more transactions in 2019?

**Antonio Huertas Mejias**

Thank you, Paco and Ivan. Many questions about the U.S. It's really important to clarify our position about the U.S. Now, we are happier than we used to be, a couple of years ago.

Actually, we are executing our plan with great success. As you know, last year we executed the exit plan quickly, exiting from five states, and with a limited impact in our P&L. In the last quarter of the year, we received the regulatory approvals for the two transactions that were still pending, New York and New Jersey.

Last year, the exited states had net losses of €11 million, of which €7 million were related to the cost of the exit plan, and lower than the €18 million loss in 2017. Looking forward, we must take into consideration that in these states where the exit was by the sale of renewal rights, it will still take some time to see results as the policies reach renewal and roll off our books.

In terms of the future, and our presence in the States, we are very carefully monitoring the loss-making states. And regarding new initiatives and guidance for 2019, we plan to offer you further details at the AGM and our Investor Day. Nevertheless, I have to maintain our commitment with the operation in U.S. We think we have to work with more rigor, with more technical discipline, and trying to reach our main goals. I know that it is very difficult to work in many states where we don't have enough scale, but we are doing our best to improve our presence in some of them.

You know our privileged presence in the Northeast region is very relevant. We are getting excellent results from this region and we expect to copy or to transfer our best practices to other states where we are doing better. For example, California is a state where a couple of years ago we had huge losses, and we implemented a plan to get over this situation in Motor mainly, and actually –nowadays we are close to reaching the breakeven point in this operation. We think that we have excellent knowledge about the American market, and we have to do our best to reach this goal.

#### **Natalia Núñez Arana**

Thank you very much. The following set of questions is with regards to strategy and guidance:

Ivan Bokhmat at Barclays had a question regarding premium guidance. What premium growth do you consider sustainable with the current footprint at constant FX rates?

#### **Antonio Huertas Mejias**

Thank you, Ivan, for your question. But I think it could be better answered at our AGM and Investor Day where we'll reveal the details of our strategic plan and financial targets. We do not expect any major deviation from our current strategy. But there will be a greater focus on transformation and innovation in order to adapt the company to new markets.

We are looking at where we want MAPFRE to be in the longer term, not only in a three-year plan. Regarding a specific financial target, it's still too soon to discuss, but we must take into consideration the current market context. There are already strong signs of slowdown in the global economy. Political uncertainty in Europe should continue in the short to medium-term, and there is uncertainty and volatility still in emerging countries. Furthermore, we aren't expecting a pickup in yields anytime soon, as Fernando said.

In addition to these external factors, our new strategy will continue to be focused on profitable growth, stricter underwriting, and back to basics, which is what will allow us to continue to be a state-of-the-art insurance company, together with our investment in innovation and digital transformation.

**Natalia Núñez Arana**

Thank you very much. The following question, also regarding strategy and outcome is from Niccolo Dalla Palma:

What level of financials gains & losses would you expect in the coming years. Particularly on financial investments: are the 85-100m [in realized gains] of the last two years a good guide for the future?

**Fernando Mata Verdejo**

Thank you, Niccolo. This is a permanent question and discussion within MAPFRE as well. Sometimes we say that the realized gains and other extraordinary for us is part of our recurrent business. We have a lot of money in the equity portfolio and we should get a relevant gain out of this risk. It's difficult anyway, because the outlook is not very positive, but our financial portfolio and also our real estate portfolio are quite flexible. And even in a very challenging situation, we've been able to keep the same pace, a recurrent and stable pace of capital gains.

Regarding real estate, we still have a quite comfortable cushion, approximately €800 million before taxes, like €600 million euros of unrealized gains. Most of them are concentrated in units in Spain. We believe that the real estate market is still quite active, and we have some units in the market, and we believe we will be able to sell some of them.

