



Investor &
analyst call -
Edited
transcript

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Company participants

- Fernando Mata Verdejo, Chief Financial Officer and Member of the Board
- Ramón Carrasco, Chief Risk Officer
- Natalia Núñez Arana, Investor Relations & Capital Markets Director

Presentation

Natalia Núñez Arana

Hello everyone. This is Natalia Núñez, Head of Investor Relations. We would like to welcome you to MAPFRE's results presentation for the first quarter of 2019.

Our CFO and member of the board, Mr. Fernando Mata, will take you through the main trends and figures of the year, as in previous quarters.

After him, on this occasion, we also have Ramón Carrasco, MAPFRE's CRO, here, to discuss the Solvency II figures.

I would also like to mention that we have changed the structure of the presentation and we hope it helps give you a more comprehensive view of performance by business units. And also, today we have launched our new Financial Documentation Center on the Corporate website. There you can find the main current and historical financial information.

Just as a reminder, during the Q&A, we will answer all questions received at the Investor Relations email address.

And afterwards, the IR team will be available to answer any further questions you might have. With no further delay, let me hand the call over to Fernando.

Fernando Mata Verdejo

Thank you, Natalia. Hello everyone, and welcome to the first quarter results presentation. As always, it is a pleasure to be here with you.

This is the first quarter of the new 3-year strategic plan. As you can see, the numbers are very positive, fruit of the transformation and the changes that we are implementing.

Looking at the key figures for the quarter: revenue is up almost 6 percent, mainly due to the rise in premiums and higher financial income, principally from the change in market value of some investments. Overall premiums are up over 3 percent, nearly 4 percent at constant exchange rates, and Life premiums are up almost 14 percent - over 15 at constant exchange rates.

Our combined ratio has improved 60 basis points and is now under our target of 96%. The net result of 188 million euros has increased 0.6 percent, despite the current low yield scenario. Shareholder's equity is up 3.5 percent, as a result of the improved stock markets and also the fall in interest rates, as well as currency appreciation.

The ROE excluding the 2018 goodwill writedowns would have been 8.3 percent. The Solvency II ratio, which our CRO will discuss later, stood at almost 190 percent at the close of December, basically as a result of the fall in IFRS net equity at 2018 year end.

On the next slide, we will take a look at the key figures by unit.

On the right side you can see the KPIs by region and business unit.

Regarding attributable result, I would like to highlight, first, IBERIA continues to be the largest profit contributor, with close to a 120 million euro net result and solid underlying performance. Second, there were strong improvements in Brazil (up 10 million euros), and in North America (up 17 million euros), and strong contributions from both LATAM NORTH and LATAM SOUTH. This improvement in profitability in these four regions is also reflected in their low combined ratios. Third, MAPFRE RE, which comprises traditional reinsurance business and the Global Risks portfolio, contributed over 50 million euros in this quarter, despite a large industrial claim. And fourth and last, Asistencia continues facing profitability challenges in the UK which have impacted the net result by almost 3 million euros. We expect this trend to change over the coming quarters.

Regarding premiums, growth is very strong, thanks to excellent performance in Iberia, Latam North and Reinsurance. In addition, appreciation of the US dollar and some Latin American currencies has also supported premium growth in several markets, while the Brazilian real has still been a drag on premiums, but to a much lower extent than last year.

On slide 4 we will look at the adjusted attributable result. Despite lower realized gains, the adjusted attributable result has been stable this quarter, thanks to more benign weather. Regarding nat cat events, we were affected by several winter storms in the US, heavy rains in Brazil and wind storms in Malta. However, and fortunately, we did not consider impacts relevant and therefore they have not been taken into account in this calculation.

On slide 5 we will look at the capital structure and credit metrics. On the left, you can see the breakdown of the capital structure which amounted to 12.6 billion euros. Our credit metrics remain quite strong, with leverage around 24%, affected by the BMN acquisition, which had a total amount of around 162 mn euros. The remainder of the increase is mainly due to transitory funding of subsidiaries.

