



Investor &
analyst call -
Edited
transcript

12M
2019

February 12th, 2020

Company participants

- Fernando Mata Verdejo, MAPFRE SA Chief Financial Officer and Member of the Board
- Eduardo Pérez de Lema, MAPFRE RE CEO
- Natalia Núñez Arana, MAPFRE SA Investor Relations & Capital Markets Director

Presentation

Natalia Núñez Arana

Good morning, and welcome to MAPFRE's presentation for full year 2019 results. As in previous quarters, our CFO Mr. Fernando Mata will take you through the main trends and figures of the year. On this occasion, it is a pleasure to also have here Mr. Eduardo Pérez de Lema, MAPFRE RE's CEO. He will run through the RE figures for full year 2019, and at the end of the presentation he will also participate in the Q&A session. We will answer all questions received at the Investor Relations email address, during the Q&A. And the IR team will be available afterwards to answer any pending questions you might have.

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

Fernando Mata Verdejo

Thank you, Natalia, and hello, everyone. It is a pleasure to be here with you for the presentation of our 2019 full year results. Looking at the key figures for the period, our top line is growing at a good pace. Revenue is up over 7%, mainly due to the rise in premiums and also the rally in financial markets.

Overall, premiums are up 2.2% with Non-Life growing nearly 3% and Life premiums stable. The combined ratio was 97.6%, similar to the previous year. Performance has been excellent at the insurance units where the combined ratio stood at 96.5%, with a 130 basis point reduction compared to last year. The net result of EUR609 million is up by 15% and, excluding goodwill write-downs, the net result was nearly EUR675 million, down around 4%.

As we announced in December, the fourth quarter results had a large impact from the Japanese typhoons and riots in Chile, which mainly affected the reinsurance unit. Shareholders' equity is up nearly 11%, mainly as a result of the fall in interest rates. The ROE, excluding the goodwill write-downs, would have been slightly over 8%. Our capital position continues to be strong, with the Solvency II ratio at over a 194% at the close of September, in line with our target.

On the next slide, we'll take a look at the key figures by business unit. On the right side, you can see the main figures. Regarding attributable result, I would like to highlight the contribution from our insurance units, that reached EUR806 million. Iberia continues to be the largest profit contributor with a net result of nearly EUR500 million, up 3.6%.

LATAM reached an attributable result of EUR215 million, up 37% with strong improvements in

Brazil and Mexico. International reached around EUR94 million, nearly doubling last year's results with a strong turnaround in the United States, with the largest result in six years.

I would like to point out the reduction of over 1 point in the combined ratio in the International unit and nearly 4 points in LATAM, while Iberia remains stable. All in all, insurance operations' combined ratios stood at excellent 96.5%.

MAPFRE RE results were affected by Typhoons Faxai and Hagibis, and the riots in Chile, with a total impact of around EUR127 million. And the Global Risks segment has also been impacted by large losses this year.

In the Assistance business, excluding the goodwill write-downs and restructuring charges taken in the third quarter, there was a net loss of around EUR12 million.

On the next slide, we'll take a look at the main drivers of the net result. The result before taxes and minorities is down 4%, 11% excluding goodwill write-downs. Please note that these impairments were booked in the Non-Life financial result last year, while this year they were booked in Other Activities.

The Non-Life result is in line with the previous year. There have been strong improvements in Brazil, North America and LATAM North. Even when excluding last year's extraordinary impacts in Brazil and USA, the underlying improvements have been significant. The Non-Life result has also benefited from higher realized gains, mainly at MAPFRE RE.

Life results are down by EUR67 million. This is explained by the non-recurring reversal of a provision in 2018 for EUR130 million in Brazil. Excluding this impact, underlying results are up year-on-year as growing volumes are mitigating the increase in commissions in the bancassurance channel. Regarding Iberia, Life performance is strong with the EUR57 million increase in results.

And the results of Other Activities has fallen EUR97 million due to, first, restructuring charges and losses at MAPFRE ASISTENCIA, especially in the travel insurance business in France, the UK and Belgium. Second, increased expenses from strategic initiatives across the Group, mainly digitalization and innovation. And third, lower financial result of other activities in Brazil, due to the excess of cash held in 2018 for the Banco do Brasil acquisition.

Regarding taxes in Iberia, there was a positive extraordinary tax impact as a result of deductions from previous years booked in 2019, once all fiscal requirements were fulfilled. In Brazil, there has been a reduction in the corporate tax rate as well as a lower effective tax rate in the Agricultural segment.

Please turn to slide 5 to look at the adjusted net result. For the second year in a row, we had large Cat losses affecting results, with two more typhoons and the heaviest rain and storms in Spain since 2012. Regarding large man-made losses, the Chilean riots had an almost EUR24 million net impact, mostly at MAPFRE RE. The reorganization of the US operations had a positive net impact of EUR13 million this year compared to a EUR7 million loss last year.

2019 results had a positive EUR13 million net effect, mainly derived from the already explained tax reductions in Iberia. Goodwill write-downs this year include EUR66 million at MAPFRE ASISTENCIA, booked in the third quarter. And there were several important real estate gains last year for around EUR51 million, and this year, net real estate gains are smaller and were booked mainly in the fourth quarter.

On the other hand, 2019 market conditions in the last quarter were favorable and we finished this year with EUR120 million of net realized gains on financial investments, up EUR36 million compared to last year. Excluding these impacts, the adjusted net result is down by around 3% to EUR671 million.

Please turn to slide 6. On the left, you can see the breakdown of the capital structure which amounted to EUR13.1 billion. Our credit metrics remain quite strong with leverage up slightly to around 22.7%. However, we feel comfortable with this current level, given our solid and high-quality capital position.

As you can see on the bottom left, the EUR300 million increase in debt corresponds to new bank financing to fund 2019 acquisitions. The most relevant were the expansion of our agreement with Bankia for the BMN businesses and the agreement with Banco Santander in Spain. The cost of new debt was well below 1%.

