MAPFRE
ANNUAL GENERAL MEETING_2019

SPEECH BY FERNANDO MATA

Good morning Shareholders, and a very warm welcome.

As explained by the Vice Chairman Ignacio Baeza, the 2018 annual accounts have once again shone a light on the company's capacity to generate recurring profits, even in the adverse climate we faced over the past year.

As mentioned previously, a series of external factors have dictated, to a certain extent, the evolution of our most relevant variables.

Firstly, the economic situation in certain emerging countries, with high inflation rates and currency depreciation, has had a negative impact on the result and on the Group's shareholders' equity. The strongest impacts were seen in Brazil, Turkey and Argentina, with the latter considered a hyperinflationary economy in 2019.

Secondly, the prolonged situation of low interest rates in Europe, and the high volatility of the financial markets — I remind you of the stock market drops in the last quarter — have painted a difficult scenario for financial returns, and for the valuation of our portfolio at year-end.

To respond to this, the two main characteristics of our business model, namely the appropriate diversification of business and the great strength of our balance sheet, enable us to present to this Annual General Meeting financial data that can be classified as satisfactory, and also, as a global Group, to face the future with optimism.

In relation to our diversification of operations, I predict that the strong insurance results registered by IBERIA and MAPFRE RE, and the notable improvement in the results of GLOBAL RISKS and ASISTENCIA, have neutralized the costs of restructuring the operations in Brazil and the United States. Similarly, the prudent management of our investment portfolio, based on asset and liability matching in Life operations, and appropriate diversification in fixed income, real estate and alternative investments, has given us a stable financial flow to Group earnings.

As can be seen on the screen, MAPFRE's financial strength is reflected through indicators, such as some of those shown here:

The Fitch agency recently upgraded our insurer financial strength rating one notch to A+.

The solvency position is above 200 percent, more than double the level required by the regulations, and far exceeding the average for the sector in Europe.

88 percent of our solvency capital is of the highest quality.

The leverage ratio is being maintained at a very comfortable level of 22 percent.

We continue to have an excellent internal expense ratio: 4.4 percent.

And the combined ratio, despite the high catastrophic loss experience, remains at 97.6 percent.

Here is the breakdown of the main figures for the fiscal year.

Operating profit amounts to 702 million euros, 0.3 percent higher than in 2017. After discounting the write-down of goodwill, attributable net earnings come in at 529 million euros. I would like to expand on this by saying that this write-down is the result of prudent valuation of our assets, but has no effect whatsoever on the cash generated in 2018, nor does it affect the solvency margin or the financial strength ratings of the Group, thereby our capacity to pay dividends remains intact.

Premiums totaled 22.54 billion, a decrease of 4 percent, and revenue was down 5 percent. The reason behind both of these drops is currency depreciation. At constant exchange rates, premiums would have grown by the percentages shown on the screen.

The Non-Life Combined Ratio improved by half a percentage point to 97.6 percent, and the ROE, as shown, by 6.4 percent and 8.4 percent, if we exclude write-down of goodwill.

We now see the evolution of revenue in detail, with a fall of 5 percent to 26.6 billion euros, again affected by the depreciation of currencies.

This fact is reflected in the insurance business, mainly in Non-Life, our traditional business, which registered a fall in premiums of 6 percent, but which at constant exchange rates would have been up 0.2 percent. The Life business, where we're working hard to scale up, experienced growth of 2.8 percent, which increases to 8.5 percent at constant exchange rates.

Financial income slipped last year. This is by no means exclusive to MAPFRE, and is the case for the entire financial sector, due to this extended period of low interest rates in Europe and, in our case, also the fall in rates in Brazil.

Finally, other revenues, which mainly deals with non-insurance activities and non-technical revenue, reflect a drop of 13.2 percent, due to the restructuring of the Asistencia businesses.

This is the breakdown of premiums for the four business units, all of which were impacted by currency effects, although at constant exchange rates the insurance unit was up 4 percent.

The breakdown of premiums by region shows a similar picture, in the sense that currency depreciation largely dictates the evolution of the business, with the exception of Iberia, where Spain grew at a much faster pace than the market.

I would like to give a quick mention to the growth in premiums in local currency in the most relevant countries. In Brazil, premiums grew by 3.7 percent, in Mexico by 9 percent, eliminating the effect of the two-year PEMEX policy, in Peru by 10 percent and in Puerto Rico by 23 percent. Only the United States shows a fall in premiums in local currency worthy of mention, in this case barely 4 percent, which is explained by the fact that we have stopped operating in 5 states.

On the screen you can see the different components of our earnings figure.

The result for Non-Life was down 3.6 percent, and for Life it was down by 5.3 percent. The excellent results achieved in Spain partially offset the negative effect of currencies, mainly in LATAM and Turkey, as well as the costs of restructuring the business in the USA and Brazil.

The improvement in “other items” reflects the significant decrease in losses at Asistencia, registering a practically zero result before taxes and non-controlling interests, following losses of 57 million euros in 2017.

You will also see the figure relating to tax with a rate of close to 34 percent. This higher rate is due to the write-down of goodwill, which is a non tax-deductible expense. Stripping out this, the effective rate stood at 30 percent, in line with previous years. The “non-controlling interests” column covers that part of earnings we allocate to remunerating our partners in bancassurance subsidiaries, and which is lower this year due to the lower result in Brazil.

All things considered, in 2018 we achieved an operating profit of 702 million euros, slightly up on the previous year; and by adjusting this result for the goodwill write-down, we arrive at net earnings of 529 million.

This is the breakdown of profits for the four business units.

In relation to the insurance unit, Iberia stands out for its significant contribution to the Group’s profits, with 481 million euros, thanks to the improvement in the automobile line and the recurring stability of the Life business. However, the adjustments made in Brazil and the USA have resulted in a decrease in the overall result.