Regarding financial investments, which is your main point, last year, we made gains both in fixed income and also in equities. At year-end, the market was extremely difficult, with a significant drop in December. We are a little bit more optimistic regarding the equity markets. The first quarter – or the first month is quite promising. And we'll do our best and we are trying to repeat since for MAPFRE it's a recurrent flow of business, and we're trying to keep the same pace of realized gains in 2019. It is not a promise, but history shows that we have done it, and we can repeat it as well next year.

**Natalia Núñez Arana**

Thank you. The next question is from Michael Huttner at JP Morgan. He had a question regarding the business units affected by the goodwill writedowns.

Does the big goodwill writedown in the US and the low profits of the US operations (8m€ 2018 vs 65m€ 2017) indicate an opportunity for MAPFRE to continue its strategy of exiting loss making units?

Does the goodwill writedown on ABDA and on Verti Italy suggest you could also reduce your exposures there?

And Paco Riquel had a question regarding the Italian operations:

What are the plans for the Italian operations after writing down the outstanding goodwill?

**Antonio Huertas Mejias**

Thank you. I have to say that we have already taken a very brave decision about the writedowns in U.S., Italy and Indonesia. Starting with the U.S., as I said, for us the U.S. is a strategic market. We know that we haven't reached our goals in the last three, four years due to many, many factors. We have taken into account that we acquired the operations more than 10 years ago and the market context has changed significantly and quickly since then. The writedowns carried out this year reflect a lower economic and profitability outlook for these units for the medium and longer term and reflect a revised business plan.

Regarding reductions in exposure in a specific state or market, MAPFRE is constantly analyzing its profitability across the markets. And when necessary, we have proven our flexibility to exit non-profitable segments like we did in the U.S. as well as in the Life business in Peru, and other markets. Specifically, regarding Italy, we are seeing relevant improvements with a strong reduction in losses. I said in the presentation that we have reduced our losses in the country and we are closer to the breakeven point. And the combined ratio is lowering little by little.

The restructuring processes were harder than we initially thought at the time of acquisition. And after a tough and prudent review of this business, we have already implemented the measures needed to see the foundations for profitable growth. Italy is in a very difficult situation as a country, as you know, just recently entered in recession. Therefore, we have updated our medium and long-term outlook reflecting the goodwill writedown that took place at year-end. We will still need some time to reach optimal profitability level in this market, but the turning point is just around the corner.

As for Indonesia, we entered the market three years ago. We are still getting to know the market and we need more time to adapt the business model to MAPFRE's business model and to get the most out of the market. We think that we can learn a lot about the Indonesian market and we are trying to be more prudent, because it's a difficult market. The situation with the emerging countries is not easy and we should be very prudent doing business there. But at the same time, we think that it's a promising market and that in the future it can be a very profitable business unit.

### **Fernando Mata Verdejo**

If I may add something, probably you know my opinion regarding the goodwill accounting standards. You know that IFRS accounting standard regarding goodwill are pro-cyclical. This means that the adverse economic cycle with a decrease in future performance expectation bring about the goodwill impairment. So the difficult year reflects in P&L both lower underlying results and also the goodwill writedowns.

And following our prudent accounting policy, we have moderated expectations in some of our regions with a partial goodwill impairment in our profit and loss account in order to avoid the pro-cyclicality I already mentioned. So, what we're trying is to smooth this perhaps big bang that other companies are reflecting in the P&L, when they don't apply a partial impairment or writedowns, and what they do is just a write off of the entire goodwill.

### **Natalia Núñez Arana**

The next question is from Mari Paz Ojeda at Banco Sabadell.

You have undergone an intense restructuring process during 2018, but there is still weak evolution at some businesses like US, Motor in Brazil, Verti Italy, and Argentina. Do you think all adjustments have been made or should we expect further adjustments going ahead?

### **Antonio Huertas Mejia**

Thank you, Paz. Actually, we have acted with what we know now. We have information about the evolution of the economies and our business in some countries, and we have lowered our expectations in these markets. The writedowns carried out this year already reflect a lower economic and profitability outlook for the affected units for the medium and long term – and reflect a revised business plan. Within our prudent balance sheet approach, we consider that this adequately reflects the new scenario.