On the next slide, we will take a look at our equity. Shareholders' equity is up around 11%, reaching nearly EUR8.9 billion. The most relevant changes, apart from results and dividends, are first, a EUR715 million increase of unrealized gains in the available for sale portfolio, net of shadow accounting, driven by the sharp fall in rates. And second, the appreciation of the U.S. dollar and to a lesser extent the Mexican peso, which offset the fall in the Brazilian real and Turkish lira.

On the bottom right, you can see the detail of the available for sale portfolio in Iberia, which represents three quarters of MAPFRE's total available for sale portfolio. As you can see, the majority of the group's unrealized gains are in immunized portfolios.

Please turn to slide 8. On this slide, you have the Solvency II information. As you can see the figures are pretty stable and there are no relevant changes to discuss.

Please turn to the next slide. On the right, you can see that assets under management are up nearly 9%, driven by improvements in stock and debt markets as well as currency effects. We are also seeing positive net inflows in both pension and mutual funds. The breakdown of the investment portfolio is on the left. Asset allocation has been stable throughout the year and exposure to government and corporate debt remains mostly unchanged.

The largest exposures correspond to Spanish sovereign debt for a little over EUR18 billion, and Italian debt around EUR2.9 billion. These investments are mainly held in immunized portfolios.

Realized gains in the Euro area reached nearly EUR178 million, and in Iberia, they reached EUR118 million, up EUR9 million, while, in MAPFRE RE, they reached EUR60 million, up by EUR24 million. We continue with a cautious stance regarding asset sales, as we prefer to protect the recurring yield, so most of the gains have been in equity.

Please turn to the next slide. We have disclosed new information that some of you requested in the past, separating burial from the other Non-Life portfolios.

As you can see, burial is a long-tail business where we apply a similar ALM strategy as in the Life business. Regarding Euro-area actively managed portfolios, accounting yields are still relatively high, given the current market context, 1.95% in Non-Life and 3.5% in Life. Nevertheless, the downward trend should continue to impact financial income. We are mitigating this low-yield trend by slightly increasing duration.

As you can see, accounting yields in other main geographies are still well above those in Europe, although, we saw a sharp decrease in rates in Brazil in 2019. Durations are particularly low in Brazil and LATAM North, which gives us room to take advantage of any potential yield increases.

Please turn to the next slide. Before we move on to explain the business units in more depth, I would like to take a moment to talk about MAPFRE's commitment to sustainability, which is part of our DNA. We have been signatories to the UN Global Compact since 2004, and are committed to the UN's Principles for Sustainable Insurance and Responsible Investments. And of course, the UN 2030 agenda.

Regarding the environment, our goal is to be carbon neutral worldwide by 2030, and by 2021 in Iberia. We integrate environmental criteria in our underwriting and investing. Quality employment and diversity are also very important for MAPFRE. Over 97% of employees worldwide have permanent contracts. We also have targets to promote women and have inclusion policies. We recently launched the first fund in Europe for the inclusion of people with disabilities, which has been listed as best practice in the UN Global Compact.

Please turn to the next slide. Let's start with Iberia. In Spain, Non-Life premium growth has been excellent and we have outperformed the market for the last 10 consecutive quarters. Growth in Life protection has been exceptional, up 10% year-on-year.

Regarding the Motor business, premiums are up 1.3% with good trends in both retail and fleets in Spain. The combined ratio is 93.7%, a solid ratio in a very competitive market, where we're seeing some pricing pressure. We're seeing rise in claims cost, affecting property damage, and slightly rising frequency trends in full coverage products.

In General P&C, growth was mostly driven by Homeowners and Condominiums, which were up by around 5% and 9%, respectively. The combined ratio improved 1.6 percentage points, thanks to Homeowners and Commercial lines. There was a negative impact in the last two quarters as a result of the severe rains and storms in the Mediterranean area.

The improvement of the results of other Non-Life is due to strong improvements in General TPL. The Life-Savings result has increased by EUR28 million, and this is explained by three factors. First, realized gains are up EUR18 million, mainly driven by asset sales from surrenders. Second, this year's results include the new Bankia subsidiaries acquired in 2019. And finally, also in 2018, there was a high level of provisioning for actuarial tables compared to this year.

Let's now take a look at Brazil. Premiums grew 2% in local currency with excellent performance in Life Protection, Agricultural and Multi-Risk segments. There was a fall in Motor premiums as a result of greater underwriting discipline and cancellation of loss-making accounts.

The net result amounted to EUR97 million, up nearly EUR43 million. Non-Life result is up around EUR60 million, partly due to the absence of extraordinary negative adjustments, but the underlying result also improved.

The largest profit contributor, this year, was General P&C, and losses in Motor are down with 7 percentage point reduction in combined ratio, thanks to stricter claims management, greater underwriting discipline and new pricing tools. As we already explained at the beginning of this presentation, profit benefitted as well from the tax reduction.

Please turn to the next slide. In LATAM North, I would like to comment on the solid local currency growth trends and the extraordinary combined ratio which stands at 94.7% in a better currency environment. We continue to develop a multi-channel approach in the region, reaching new agreements with new financial institutions. Excluding the multi-year Pemex policy, Mexico has had strong local currency growth of 16%, driven by Life and Property segments. The Motor combined ratio improved over 6 percentage points to below 95%, thanks to tariff and risk selection measures.

In Central America, the combined ratio has improved as well, and results are up. Panama, Honduras, Guatemala, and El Salvador are all seeing solid growth and profitability trends. In the Dominican Republic, premiums are up 12% in local currency and the combined ratio continues improving. Technical performance in Life-Protection was also very good.

Please turn to the next slide. Regarding LATAM South, we've seen excellent local currency trends, but with some volatility. Average exchange rates for the Argentine, Chilean and Colombian pesos are down year-on-year, while the Peruvian sol is up over 4%.