It is also important to highlight the catastrophic events, due to how they impact on the income statement of RE, and finally, Global Risks and Asistencia, which have both recorded strong recoveries compared to the previous year.

Let's talk about ROE, or return on shareholders' equity now, which stood at 8.4 percent, five tenths better than the previous year, excluding the goodwill writedown.

The ROEs for Spain and MAPFRE RE are most notable, consistently turning in ratios above 10 percent, as are those too for LATAM North and LATAM South, against a very demanding economic backdrop.

In strategic markets such as Brazil and North America, the drop in return is explained by the adjustments made as we restructured our operations in the two countries.

The Group's combined ratio stood at 97.6 percent, five tenths better than in 2017.

Of note was the excellent performance from Global Risks, thanks to an improvement in loss experience, where the index was down 45 percentage points, due to the lower impact of catastrophic losses.

Also apparent, once again this year, was Iberia's combined ratio of 93.8 percent and specifically that of the automobile line in Spain, which remained below 91 percent.

I also draw your attention to the excellent combined ratio of MAPFRE RE which, despite the typhoons in Japan, stood at 96.1 percent.

Above 100 percent, North America reflects the costs of restructuring the business, and EURASIA the impact of the situation in Turkey.

If we analyze the balance sheet, total assets practically mirror the figure from the previous year. In terms of shareholders' equity, the decrease is fundamentally down to three factors:

- Firstly, the reduction in unrealized gains in our investment portfolio, due to the falls in the stock markets at year-end. Of this amount of 329 million, 166 million has already been recovered in the month of January 2019, a figure which will also improve in February given the favorable behavior of the markets in 2019.

- Secondly, the previously mentioned currency exchange differences had a negative impact of 103 million euros, as a result of the conversion to euros of earnings from our overseas subsidiaries. This effect completely reversed in January 2019, mainly due to the revaluation of the Brazilian real.

- And, thirdly, under the item “other”, for an amount of approximately 200 million euros, deriving from the transaction with Banco do Brasil, which I will discuss later, and which has been reflected in our reserves.

Investments totaled 50 billion euros. The main element corresponds to fixed income and similar assets, at 83 percent. In previous Annual General Meetings we told you that we would make progress in alternative investments and, at the close of 2018, the figure committed stands at 476 million euros, of which 110 has already been disbursed.

On the right, you can see MAPFRE's position in sovereign debt, 27.6 billion euros, of which approximately 16 billion is invested in Spanish public debt.

And I'd also like to highlight another figure which is relevant for us, as it has to do with our sustainable investment policy: More than 73 percent of private investments correspond to companies with ESG classification, in other words, they carry a sustainability label.

Here you can see the capital structure, which is similar to that for previous periods. The debt ratio has increased slightly, although it remains at a very comfortable level for our Group.

We have taken advantage of the low interest rate climate to complete our financing plan, mainly as regards solvency-accountable debt. Thus, in September 2018 we successfully completed the issuance of subordinated liabilities for an amount of 500 million, at an unfavorable time for such operations. This issuance had a two-fold objective: to finance our restructuring of operations with Banco do Brasil, and to strengthen the Group's capital position.

With this operation, our external financing structure is covered until the first maturity in 2024, with highly advantageous rates ranging between 0.7 and 4.4 percent.

In terms of Solvency II, we stand at 208 percent, with third quarter figures slightly above the objective of 200 percent with a tolerance margin of around 25 points. This ratio will decrease slightly with the end-of-year figures, with the incorporation of the Brazil acquisition formalized in November.

The ratio remains very strong, as 88 percent of its elements are TIER1, i.e. capital of the highest quality.

Next, I will discuss MAPFRE’s shareholding structure, the dividend policy and the share's stock market information.

On December 31, 2018, MAPFRE had 187,269 shareholder accounts, owning 3,079 million shares in circulation. Of these shares, at fiscal year-end, MAPFRE had 24.4 million in treasury stock, equivalent to 0.79 percent of capital.

With regard to the financial indicators, earnings per share amounted to 17 cents. The ratio between the market value and the book value came in at 89 percent, meaning that MAPFRE’s stock market capitalization, at the close of 2018, was slightly below its shareholders' equity. Finally, the price/earnings ratio was 13.5, meaning that the market values MAPFRE at 13 and a half times its operating earnings.

As you already know, the majority shareholder of MAPFRE is Fundación MAPFRE, with 68.2 percent of capital. Of the rest, approximately 12 percent belongs to Spanish shareholders, with 19.8 percent held overseas. Spanish shareholders are mainly of a retail profile, while the vast majority of foreign shareholders are institutional investors.

I would now like to discuss dividends. If the Board’s proposal of 14.5 cents per share is approved, the 2018 dividend amount will once again, for the third year running, remain unchanged, with a disbursement of 447 million euros, and the payout, i.e. the percentage of profits allocated to dividends, will be the highest in our history, at 84 percent.

This would result in a dividend yield over the average stock price of 5.5 percent, far higher than similar companies in the Spanish market.

Finally, and before we conclude, I would like to touch upon the behavior of the markets.

In 2018, the stock presented negative behavior as can be seen in the chart, similar to the benchmark indexes. But if we compare over a longer time period, our share shows modest growth against significant falls in the indexes. Moreover, in the first two months of 2019, the revaluation of the share came in at 7 percent.

In summary, and I am now coming to a close, today we have a stronger and more diversified balance sheet, with stable capital and a stable solvency ratio, appropriate to our business, a very low-cost financing structure without medium-term requirements, and operating units with well-diversified businesses, and which year after year prove their capacity to generate recurring earnings and cash, guaranteeing the stability of current and future dividends.

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