In April, we cashed in a 55 mn euro dividend from Brazil, taking advantage of the current Real valuation, which will contribute to reducing leverage, which should go back down to target levels over the course of the year.

Interest coverage, you have it on the right, is around 20 times earnings before interest and tax.

Finally, regarding our financial strength, our ratings continue to be affirmed by the main credit agencies and in March, S&P confirmed the credit rating of MAPFRE and its subsidiaries, with a positive outlook.

On the next slide we will take a look at our equity position. Shareholder's equity is up 3.5 percent, to close to 8.3 billion euros. The main reasons behind this improvement are, first, an almost 300 million euro increase of unrealized gains on AFS portfolio. This change is based on improved stock markets in Europe and USA, and also a fall in interest rates in Europe. Second, the appreciation of all main currencies, with the exception of the Turkish lira, which has had a 91 million euro positive

impact during the quarter. And finally, the decrease of 262 million euros corresponds to the 2018 final dividend approved by the AGM.

On the next slide we will look at the investment portfolio.

On the right you can see that Assets under management are up by 5 percent, driven by, first, improvements in stock markets, after the important correction at the end of 2018. Second, currency effects, as I already mentioned. Third, the consolidation in March of the BMN bancassurance acquisitions. And fourth and last, real estate increased as a result of the application of IFRS 16, regarding leases, which implies an increase of 278 million euros in the value of real estate assets, mainly branches across Spain.

The breakdown of the investment portfolio is on the left. Asset allocation has been relatively stable throughout the year, and exposure to government and corporate debt remains mostly unchanged. The largest exposures correspond to Spanish sovereign debt with 16.5 billion euros and Italian debt with 2.8 billion euros. As we have mentioned in the past, the majority of these investments are in immunized portfolios. Our cash position is up to 3 billion euros and includes short term investments and temporary cash balances. Exposure to equity and mutual funds has gone up slightly from stock market improvements.

On the next slide we will look at our actively managed investment portfolios. Our portfolio yields are still quite high, almost 2 percent in Non Life and over 3.7 percent in Life, well above market yields. Nevertheless, the downward trend continues hurting our financial income. We partially neutralized this effect by slightly increasing duration.

Realized gains in the Euro area reached 23 million euros during the quarter, almost 12 million less than the previous year. Stock sales were quite selective during this quarter as we expect the positive trends in equity markets to continue.

At the end of this quarter, the actively managed portfolios in IBERIA and MAPFRE RE had unrealized net gains for 37 million euros.

Please turn to the next slide, where we will begin a breakdown by business unit, starting with Iberia.

Iberia is again MAPFRE's greatest contributor to Group results. Premium performance has been excellent. Of the top 5 players in the Spanish insurance market, we had the highest rate of growth, and we are once again leader in Non-Life.

In Motor, premiums are up 2.6 percent, with positive developments in Spain, both in retail and in fleets. Our average premium grew 0.2 percent, while the market fell by the same amount. General P&C growth was mostly driven by Homeowners (up 4.7 percent) and Condominiums (up 8.1 percent), helping to offset the fall in Commercial lines.

Sales campaigns in both bancassurance and agent channels drove the Life business. It's also important to mention that we wrote a large Group policy in the 1Q for 45 million euros in the bancassurance channel.

Moving to results and Combined ratio, motor maintained an excellent ratio in a very competitive market environment. The improved result in Portugal with a strong reduction in the combined ratio is also worth highlighting. Profitability in Health & Accidents was affected by higher hospital costs. We expect the combined ratio to level off throughout the year. We are currently implementing measures in order to reduce hospital costs in the coming quarters.

Let's take a look now at Brazil. The impact of the depreciation of the Brazilian real on average exchange rates has negatively affected premiums and results.

BB MAPFRE, where we hold 25 percent of the share capital, comprises Life and Agro business in the Banco do Brasil channel. There has been over 2 percent growth in local currency, thanks to higher issuance, especially in the Life Protection segment with over 30 percent growth in local currency. These positive movements in Life were offset by weak issuance in Agro insurance due to seasonality.