Local currency growth is good in most of our main markets, and we continue developing bancassurance operations and new agreements with car manufacturers.

Peru shows excellent premium growth, especially in Life-Savings. And in Columbia, financial performance has been excellent in the annuity run-off portfolio, with a better ALM policy after restructuring the investment portfolio in July this year. We do not expect further negative impacts going forward. Results in Chile were impacted by the riots with nearly EUR4 million net impact. The fall in results is explained by the 2018 real estate gains. Excluding this impact, underlying results have been rather stable, despite a higher combined ratio in Motor. And Argentina is currently affected by the hyperinflationary economy, as you know very well.

Let's move to North America. The appreciation of the dollar has positively impacted both premiums and results. Premiums are down around 9% in local currency, as a result of the exit from five states in 2018. And also the non-renewal of commercial lines in all states but Massachusetts starting this year.

The attributable result is up over EUR49 million in the U.S., last year was affected by extraordinary winter weather as well as the cost of the exit of the five states. And 2019 results are benefitting from EUR13 million net positive adjustments, already discussed at the second quarter. And excluding extraordinary impacts, underlying results have improved over EUR17 million.

Outside the Northeast, we've seen a reduction in losses and combined ratios across the regions. And finally, positive profitability trends continue in Puerto Rico with over EUR20 million in results and a combined ratio below 91%.

Please turn to the next slide. Italy continues with strong improvements in the combined ratio, down 3 percentage points. It is also important to mention that Italy is already delivering over EUR2 million in profit on a stand-alone basis, excluding consolidation adjustments. As we announced last quarter, we're working on the process of transforming our Italian entity into a VERTI Spain branch, under EU regulations. The plan is a little bit behind schedule, but it's

moving forward.

In Turkey, we are still seeing a drag from exchange rates. We continue with a defensive business model, reducing our MTPL exposures. The net result continues in positive territory, but it is still down compared to last year. The drivers behind the fall in results are, first, inflation and currency depreciation, which are having a negative impact on spare parts, and other claims costs, partially offset by investment in euros. And second, MAPFRE's participation in the compulsory high risk MTPL pool which has had a negative impact of EUR5 million, mainly booked in the second quarter this year.

In Germany, premium trends continue to be positive with an improving result and resilient combined ratio. Please turn to the next slide, I will now hand over the call to Eduardo Pérez de Lema.

Eduardo Pérez de Lema

Thank you, Fernando, and a pleasure to join you this morning. Concerning the performance of MAPFRE RE in 2019, premiums are up by 12%, fueled by the reinsurance unit, particularly in the Non-Life business. Growth comes mainly through increases in shares in our key client relationships, one large transaction in the US for the Group and, also it is benefiting from currency movements especially from the US Dollar.

On the other hand, in the Global Risks segment, premiums declined mainly due to the transfer of the portfolio that MAPFRE Global Risks used to write through their European branches to the Reinsurance unit, which offsets the very strong pricing momentum on the retained portfolio, initiated in the second half of 2019.

We continue working on the non-renewal of unprofitable business in the Global Risks segment. And as we announced recently, we discontinued underwriting facultative business in our London branch. As for the Life business, the fall is due to the timing difference on certain large transactions. The combined ratio has been affected by several large claims that exceed our annual large loss budget.

The most relevant pre-tax impacts include Japanese typhoons for EUR151.5 million, the riots in Chile for EUR28 million, another number of large claims that almost amount to EUR80 million, compared to EUR65 million in 2018. And also the impact on our Agricultural business of the Brazilian drought that impacted almost with EUR15 million. There also has been an increase in frequency of attritional claims compared to an exceptionally low level that we had in 2018.

The result of the Life business is down due to the reduction in the financial income. The

underlying profitability of the portfolio, the Life portfolio, remains strong. Net financial gains before tax are up by nearly EUR25 million, reaching EUR60 million in 2019.

Now I would like to switch to the next slide, where we would like to review the outcome of our January non-group treaty renewals. As you know, at year-end, we renew most of our non-group treaty portfolio. In premium terms, that represents above 75% of our premiums.

In general terms, it has been a very positive campaign for MAPFRE RE. We achieved overall growth of more than 10% on our premiums, while we were able to improve our underlying profitability on a portfolio that we already considered to be balanced and healthy. This was achieved both through moderate risk-adjusted pricing increases on wide parts of the portfolio, pruning off certain underperforming treaties, and further line of business diversification.

We also were able to renew our retrocession program with some optimization of our structure, keeping stable retention levels, long-standing support from our main counterparties and pricing changes that are in line with the ones obtained in our inwards business.

Now, I would like to hand back the floor to Fernando.

Fernando Mata Verdejo

Thank you, Eduardo. Quite clear and straightforward explanation regarding MAPFRE RE's figures.

On the Slide 17, you can see the results from MAPFRE ASISTENCIA as well as the breakdown of extraordinary items and underlying results by business region and product line. On the left, you have the breakdown of the gross operating result, excluding write-downs and restructuring costs. As you can see the losses are concentrated in three countries, in the travel insurance business, while most of the other operations are delivering positive results. As we announced last quarter, we will continue streamlining the organizational structure, exiting five countries, and going forward, the Assistance business will be simpler and for sure, more efficient.

Please turn to the next slide for the closing remarks. Performance of the insurance business has been outstanding, reaching a net result of over EUR800 million, up 18%. This is our core business. The combined ratio of the insurance units fell to 96.5%, thanks to our profitable growth strategy.

MAPFRE RE will continue to be an important contributor to our earnings and a strategic unit over the cycle and will reduce exposures in Global Risks in order to lower volatility. We

continue to be focused on technical excellence and profitable growth across the Group. We are an insurance company and our profits are mainly from the underwriting result. Financial income is a complement to our technical result, but not our main goal. Nevertheless, we have a privileged portfolio with above market yields and a significant buffer of unrealized capital gains.