About Brazil, as I already said, we are very confident in our ability to leverage our expertise in this business within the new agreement, as well as take advantage of the improving macro scenario. You have to remember that a couple of years ago, we had ahead of us many uncertainties. The Brazilian economy was in recession. The political uncertainties were high and we didn't have a clear scenario. But now, the majority of the uncertainties have been cleared and we are very positive. We have made many changes in our technical management approach. We have also changed our main executives in the country and we are opening new avenues for profitable growth in the country.

Finally, regarding Argentina, we have to accept that the current economic scenario in the country is very, very complicated. The participation of the IMF might contribute to a stabilization in the medium term. We expect the country to recover progressively. We know Argentina well; we have been working in Argentina since 1986 and we have seen all types of economic and political situations in this country, even worse than the present scenario. We are fully committed with the country and we will stay in this country because we think that we can grow in a very safe perimeter. We have a defensive operating model in Argentina and we are, in a very moderate way, optimistic with our future in the country.

#### **Natalia Núñez Arana**

Great, thank you very much. These next questions are regarding Brazil, and have been sent by Francisco Riquel (Alantra), Niccolo Dalla Palma (Exane), Andrew Sinclair (Bank of America Merrill Lynch) and Michael Huttner (JP Morgan).

The first one is, can you explain the EUR197m charged directly against equity related to the Banco do Brasil deal and the impact on solvency ratios?

#### **Fernando Mata Verdejo**

Thank you, all of you. The agreement with Banco do Brasil implied a payment of approximately €520 – 519 million, and basically there are two components to this amount. First is the net equity bought from the shareholdings, which is approximately equivalent to €330 million. The other is the excess paid over this net equity, which is €197 million. Any remaining differences are from currency conversion.

This virtual goodwill of €197 million according to IFRS, was booked against reserves. The subsidiaries were already included in the consolidated accounts, so an increase in the shareholding had to be recognized as goodwill. But the amount paid in excess of the equity was booked against reserves rather than recognized as goodwill in our assets.

The impact on Solvency II has been disclosed both in the Management Discussion and Analysis report and also in the presentation. Fully loaded, the Solvency II ratio, would be 177% and the Solvency II ratio would be 196%, more or less.

**Natalia Núñez Arana**

Thank you. The next question is, can you update on the restructuring plan for Brazil?

How rapidly will you get to the 12% RoE target given that the combined ratio has already fallen to 85% in 4Q18 standalone?

What is an underlying run rate for the combined ratio?

**Fernando Mata Verdejo**

Thank you. There has been an improvement in the last quarter, thanks to better margins in new business, particularly in Motor. And as I mentioned on several occasions, we are implementing initiatives to streamline the organizational structure and also processes, mainly in Motor, but also in other lines of business as well.

We are confident about the three-year targets we announced for Brazil; we haven't changed. We are trying to do as much as we can, as fast as we can as well. But the important thing is that we don't want to make mistakes, and so we're going to do it step-by-step in order to be sure that all the initiatives are implemented in the right direction and in order to deliver as soon as possible.

The targets announced, if I can remind you, are the combined ratio below 96% in Non-Life and below 100% in Motor in three years. And we guess that the improvement of results in this period will allow us to achieve the level of ROI, return on investment, that we unveiled as well, which is, if I remember correctly, 10%.

**Natalia Núñez Arana**

Thank you, Fernando. The next one is regarding Brazil Life. Brazil Life had a very weak Q4. What were the main causes of this quarter-on-quarter drop?

**Fernando Mata Verdejo**

The most relevant accounting during the fourth quarter was the variable commissions booked at December as a result of the bancassurance agreement with Banco do Brasil. This variable commission is linked to the fulfillment of the business plan and is applicable from January 1 to December 31.