In MAPFRE SEGUROS, where we hold 100 percent, there was a fall in premiums as a result of selective underwriting measures implemented in both Motor and General P&C, including tariff increases. The attributable result at MAPFRE SEGUROS went up almost 18 million euros, driven by the Motor business. This increase helped offset the 21 percent fall at BB MAPFRE, due to weather related events affecting Agro insurance. The Motor Combined ratio showed an outstanding drop of almost 10 points, standing at 104.4 percent, thanks to several claims management measures.

Regarding financial income, we took advantage of the market context, to opportunistically harvest gains during the quarter. Regarding the ROE, please keep in mind that current figures are not representative. ROE figures are calculated with the last 4 quarters' results, and because of the restructuring of the Banco do Brasil agreement, neither the equity base nor the results have been homogeneous in the last year.

Latam North is benefitting from tailwinds from currency movements across the region. Mexico has strong premium growth in local currency (up 11%), driven by Motor, especially in the dealership channel, as well as strong performance in the Retail Health and Life segments. The Motor combined ratio went down almost 4 percentage points to 95.4%, thanks both to tariff and risk selection measures. The Dominican Republic saw strong local currency growth in premiums (up 14%), and a resilient combined ratio under 93 percent.

Regarding Central America, Panama experienced an increase in the loss ratio in Motor, General P&C and Health. Technical measures have been implemented in the Motor and Health segments, including tariff increases in Health, to correct claims experience. Honduras continues to have

excellent and recurring results, with an outstanding combined ratio below 83 percent at the close of the quarter.

On this slide, we have the key information about the Latam South region. With the exception of the Argentine peso, there were overall strong local currency trends across the region and tailwinds from currencies.

In Peru, premiums were up 1% in local currency, and it had strong technical performance, reducing the combined ratio by 7 percentage points and increasing the ROE by 1.4 percentage points. Colombia had local currency growth of 6%, supported by a large corporate policy. There was a strong reduction in the combined ratio, offset by negative adjustments in the Annuities run off portfolios, as a result, basically, of updating long-term financial assumptions, mainly the minimum wage. Chile saw local currency growth of 19%, including the effect of a large corporate policy. There was improvement in the combined ratio in Motor, offset by an uptick in General P&C. Argentina saw a decline in premiums, driven by the fall in average exchange rates (-50%, approximately). There was also an increase in the combined ratio in Industrial risks and Motor.

Let's move to North America. The appreciation of average dollar exchange rates (up 8.5 percent) has positively impacted premiums and results. Premiums are down almost 10 percent in local currency in North America as a result of the exit from 5 states in 2018 and also underwriting measures applied in the Non-Northeast states.

The over 17 million improvement in the attributable result and lower combined ratio is explained by, first of all, improvements in Personal Motor, thanks to tariff increases, cancellation of underperforming business, and also the exit, already commented, from 5 states. And also, lower weather-related losses helped improve the Homeowners result and combined ratio.

In Eurasia, there was positive premium and combined ratio development in Germany, with a higher attributable result.

The situation in Turkey, on the other hand, is very complicated. There was strong depreciation of the Turkish lira (22 percent). Premium growth in local currency was up 13 percent, but below inflation. We continue applying the strictest underwriting guidelines in Motor, to protect performance. The attributable result is currently negative, and the combined ratio has deteriorated, driven by the impact of the MTPL tariff regulation, higher spare parts prices and other inflationary effects and currency depreciation.

MAPFRE's strategy remains quite conservative as we prefer to stay away from cash flow underwriting, and want to focus on underwriting discipline, rather than issuing premiums just to get a return on high yield investments, a practice by the way that we see in some local peers.

Italy experienced strong premium performance, driven by the dealership channel, and strong improvement in the combined ratio, down 3 percentage points. As we disclose in our Financial

report, we started the transformation of our Italian business into a VERTI Spain branch, under EU regulation. This transformation will allow us to improve our KPIs and also to optimize capital allocation.

The combined ratio increased in Malta as a result of weather conditions in February.