We will continue to create value for our shareholders, streamlining operations to increase efficiency and profitability. Going forward, our transformation process is key, based on investing in innovation and digitalization.

Thank you for your attention. Now, I will hand the floor over to Natalia.

Q&A

Natalia Núñez Arana

Thank you, Fernando. Thank you, Eduardo. Now, we can start with the Q&A session. The first question comes from Ivan Bokhmat, Barclays; Sofia Barallat at CaixaBank BPI. They have asked, regarding the positive tax impact registered in this quarter: Should we expect any recurring benefit from low tax rate observed in 2019, particularly in Spain?

Fernando Mata Verdejo

Thank you, Ivan and Sofia. I already knew this was going to be the first question of the Q&A. This is the key extraordinary impact that we booked in the fourth quarter and also an important driver for our result as well. As explained in the presentation, this tax issue was a one-off positive net impact.

The net impact was EUR13.2 million, and mainly was the result of the correction of a double taxation with regards to profits from MAPFRE Vida subsidiaries for previous fiscal years, mainly 2013 to 2016. The double taxation was a result of a complex interpretation of the law applicable at that time, which is no longer in force. And profits from these subsidiaries were non-taxable as the sale price at the moment of the acquisition that we paid to the seller included future profits. And the seller already paid taxes on this concept because it was realized gains for the seller, when accounting for the gain from this transaction.

Since 2017, a tax audit has been carried out by the tax authorities. We expect this tax audit to end in the very near future. And the main problem is that we had to wait for this routine tax audit to be completed before filing for this correction. While the tax audit was being done, we

couldn't file additional or corrective tax returns in order to correct the situation.

So at the end of this quarter, and once we obtained the proper fiscal documentation from the seller, we agreed that it was 100% sure that this tax credit would be included in future tax returns. So, also, since the tax audit was currently being done by the tax authority, we agreed with the tax authorities on this interpretation, and the relevant deductions were booked and applied in 2019. The EUR13 million is the net effect of approximately a EUR40 million tax credit and another, between EUR15 and 20 million in tax liabilities, and also other extraordinary tax impacts that were booked during the first and second quarters in 2019. It's very complex, but I think this explanation will help you to understand this taxation.

Natalia Núñez Arana

Thank you very much, Fernando. The next question goes to Eduardo and is coming from Niccolo Dalla Palma at Exane. He would like to know your annual large loss budget to which you make reference on the slide 18.

Eduardo Pérez de Lema

Well, we disclosed that figure at Investor Day the last year. The large loss budget that we have is 275 million pre-tax for the reinsurance unit only. That doesn't include the Global Risks portfolio, which is different. And last year, what we had in 2019 is pretty similar to 2018. Actually, on the cat side of losses it is almost exactly the same figure, because both years we stopped our cat losses at the deductible of both our occurrence and frequency covers. So, both years are very similar in size in terms of cat events. On the Global Risks side, the large loss figure was significantly higher in 2019 compared to 2018.

Natalia Núñez Arana

Thank you very much, Eduardo. The next question comes from Ivan Bokhmat, Barclays and Sofia Barallat at CaixaBank BPI, who have sent these questions regarding gains: what run rate do you anticipate for 2020? Should 2019 serve as a reasonable base? Do you reiterate your guidance of EUR100 million realization gains per year?

Fernando Mata Verdejo

Yes. Thank you, Ivan and Sofia. As we already explained in previous presentations, realized gains for MAPFRE are a permanent source of income in our results. But as you know, financial targets are focused on improving our technical profitability. We're focused on underlying

results; financial results, particularly realized capital gains, are a complement. I know that the number is pretty high, because we have a lot of exposures on equities, but we should assume that this is a mere complement of our underwriting results.

Over the last three years, we reached significant net realized gains. The range is between 120 million and 130 million, more or less, net of tax, with a combination of both real estate and also financial investment gains. As I said at the third quarter and fourth quarter presentations, we had as available for sale some large units in the real estate markets and we expected to complete some of these transactions. Unfortunately, we didn't do it and the offers we got weren't big enough for us to take. And so, as you may see, the figure for real estate gains is quite modest, just above EUR10 million, including part of the release of provisions.

On the other hand, 2018 was quite active in terms of real estate gains. And if I remember well, the amount was over EUR50 million with relevant units sold, particularly in Chile. The units that we expected to sell in the fourth quarter are still in the market, the relevant ones, and we are pretty optimistic that we can sell some of them throughout 2020. Regarding the level, we consider EUR100 million net on realized gains a reasonable level. This is mainly the track record from previous years; this is the number that we made in previous years.

Our portfolio is quite flexible and we can mix real estate and financial investments as well. At the end of last year, we finished with nearly 50 million in unrealized gains on equity, so we got a good buffer for 2020. And we take advantage of market opportunities, as we said, as well, in equity and bond portfolios. Last quarter, the fourth quarter, was pretty good, with the rally in the equity markets and we took advantage of this situation. But anyway, we maintain a prudent approach to gains, talking about the bonds, and we prefer not to touch our fixed income portfolio because our main goal is to protect our recurring ordinary yields and to protect recurring financial income.

Natalia Núñez Arana

Thank you very much, Fernando. The next question is for Eduardo, Ivan Bokhmat at Barclays asks: Do you believe the increased prices and better terms and conditions cover the increase in loss cost inflation and retro costs for 2020? How much of a benefit to combined ratio do you expect from January 1 renewals?

Eduardo Pérez de Lema

Thank you. Well, what I would say, first of all is that we really don't expect any loss cost inflation or loss creeps to affect us on the events that we had both in 2018 or 2019, because

we are fully reserved up to the level of where our protections would attach. We're not going almost into the protections, but we are reserved up to the deductible. So, we don't expect any impact on or we wouldn't have any impact on loss inflation.