The thing is, we couldn't book before, because we were waiting to have the contract fully formalized, and this happened November 30. So, the entire variable commission was booked in December. Obviously in 2019, the commission will be spread over the whole year without this fluctuation in the acquisition expense ratio.

**Natalia Núñez Arana**

Thank you very much. The next one comes from Paz Ojeda at Banc Sabadell. She asks about ASISTENCIA:

Regarding the improvement, Asistencia is still far from breakeven. What alternatives do you have for this business? Could you take any similar measures to those applied to Global Risks measures?

**Antonio Huertas Mejias**

Thank you, Paz. Now, I have a more positive view about MAPFRE ASISTENCIA. Actually, if we exclude taxes in 2018, MAPFRE ASISTENCIA had almost positive results, because it was close to breakeven. We think we are closer to new positive development of the company. And we expect to reach profitability soon.

As far as we know, probably in 2019, MAPFRE ASISTENCIA will get into positive figures. We are now working in a new business strategic plan. In the last three years, we have made many changes in ASISTENCIA. We have ruled out many operations in some non-strategic countries and we have started many initiatives to move back to basics, in order to have more technical discipline and more control of the business.

Now, we are more focused on profitable markets and we are continuing to close businesses if they are not positive. We expect to continue exiting other markets and segments in the next few years, but we consider that MAPFRE ASISTENCIA is an important business unit for MAPFRE.

We use MAPFRE ASISTENCIA as an innovation unit and for product development, not only for MAPFRE but also for other general markets. So, that's the reason we believe that MAPFRE ASISTENCIA is going to have a very positive development in the next years and in the new strategic plan, MAPFRE ASISTENCIA will have a very relevant place for us.

**Natalia Núñez Arana**

Thank you very much. The next set of questions is regarding Iberia. They have been sent by Francisco Riquel (Alantra), Michael Huttner (JP Morgan), Niccolo Dalla Palma (Exane), Ivan Bokhmat (Barclays), Mari Paz Ojeda (Sabadell) and Sofia Barallat (Caixabank).

What are you observing in terms of pricing in Spanish Motor for MAPFRE and for competitors?

**Antonio Huertas Mejias**

Spain Motor is again in a very competitive situation. Many companies are trying to increase market share, and it's common in MAPFRE to be very prudent when we observe these kinds of market practices. In 2018, you know we had an excellent year in Motor. We closed the year with 20% market share, outperforming the market with 2.2% premium growth compared to 1.9% for the market as a whole.

I personally think that MAPFRE has a very competitive position. We are beating the market, but also we are doing many new things to improve our competitiveness. We work with new sophisticated market pricing tools and we have an excellent network distribution service as you know and we recently have increased this network with a new agreement with Banco Santander in Spain.

It's not every year we have to think about the possibility of an increase in the combined ratio in Motor insurance in Spain, it's true, because to get a combined ratio of 90% is really, really impressive. But we know probably it's not sustainable, but we think we're very comfortable thinking about target of 92% as an average for the coming years in Motor. The market is still under pressure for competitiveness. It is very challenging, but we are increasing our market share even in big cities.

Madrid and Barcelona are very relevant markets for us and we think that we are beating our main competitors in these markets because of our strategy trying to get into these sophisticated markets. We are opening new sorts of branches, trying to get the advantages of digital transformation, trying to have a more direct and relevant approach to our customers and creating new services and new advantages for them.

The loyalty of our customers is high and we are increasing this loyalty, reducing the turnover every year. We still maintain a gap with the market in the combined ratio – the market at September in Spain had a 95% combined ratio, approximately 5 points higher than MAPFRE. And with our reduced expense ratio in Spain, we can continue doing more things to increase market share.

**Natalia Núñez Arana**

Thank you very much. There has been an updating of Baremo. Have you included the impact of inflation in estimate for outstanding claims reserves?

**Fernando Mata Verdejo**

It looks like there is noise again in Spain regarding Baremo, but there are no changes. As you know, Baremo homework was done in MAPFRE three years ago. What we're doing now is just releasing those complimentary reserves we booked in the past and particularly last year and also this year.

