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SPEECH
FERNANDO MATA

Good morning, dear shareholders.

As our vice chairman Antonio Núñez has explained, 2017 was a year marked by the occurrence of external factors affecting the development of our financial figures, especially stressing the financial solidity of our balance sheet and capital. On a positive note, I would like to highlight the enormous advantages that the diversification of MAPFRE's business gives us, both in terms of countries and lines of business, guaranteeing stability in profit and dividend flows when faced with adverse situations.

First of all, I would like to comment on the catastrophic events of the third quarter in the Caribbean, which were of a frequency and severity that had not been seen before, with a 157 million euro impact on net profits.



These events tested the effectiveness of MAPFRE's reinsurance structure, which protects us against such catastrophes, as well as the ability and capacity to manage losses of this scale, with payments to policyholders that we estimate will exceed one billion euros.

Secondly, I would like to emphasize the unrelenting low interest rate environment in Europe, to which the drop in interest rates in most Latin American countries can be added this year. Professional management of our investments, the solvency of our portfolio and the prudent handling of unrealized gains have provided a sustained flow of financial income to the profit and loss account, supplementing insurance business earnings.

This is why the 700 million net profit for this year reflects the considerable resilience of the business model, both on the financial and underwriting side, to generate sustainable profits.



The third extraordinary factor I would like to mention is foreign exchange movements. 2017 saw a very strong euro, or in other words, all the currencies of the major countries we operate in depreciated in relation to the euro, with the consequent reduction in of value in our overseas subsidiaries. The strength and quality of our capital has mitigated this impact, and the net variation in shareholders' equity was contained, maintaining solvency within the acceptable levels.

I would also like to note in this introduction the continuity of the actions implemented to prioritize profitable business for the Group. This strategy, which involved the cancellation of more than 500 million euros of loss-making policies in 2017, has affected premium growth, but has clearly contributed to improving the profitability of our business.

Now let us look at a breakdown and performance of last year's key financial data.

As you can see, group revenue rose sharply, up more than 3% to almost 28 billion euros.



More importantly, premiums from our insurance business increased almost 3%, both in NON-LIFE, up 2.6%, and LIFE, which was up by more than 4%.

Financial income has fallen, due to the already mentioned low interest rate environment in the Eurozone, and the sharp drop in rates in Brazil in 2017.

Finally, the increase you see in “other income” is due to positive differences in the exchange rate for certain currencies.

Moving on to an analysis by business unit, insurance is obviously the fundamental component of our premium volume, with over 19.3 billion euros, and an approximate increase of 4 percent. Reinsurance is in second place, with a slight decrease but remaining over 4.2 billion. Global Risks premiums topped 1.25 billion, rising almost 4 percent, while Asistencia, which as you know is in the process of restructuring, saw reduced business volume of about 8%, to 984 million euros.

The breakdown of premiums by regional area shows the relative weight of Iberia, with almost 7 billion euros and an increase of approximately 4%.



Brazil's premiums follow Iberia's in importance, increasing by 3.5 percent. In the International area, we saw a reduction in volume in North America under the reorganization approved several months ago to increase profitability, and in EURASIA, primarily due to the depreciation of the Turkish lira. Premiums in LATAM North increased by close to 40%, led by the contribution from the Pemex policy in Mexico of approximately 500 million. And lastly, LATAM South experienced a slight reduction, also due to the negative effect of the local currencies.

Attributable profit came to 701 million euros, a decrease of 9.7 percent. This change, together with the drop in Non-Life results, is explained by the impact of natural catastrophes, of which I will provide a complete breakdown later.

In Life, results decreased by 3.6%, from the drop in the financial result in LATAM.



You can also see here the corporate income tax, at 410 million euros, and the share of results attributable to non-controlling interests of 398 million, which includes benefits corresponding to our partners in bancassurance subsidiaries.

As regards earnings by business unit, the contribution from insurance units is most relevant, increasing by over 12%. The majority of this contribution comes from Iberia, although the profitable growth strategy is producing positive results in other areas. For example, we can see the 19% growth in Latin America, or the International area that has increased its results tenfold over the last 12 months. MAPFRE RE's contribution is also noteworthy, with profits amounting to 163 million euros, despite the catastrophic events of the year. Global Risks reported losses of 66 million due to the same catastrophes, while Asistencia, as you already know, is completing the business restructuring and we are confident that 2017 will be its last year of significant losses.



Here we have the principal catastrophic events that MAPFRE has had to deal with in the past year, which include three hurricanes and two earthquakes all occurring in the month of September. The total impact on net earnings, after reinsurance cover, was 184 million euros, of which 126 million corresponds to insurance and 58 million to MAPFRE RE. This figure is 20 million lower than the first estimate we made at the close of the third quarter.