In what refers to our retro cost for 2020, we didn't suffer significant retro cost increases. Although, we know that the market has been tough in that part of the industry. The main difference for us is that we haven't almost ceded any claims to our retro program since 2011, so our retro program has been profitable for reinsurance. So we didn't have to go through massive adjustments. What refers to the wider market, we haven't seen a really hard market across the whole reinsurance market. We have seen improvements. We have seen some segments where there have been massive price increases, but not across the whole market. I would say the portfolio overall is somewhat better than the year before, but not massively different to what we had before. To measure that in terms of combined ratio is very difficult and not easy to answer. I would say, with the current portfolio, we think we can achieve margin levels in line with the historical profitability of MAPFRE RE. That's what I would say right now.

Natalia Núñez Arana

Thank you very much, Eduardo. The next question comes from Niccolo Dalla Palma; it's regarding Brazil. The first one is Brazil minorities. How much of the 230 million minorities can we attribute to the Non-Life business, and how much to the Life business?

Fernando Mata Verdejo

Thank you, Niccolo. After the restructuring of our shareholdings with Banco do Brasil, the final agreement with MAPFRE and Banco do Brasil, minorities are mainly in the Agricultural and Life Protection business. We're running both lines of business as well in the MAPFRE channel or in the MAPFRE 100% shareholding, but in the majority of the Agricultural and Life Protection business we have a 25% economic shareholding. You can find the attributable result, net of minorities by line of business for Brazil in the presentation.

As you may notice, we don't disclose line of business by Bancassurance channel and MAPFRE channel, because BB is also reporting the numbers in a separate presentation. So, basically, this is the information that we can give you at the moment. But any additional information, we will get back to you after the call and Natalia will give you more information.

Natalia Núñez Arana

Sure. Thank you, Fernando. The next one is regarding Brazil combined ratio. How much of the 92.2% is due to a better than normal year in the Agro segment? How could you quantify the normalized combined ratio for the region?

Fernando Mata Verdejo

Well, first of all, we're extremely happy with the 92% combined ratio in Brazil. If you remember, at Investor Day, we said that the combined ratio target for the three-year period was 96%. Unfortunately, we're still working on automobile, which ran a combined ratio well above 100. And in the remaining lines of business, the combined ratio is well below the combined ratio target of 96%.

The improvement in General P&C combined ratio is driven by, basically, several lines of business, transport and other retail multiperil lines as well. And from a combined ratio perspective, 2019 wasn't a great year for Agricultural, due to the droughts and rains during the first half of the year. My view is that it doesn't make sense to talk about a normalized combined ratio in Agro insurance, since this particular line of business is subject to a lot of volatility because there are seasonal effects throughout the year. So, I don't think it's correct to talk about the normalized combined ratio.

Eduardo Pérez de Lema

And also if you allow me to jump in on this one. On this Agricultural segment in MAPFRE Brazil, the business there is not only crops which is volatile by nature and we know that, and very well protected through reinsurance. But at the same time they have a large part of the portfolio that is other kinds of P&C business linked to the Agricultural sector that is much more stable -- its very profitable and giving very stable results over time.

Natalia Núñez Arana

Thank you very much, Eduardo. We continue with the questions regarding combined ratio in Brazil. And the next one comes from Edward Morris from JP Morgan. The combined ratio appears to be running well ahead of the target 96% for the group - 92.2% for full-year '19. What drove this and do you see this as sustainable?

Fernando Mata Verdejo

Yes. Thank you, Edward. As I mentioned, General P&C ratio was the star last year and with a significant improvement in this current year. And on the other hand, the Motor combined ratio is still pretty high, well above 100; it's like 107. We expect both combined ratios to converge to more reasonable long-run trends. So, we are keeping our objectives to lower combined ratio in automobile, in order to achieve a 100 in the two remaining years. But frankly, the General P&C combined ratio, which is currently at 79%, to me sounds quite unsustainable in the future. So, it's quite similar to what happened in Spain as well, and probably we will see some increases in P&C combined ratio in the future.

Natalia Núñez Arana

Thank you very much. We continue with the combined ratio topic in Brazil. On a quarterly basis, MAPFRE Brazil's combined ratio deteriorated. Could you elaborate on the reasons behind this performance?

Fernando Mata Verdejo

Yes. Thank you. There were two relevant facts, not very important, but they affected the fourth quarter combined ratio results. First, was the uptick in Agro insurance in the fourth quarter. And also it was a sliding commission adjustment from reinsurance that the standard in this industry is to wait till year-end in order to adjust the range from the sliding commission. So, we booked this positive effect at the end of the year. Eduardo, sorry?

Eduardo Pérez de Lema

Negative

Fernando Mata Verdejo

It was a negative effect; sorry about that.

Natalia Núñez Arana

Thank you very much. Now, one more question regarding Brazil. Ivan Bokhmat at Barclays has the following question. Interest rates in the country continued to come down along with further Forex

headwinds of weaker real versus euro. How much of an impact do you now expect from lower investment results in 2020?

Fernando Mata Verdejo

Yes, Thank you Ivan. Our Economic Research department is forecasting for 2020 quite stable euro-real rates. So we shouldn't expect a relevant impact from currency. And also talking about the U.S. we expect the U.S. dollar to be quite stable as well. On interest rates, it is completely different and two years ago the Selic rate was well above 12%; currently it is 4.2, I guess. And so we probably expect further reduction. It will depend on the current expectation of GDP growth in emerging countries and with the current situation worldwide it is quite difficult to see what is going to happen in Brazil. In any case, as we disclosed in our presentation, duration in Brazil is pretty low, and we're still keeping a good accounting yield, well above 5%. So, we can take advantage of any further market opportunities to keep our yields or to increase rates, increasing duration.

Natalia Núñez Arana

Okay, thank you very much. Now we have one question also for Eduardo. Paz Ojeda at Sabadell has this question on USA and MAPFRE RE. Could you confirm your exposure to the U.S. casualty business? Do you think that the increase in reserves could be a risk for you as we are seeing in other insurance companies?