In 2018 again, MAPFRE has gradually booked the updating of Baremo compensation, but this is based on the inflation rate increase. That's it. So, there is no relevant effect in this year, because there is no change on the indemnities included in the Baremo. Having said that, in 2019, the expected inflation rate is 1.6% and this is what we apply to tariffs and also the technical provisions update at year-end. That's all.

**Natalia Núñez Arana**

Thank you. Also regarding Spain, despite a lower impact of weather related events in Q4 vs Q3, the combined ratio of General P&C doesn't show a improvement. Why?

**Fernando Mata Verdejo**

Yes, just one thing, just one comment - Q4 wasn't that good. What was extremely good was December, with no Cat events in the whole month. Obviously, Q4 was more benign than Q3 and also better than last year, but there were adverse weather conditions, particularly in September, and in November as well. September was primarily the run off from hailstorms in August affecting agricultural business, and the way we book is usually one month after the storm. And there was flooding as well; there were floods all over Spain in September and October and November.

**Natalia Núñez Arana**

Thank you. The next question is regarding the impact on Solvency II from the two bancassurance transactions?

**Fernando Mata Verdejo**

Regarding this question, I'm going to improvise, because we made the calculation for both units in Spain, for Non-Life and Life, both transactions, it will affect a 5 point reduction on the Solvency II ratio for MAPFRE Life and MAPFRE Spain. If we extrapolate this to the Solvency II ratio for the Group as a whole, the impact should be negligible, and I mean negligible between a 1% and 2% decrease on Solvency II ratio. So, nothing relevant.

**Natalia Núñez Arana**

Now there is a question regarding the agreement with Santander. What shall we expect from the bancassurance agreement with Santander?

Aren't you worried of some cannibalization with your core business?

**Antonio Huertas Mejias**

Good question. Probably we could have been worried 10 years ago, when we started doing business with other bancassurance agreements and when we started to do digital business with VERTI. Now, we have already answered this question. We are able to share different channels, offering the possibility for customers to choose. Now, it's important to work in an omni-channel environment, offering our customers the possibility to choose for themselves. For that reason, we don't think that the new agreement with Santander could imply cannibalization for our channels.

We think that we're applying our rules well in order to maintain the competitiveness between all of them, Bankia, Bankinter, now Banco Santander, even CCM. And it's important that all of them are competing in an open market arena and without any specific problem.

Regarding the agreement with Banco Santander, we are adding more than 4,000 branches in Spain. And with the omni-channel and omni-product approach, the client is the owner. The client is going to choose. We are strengthening our ability to reach clients with a differentiated offer and distinct strategy.

We are very confident, and we are taking a very prudent approach, because it's common that banks don't have any strong knowledge about the Non-Life product specifics, and they have to work little by little trying to share the sale approach that they have with the good service that companies like MAPFRE can give them. For this reason, we are very prudent with our business plan with Santander and we think that we now need to work every day trying to approach the synergies between both groups, Santander and MAPFRE.

**Natalia Núñez Arana**

Thank you. Regarding the Spanish market, we also have the question, are you interested in the process initiated by BBVA to find a bancassurance partner?

**Antonio Huertas Mejias**

MAPFRE is always open to find out new ways to grow, but I can't say anything specific about this project. BBVA is a great bank, as are other banks, and we have an excellent relationship with them.

In Latin America, we have a close relationship and we have been working with them with specific distribution agreements for many years. For this reason, we can't say more. It's a relevant operation if it's really on the market, I actually don't know. But we are very confident that that we have the footprint that we want and we are trying to mature our current bancassurance agreements.

**Natalia Núñez Arana**

Thank you very much. Regarding MAPFRE RE, Sofía Barallat at Caixabank asks: Could you please elaborate on the evolution of life insurance GWP at MAPFRE RE in the quarter?