MAPFRE will compensate its policyholders to the amount of more than 1 billion euros for claims, although the net impact on the group, as you can see on the screen, is much lower, demonstrating the effectiveness of the reinsurance protection.

We will now move on to analyzing a key aspect of Group management, the Non-Life combined ratio, which represents the percentage of losses and expenses in relation to premiums, and which was 98.1% in 2017; and 96.9% if we exclude the effects of the catastrophes.

The 93.7% combined ratio for Iberia really stands out, and specifically the AUTO line at less than 91%, almost seven percentage points lower than the previous year.



In North America, the Combined Ratio without catastrophes would have come in at slightly over 100%. I should also point out the excellent ratio for MAPFRE RE, which was below 95% despite the catastrophes.

Regarding ROE, return on shareholders' equity was 7.9%. ROE would have been over 9% excluding catastrophic events.

It is important to note that, in the principal markets and regions, the ROE is significantly above Group, particularly for Spain, MAPFRE RE and Brazil, which all had double digit ROEs.

Now we will look at the development of shareholders' equity, which dropped by 515 million in the past year, to 8.6 billion euros. The reduction is due to the depreciation of all currencies, without exception, against the euro, led by the falls in the US dollar and the Brazilian real, of 12% and 14% respectively. As you can see in the graph, the negative conversion differences amounted to 639 million euros in 2017.



Moving on to the most relevant balance sheet captions, assets exceeded 67.5 billion euros and showed a slight drop in value, due again to the currency effect.

Technical provisions, which reflect our liabilities to policyholders and clients, increased to almost 48 billion euros.

On the assets side, investments were close to 50 billion euros, and their major component was fixed income and similar instruments, at 84%. MAPFRE's Sovereign debt position exceeds 27 billion euros, of which 16 billion are invested in Spanish Sovereign debt.

On the screen now you can see the Group's capital structure, which is very much the same as in previous years, with a coverage ratio of 18%.

Regarding the Solvency II ratio, we are at 189%, almost double the regulatory requirement and within the target range of 200%, with an upper/lower tolerance threshold of 25 points.

Additionally, the strong solidity of the solvency capital is noteworthy, with 93% classified as TIER 1, meaning maximum financial quality.



I will now talk about MAPFRE's shareholder structure, the dividend policy and information about the share.

As of December 31, 2017, MAPFRE had 193,941 shareholders who owned the 3.079 billion shares in circulation. Of these shares, MAPFRE holds 26.5 million in its portfolio, equivalent to 0.86% of the capital.

As for the financial indicators, the earnings per share were 23 cents. The ratio between market value and book value is 96%, which means that the market capitalization of MAPFRE was very similar to its shareholders' equity at the close of 2017. Finally, the P/E ratio is 11.8, which means that the market values MAPFRE at almost 12 times its earnings.

As you already know, the majority shareholder of MAPFRE is Fundación MAPFRE, with 68.3 percent of the capital. As for the rest, approximately a third belongs to Spanish shareholders and two thirds to foreign shareholders. The Spanish shareholders primarily fit into the individual shareholder profile, while the vast majority of the foreign shareholders are institutional investors.



I would now like to comment on the development of dividends. If the Board's proposal of 14.5 cents per share is approved, 2017 will repeat the amount of the previous year, which was the highest dividend paid by MAPFRE, with a disbursement of 447 million euros, and the payout, meaning the percentage of profits going to dividends, will be the highest in our history, at almost 64 percent.

I will tell you something that very few Spanish companies can offer to their shareholders: since 2012, MAPFRE has distributed almost 2.5 billion euros to its shareholders, completely in cash.

Finally, and before wrapping up, I would like to comment on the performance of the markets.

As you already know, in 2017 we issued 600 million euros in subordinated debt in order to reduce the cost of our financing. The placement was a huge success and was recently awarded year's best issue worldwide in the insurance sector.



With regard to the share, it performed less well in 2017 than the benchmark indexes, especially in the second half of the year, as you can see in the graph, with the occurrence of natural disasters and the currency effect.

MAPFRE has been developing its strategic plan based on profitable growth for two years. In this period, the stock has increased three times more than the IBEX 35, and 15 times more than the benchmark insurance index. What's more, in the first two months of 2018, the revaluation of the share is 5 points higher than the IBEX.

We firmly believe that these facts reflect the trust that our shareholders have in our strategy.

That's all from me. Thank you very much for your attention.