Eduardo Pérez de Lema

Well, specifically our reinsurance portfolio exposure is nil. We don't write any US casualty at all and never have, so we don't have any exposure to that right now, and don't foresee having it. I can cover also the insurance side, I would say for what we are seeing in the U.S. casualty developments, it doesn't affect our insurance operation either. Our insurance operation is almost exclusively a personal line operation, very heavily driven by Motor, and we are not seeing that impact that severely on our insurance portfolio either. So, I think, it's a significant market trend, but not a MAPFRE event.

Natalia Núñez Arana

Thank you very much, Eduardo. We have now a question that a lot of people are asking about. Niccolo Dalla Palma, Edward Morris, Ivan Bokhmat, they want to know more about 2019- 2021 targets. You said you would update on your public objectives. What can you tell us about the new

objectives? What indicators are you most concerned about? Should we expect the 10% ROE target to be revised down to 9% or lower? Could you update on your view of the 96% combined ratio target? And how much of the underperformance this year has been driven by one-offs versus structural factors? Tough questions, but I guess you can group them.

Fernando Mata Verdejo

Yes. Thank you, everybody. I expected this question as well. As we said in previous presentations and also included in the relevant fact filed with the CNMV in December, if any, we will update our targets and objectives for the three-year strategic plan at the AGM. Having said that, we shouldn't expect any relevant change in the basic KPIs. The KPIs that we publish for our strategic plan are the basics of the insurance industry, and we will keep talking about the combined ratio, total shareholder return, net equity, premium growth and so on.

And what we are currently analyzing and we have to present first to the board and then to the AGM, is if there is any change in the metric regarding these indicators. Which is the toughest? As we mentioned, ROE seems to be quite tough at the current moment, in the current situation, due to the extraordinary events that we suffered during the first year of the new strategic plan. But we will give you more color at the AGM. At the moment, that's all I can say.

Natalia Núñez Arana

Thank you very much, Fernando. One more question about MAPFRE RE, from Paz from Sabadell. In addition to the cancellation of facultative reinsurance, have you planned any other restructuring or cancellation measures?

Eduardo Pérez de Lema

Yes, thank you, Paz. First of all, we discontinued facultative reinsurance in London only. We continue writing facultative business elsewhere and we will continue to do so. We discontinued our facultative book in London, because obviously results haven't been good. That's a fact. But also it didn't strategically fit into the portfolio under the new structure of MAPFRE RE and MAPFRE GLOBAL RISKS. We see other places where we can deploy our capital more efficiently. So that was the reason we canceled our reinsurance operation in facultative.

Apart from that, there is no plan for a major restructuring anywhere else. What we do is we constantly review our portfolio and our individual relationships, and where we see profitability or

margin issues, we try to negotiate restructuring of treaties or better terms. And if that is not possible, we eventually cancel our relationship. We had quite a few of them during the last renewal season that were under review. We can say, fortunately enough, especially in some markets that were under review, we were able to obtain improvements in conditions and structures that allow us to continue in the treaty, but this is normal work that we have to do every year on our portfolio. So to answer the question there are no plans for further restructuring or cancellation structurally on MAPFRE RE. Of course, we constantly review individual relationships and treaties and see how we can obtain the margin that we need.

Natalia Núñez Arana

Thank you very much, Eduardo. Now, one question from Niccolo Dalla Palma and it's regarding Italy. Several years after the acquisition, the profitability is still quite poor. What structural actions have you put in place to address this?

Fernando Mata Verdejo

Thank you, Niccolo. First of all, I will elaborate a little bit longer regarding Italy. Italy was a strategic acquisition in 2015, if I remember well. Rather than starting the digital business from scratch as we did in Spain from VERTI, we acquired a company with a lot of structural inefficiency, it's clear, but with a very good client-based platform in order to convert it into a digital business following the Spanish VERTI standards. This is a process that is taking longer than we expected, but it is moving forward and it's following the deadlines that we set.

We have seen relevant technical improvements in Italy. The combined ratio is down 3 percentage point this year, but it is still above 100. It means that more actions have to be taken in order to reduce and to get an acceptable level. On local accounts, as I said, the Italy operation is reporting a good profit - 2 million and also is generating cash. So, part of the objectives are done and the turnaround is already made.

Also, we are investing in Italy and as you know there is a new IT platform, and also some of the costs have been reduced, particularly the head count, in the past. And we are quite positive with the near future and we believe we will be able to reduce costs and also to convert it into a profitable business. The transformation of VERTI Italy at the moment is key. And we would like to have it converted this year into a VERTI Spain branch under EU regulations. It would be an

important driver to help consolidate all the digital operations at Group level, and also to take advantage of potential cost savings and also synergies within MAPFRE Spain group.

Natalia Núñez Arana

Thank you very much, Fernando. We have a question from Edward Morris from JP Morgan, regarding the investment portfolio. What is the reinvestment rate on the fixed income portfolio for Non-Life, overall? Can you quantify the year-on-year headwind to your financial income from the current level of interest rates? And what structural actions have you put in place to address this?

Fernando Mata Verdejo

Yes, thank you, Edward. First, regarding expectations in the future, our Economic Research department is expecting the 10-year Spanish bond to be, at the end of the year, nearly 70 basis points, which is an important increase compared to the 0.47 percent at the beginning of the year. So, the reinvestment yield will be within this range, between 45 and 70 basis points for Spanish bonds, a little bit higher for corporate bonds and also for sovies in other countries.

You can see the figure for our main investment portfolio on page 10 of our presentation. The Non-Life yield is slightly under 2% and around 3.5% in Life. Accounting yield has decreased approximately 22 basis points this year; it's one of the lowest for the last five years, and is part of our harvesting the fruit of protecting our recurring yield in the past.