**Fernando Mata Verdejo**

Thank you, Sofía. Usually, we see a quarterly fluctuation in Life business, particularly in our reinsurance business. But first of all, I would like to highlight or to point out that there is no change in the MAPFRE RE strategy regarding Life business. Life is very important for MAPFRE RE, because it's part of the diversification and it's a strong contributor to the profit and loss account.

But as I mentioned, in the reinsurance business and also when looking at the premium trends, I think my view is that it makes more sense to look at the annual figures rather than quarterly figures. And this is due to the size of the contracts, and also depending on the time of issuance by the cedents, there can be some volatility in the quarterly figures.

And also, as we mentioned in our financial report, the only relevant fact is that the Life premiums have been impacted in 2018 by the cancellation of a group policy with a European ceding company. This was the only relevant fact regarding Life business.

**Natalia Núñez Arana**

Thank you very much. We are now going to answer two more questions, because we are running out of time. If you have further questions, the Investor Relations team will be available later. After these last two questions, Antonio Huertas will make the final remarks for the full year results. These last two questions are regarding LATAM NORTH and SOUTH and Brazil, and have been sent by Sofía Barallat (Caixabank) and Michael Huttner (JP Morgan).

Could you explain the evolution of the combined ratio in LATAM NORTH and LATAM SOUTH?

**Fernando Mata Verdejo**

Thank you, Sofía, Michael. It would take hours to explain the evolution of the combined ratio in both regions. We are extremely happy. As I mentioned in previous presentations, we're extremely happy with the development of both regions. Some years ago, it was hard to foresee both regions with combined ratios below 100%.

Some of you predicted we stay above 100%. Currently for LATAM NORTH, the combined ratio – correct me if I'm wrong – stands at 98%, and for LATAM SOUTH 97%. So, both are outstanding combined ratios for the region, and it shows the capacity of MAPFRE to produce wonderful underwriting results in emerging countries in both regions.

If we have to summarize, in LATAM NORTH, there are improvements in Mexico and in automobile practically across Central America. The only country which is facing difficulties is Panama, and we are in the process of fixing them. And in LATAM SOUTH, there are relevant improvements in Colombia and also in Chile, as I mentioned. And we are seeing difficulties in, if I remember, Uruguay, and also in Argentina due to the crisis.

**Natalia Núñez Arana**

The last question is regarding Brazil: the 100% Motor combined ratio target used to be stated for 2020 (3 years); is it now a target for 2021?

**Fernando Mata Verdejo**

Yes. As we said, day-one for Brazil is January 1, this current year, 2019. So, the target should be stated for 2021. That's my view.

**Natalia Núñez Arana**

Thank you very much. Now, the final remarks from Antonio Huertas.

**CLOSING REMARKS****Antonio Huertas Mejias**

Thank you, Natalia. I do believe that we had a good year in 2018. Actually, we are satisfied with these numbers. They are good and solid in a very difficult and complicated market context, marked by currency depreciation, volatility in capital markets, low yields and higher NatCat event frequency.



The main objective during the year was to maintain the commitment with our shareholders, and we have taken the decision to maintain the dividend in this context, which is further proof of our commitment to shareholders. These results also reflect a prudent approach to balance sheet situation. We have preferred to sacrifice profit in the year in order to strengthen the company's position in coming years.

Looking forward, businesses that are performing well will continue to do so, and underperforming operations are on the right path to improve.

For all of these reasons, we think that the new strategic plan will be very positive, and we are not making many changes. In the next AGM and Investor Day, we will give more details. It will be a continuous plan to maintain the transformation of the Group, trying to maintain the good margins of our business, and in the majority of the markets where we do business. And we would like to work to put more focus on the digital agenda, trying to change internally as well, and trying to transform the organization, being one of the world leaders in the digital insurance market.

Thank you for joining us. I hope you can attend MAPFRE Investor Day. I'm happy to be here with you today sharing the MAPFRE 2018 results.

**Natalia Núñez Arana**

Thank you very much.

**Fernando Mata Verdejo**

Thank you for joining us; bye-bye.