Regarding duration, we have increased duration not that much, to mitigate the fall in rates and you can see this as well in the presentation. And as I mentioned particularly in LATAM, we still have room to increase yield, diversifying portfolios with alternative investments and also increasing duration, particularly in LATAM South. We have an over 1 billion budget approved by the Board for alternative assets. Approximately 320 million has already been invested, and are delivering a good yield in our balance sheet. And the majority of these investments, a large share of these investments is in real estate with yields between 4% and 4.5%.

Natalia Núñez Arana

Okay. Thank you very much. Now, we have one more question for Eduardo Pérez de Lema. Alfredo Alonso at BBVA has sent two questions. How are the measures taken on GLOBAL RISKS affecting

the performance in 4Q '19? What are your expectations going forward? Is the improvement in premiums sustainable?

Eduardo Pérez de Lema

Well, I would say, the measures taken on GLOBAL RISKS, we're starting to see them. Unfortunately, on insurance and reinsurance, things take a bit longer to go through the accounts, but very clearly we are seeing specifically on that segment what I said before - in general for the reinsurance industry, it's not exactly a hard market yet. But specifically on the segments that MAPFRE GLOBAL RISKS is operating, it is a significantly harder market – or we could also call it a hard market. And our expectations are positive on the outcome of that specific part of the portfolio; because really there the conditions have changed dramatically since mid last year and very significantly into renewals into 2020. So, the conditions that we are seeing on renewals, depending on segments, are very significantly different today than they were a year ago, and that will definitely go through the accounts.

Regarding how sustainable those improvements are, I would say they need to be sustainable because the good or bad thing is that it's not a MAPFRE GLOBAL RISKS problem, it's an industry-wide problem. And across the industry, the results have been poor in that segment for a long time. And I think, there is a very clear message everywhere that there is a need for improvement and that to be sustainable. So we are confident that on the portfolio where we will remain, we will see improved performance for sure and that should be a little bit longer sustainable. At the same time, we have to be aware that this is probably the most volatile portfolio that we have in the company, and it's subject to large losses any time. Even with the best pricing, we will see years with a really outstanding performance, and years with bad performance, just depending on volatility of normal claims activity.

Natalia Núñez Arana

Thank you very much, Eduardo. Now, we go to North America. Alfredo Alonso at BBVA has the following question: What are the main reasons for the quarterly deterioration in North America? What are your expectations going forward?

Fernando Mata Verdejo

Thank you, Alfredo. Yes, there was a slight deterioration on the fourth quarter, but the context was very positive. There is a general improvement in the year in the United States, and we're very happy with the performance given by this unit in 2019. And let me be quite clear that the US has fulfilled the expectations that we had for this year.

Usually, the fourth quarter of the year is typically the worst quarter in the year. Because of the snow and also the winter effect, and usually there are snow storms, freezing temperatures as well. This is the main reason for this deterioration. Going forward, we're still transforming our business in the U.S. As I said in the presentation, in 2018, there was the exit of five states that we performed in that year.

In 2019, we announced the non-renewal of commercial lines in all the states but Massachusetts. We are looking into and analyzing our current footprint in the US and frankly, currently, there are three states on the radar. First is Arizona, second is Pennsylvania, and the third is Florida. Pennsylvania – I have to clarify that Pennsylvania is the state where we're running VERTI operations – and we are looking into the traditional business in Pennsylvania, which is running from the former Commerce business.

Analyzing means that we are looking for different opportunities in order to find a solution to the loss-making operations. And probably in the future -- in the near future – we'll see if there is appetite for other players in order to reduce our exposure in the U.S. with further exits. Obviously, the process is pretty long, because we need some actions, it requires some approvals from the supervisor in each state. But probably, we will move forward in order to reduce our footprint in the States. The strategy is pretty clear -- those states that are loss making operations, and that don't achieve the minimum size in order to be profitable in the future, they are on the radar, and this means that we are looking for potential opportunities in the market to find a final solution.

Natalia Núñez Arana

Thank you very much, Fernando. One more question about MAPFRE RE, and it comes from Sofia Barallat at CaixaBank BPI, who asked: although acknowledging that it is very early, are you expecting any impact from the adverse weather in Sao Paulo and Peru, or are these weather events in regions where you are not exposed to?

Eduardo Pérez de Lema

Well, thank you. The easy question is we are exposed both in Brazil and in Peru to weather events, both on insurance and on reinsurance. But honestly, they happened two days ago, I think. So, it's extremely early to see where exactly they affected and to what extent. So, right now, it's impossible to say, if there is any meaningful exposure that can affect us. My impression would be that if any, it should be something within the attrition of natural direct exposures that we have in a given year, but I would be very careful with any expectation of that.

Natalia Núñez Arana

Okay. Thank you very much, Eduardo. Now we are going to Iberia. We have some questions coming from Ivan Bokhmat at Barclays, Alfred Alonso at BBVA, Paz Ojeda at Sabadell, and Sofia Barallat at CaixaBank BPI. They have the following questions regarding P&C and Motor dynamics in Iberia. P&C combined ratio has increased in Q4 '19 despite relatively mild weather. Could you talk about the dynamics in the Motor segment in particular? How much did you increase prices in 2019, and do you believe this covers the pick-up in frequency and severity? Should we still consider 94% combined ratio to be a good target for 2021? What are your expectations for Motor insurance premiums in Iberia in 2020?

Fernando Mata Verdejo

Thank you. Ivan, Alfredo, Paz and Sofia. If I may disagree, the fourth quarter wasn't mild weather; we didn't have mild weather. Just the opposite – we were affected by several DANAs, what we call DANA, but it was severe weather, big storms and rain over the Mediterranean area and particularly affecting the south of Spain and also Catalonia. And the trends follow, as you probably are aware. And January also had a hit in terms of severe weather in Catalonia. I should say as well that most of the damage coming from this severe weather is covered by the Consorcio, which is the cat pool in Spain, particularly wind and flood damage.

But anyway, the rain has affected the loss ratio in automobile because of the car crashes and also more frequency in this business. Regarding the outlook, to report a combined ratio of below 94% in these circumstances is very good. Obviously there is an increase, but what wasn't sustainable was a combined ratio below 90, as we reported in previous years. The market is still very competitive with a lot of pressure on prices, two peers as well, other large competitors as well, out

of the top 10, are reporting increases in loss ratio. And also that has been affected by negative loss developments derived from the Baremo, which is not affecting MAPFRE, obviously.

Regarding Motor dynamics, as I mentioned, some increases. We have seen increases in material damage, claims cost, as well as frequency. We consider this trend more structural than temporal as a result of the aging of the Spanish fleet. 2019 figures regarding new cars sold weren't good, because of the lack of fiscal incentives in order to renew the fleet, and also it's affecting -- the situation is affecting the Spanish fleet, which is the second oldest in Europe, if I remember, after Poland.

We consider the Motor combined ratio in a range between 94 and 92 to be sustainable. The lower end of the range would be perfect for our expectations, but we consider this range reasonable. And also we expect some volatility on a quarterly basis because of the severe weather and also seasonality. And regarding pricing, MAPFRE is focused on increasing our share in more experienced drivers. So, there is a slight decrease in average premium because those are drivers who have a reduced premium, and we're leaving some segments of young people which is more difficult to handle, as well. So this is the main reason for the decrease in premiums. Anyway, 2020 renewals, in terms of price, we're increasing them based on inflation cost and also the increases of material damages, basically labor increases and also increases in frequency.

Natalia Núñez Arana

Okay, thank you very much. So more or less you have answered the next question, about how much of the deterioration on the combined ratio comes from pricing pressure. Do you want to elaborate more on that?

Fernando Mata Verdejo

There are the three factors. Prices are very competitive, but also there is an increase in frequency and in costs, as well on property damage.

Natalia Núñez Arana

Okay, thank you very much. Also, we have a question from Sofia Barallat and Paz Ojeda about Gloria storm. Do you have any initial preliminary estimate on the potential losses related with the damages resulting from the recent Gloria storm? Can we expect a similar impact from that of the DANA?

Fernando Mata Verdejo

We do not have any estimation, but it won't be that big like the one we had in September and October. So, we shouldn't expect any relevant impact from those storms.

Natalia Núñez Arana

Okay. Thank you. This question is about DANA and the Consorcio. Which lines affected by DANA were not covered by the Consorcio? From the Q4 impact, do you expect to recover anything from the Consorcio?

Fernando Mata Verdejo

Well, as I said the Consorcio, which is the cat pool in Spain and is compulsory, covers wind and flood damages from storms, without a certain limit. And basically the damages that are not covered and they're covered by the private insurance business are leaking in Homeowners and obviously car crashes from automobile.

Natalia Núñez Arana

Thank you very much. Now I have to tell you that we have five more minutes, because our CFO Fernando Mata has to attend the press conference. So we will try to answer a few questions, but perhaps if we can't answer more, the Investor Relations team is available if you need them. The next question is from Alfred Alonso, regarding the Life business in Spain. What are your expectations on Life business? How could you mitigate the impact from the flattening interest rates curve?

Fernando Mata Verdejo

Well, I don't have a crystal ball. We are making our best effort in order to grow this business. Life business is key for MAPFRE, one of the strategic lines of business, particularly in Spain, where we have relevant Bancassurance agreements with Bankia and Bankinter. We focus on Life Protection, and we reported significant growth in both distribution channels – the MAPFRE agent channel, and Bancassurance.

And regarding savings, it will depend on our ability to market attractive products – usually unit linked – in order to cover any particular demand from policyholders, which is very difficult to

assess at the current moment. But we are working pretty hard in different products and we are trying to keep the current pipeline of new products throughout the year. But currently it is very difficult to forecast any particular rate of growth for Life Savings in Spain.

Natalia Núñez Arana

Thank you very much. Two more questions. One regarding dividend: Is the dividend per share sustainable, taking into account the increase in debt level of the holding?

Fernando Mata Verdejo

As we said, our commitment with our shareholders is pretty clear. This is four years in a row where we are keeping the same dividend, no matter certain volatility in net income. And the future growth in dividends will be based on growing net income as well.

Natalia Núñez Arana

Thank you very much. The last one is regarding issuance plans. And it comes on Deutsche Bank Ebrahim Saeed. Could you speak about any issuance plans, any possibility of RT1 this year or Tier 2 or Tier 3?

Fernando Mata Verdejo

We are quite comfortable with the current leverage ratio, and we do not see any potential issuance, Tier 1 or Tier 2 either. Our capital position is quite strong, quite solid. And as I mentioned, the acquisition in 2019 was financed with traditional bank financing because of the current yields; current rates are quite positive. So, I don't see any further issuance in the short term.

Natalia Núñez Arana

Thank you very much, Fernando. Thank you very much, Eduardo. This is it for the Q&A.

Fernando Mata Verdejo

Yes. Thank you very much for your attention. Our apologies, because the we have to leave. The press presentation is in downtown Madrid, starting in one hour, and we have to commute, as you know. Thank you very much for your presence. Just to wrap up, I want to say quite clearly - we are

happy, the results are quite reasonable in the current context, and we're satisfied with the results. Obviously, we want to present better results. Obviously, the result that we have unveiled today was not the one we planned at the beginning of the year – it was higher. The results included in the strategic plan were more optimistic, higher, but in the current context we're satisfied with the current results.

Thank you again very much, and hopefully, for those of you in Spain, we will see you in the evening at the analyst presentation, for those that are attending the London presentation, hopefully, we'll see you tomorrow morning in London. Thank you and bye-bye.

Natalia Núñez Arana

Tomorrow evening.

Fernando Mata Verdejo

Evening. That's correct.

Natalia Núñez Arana

Bye.