Regarding MAPFRE RE, in March 2019, administrative authorization was received to carry out the corporate restructuring of MAPFRE GLOBAL RISKS. So its reinsurance activity, along with the related assets and liabilities, were transferred to MAPFRE RE. Accounting effects were booked retroactively as of January 1st, 2018.

Premiums have benefitted from currency movements, especially the US dollar, as well as the contribution from the new subsidiary operating in Vermont. The combined ratio was affected by a large industrial claim during the quarter, which had an approximately 20 million euro pre-tax impact, of which 12 million correspond to Global Risks. Realized gains were down, as disclosed on the slide.

Now our CRO, Ramón Carrasco, is going to discuss the Solvency II figures.

Ramón Carrasco

Thank you, Fernando.

Solvency II figures as at December 31st, 2018 confirm MAPFRE's strong solvency position. The 189.5 percent Solvency II ratio is based on a high quality capital structure of 8.8 billion euros in eligible own funds, of which 87 percent is unrestricted Tier 1 capital and the remaining 13 percent is subordinated debt.

The increase in September's Solvency II ratio was temporary, as it included the subordinated debt issued in August to finance the renewed agreement in Brazil, but not the cash outflow. The difference with the Solvency II position at December 2017 is mainly explained by the higher risks considered for the equivalent countries. The greater participation in Brazil and the inclusion of catastrophic risks in the regulation of US caused an increase of the regulatory capital in these countries.

The improvement in IFRS equity during 2019 would imply roughly a 5 percentage point uplift in the Solvency II ratio.

On the following slide you can see our sensitivity analysis.

As you can see, the impact on the solvency position from the various events is limited.

Sensitivities are very much in line with last year's, except equity where we have refined the methodology.

The greatest impact occurs when an increase of 50 basis points is considered in the corporate and in all government bond spreads, in which case the ratio would stand at 179.2 percent.

The rest of the information regarding Solvency II figures can be found in our Financial Report. That's all from my side, I look forward to your questions during the Q&A, and I will now pass the floor back over to Fernando. Thank you.

Fernando Mata

Thank you Ramón. I would like to finish with a few closing remarks.

This was the first quarter of the new 3-year strategic plan. We are very satisfied with these results, fruit of the transformation and the changes that are being implemented.

In IBERIA, premiums and profitability trends continue to be excellent, despite a very competitive market environment. Results have been resilient at MAPFRE RE, and they continue to be an important profit contributor.

In Brazil and North America we are seeing a clear turnaround in results, thanks to the measures implemented, and we expect this momentum to continue throughout the year. The strong underwriting performance across all of Latin America is remarkable, with stable combined ratios at 96 percent and even below, in all three regions.

Regarding Turkey and Colombia, we are carefully monitoring results, but the impact on the Group's performance is limited due to their size. Finally, we continue to have an exceptional solvency and leverage position and we expect ratios to converge to targets throughout the year.

We hope the new layout of the presentation, with greater detail by country and business unit, gives you a clearer representation of the Group positions and also operations.

And now I will hand the call back to Natalia to begin the Q&A session.

Natalia Núñez Arana

Thank you, Fernando. We can start with the Q&A.

Q&A

Natalia Núñez Arana

The first question is regarding balance sheet and investment portfolio. It comes from Ivan Bokhmat from Barclays.

In 1Q 2019 realized gains came below the full year '18 average, I recalled you have mentioned gains should remain stable in the next three-year period. Could that suggest potentially higher gains in the rest of the year, consistent with EUR145 million-EUR 170million level booked in 2017-2018?

Fernando Mata Verdejo

Thank you, Ivan. As we said, capital gains – realized capital gains – has been quite stable for the last two, three years. This first quarter is the bullish moment we expected. Remember last quarter, last year was horrible and with a significant drop in the value of stocks, and this first quarter was superb. We apply “the trend is your friend” and so we were quite selective, selling some equities in order to produce some capital gains. But we want to keep the same level of capital gains so probably, we should increase the pace of realized capital gains during the second quarter. We are more optimistic, the outlook is much better and also real estate capital gains will help us to achieve the same level. Currently, we have some units on the market. We haven't made any transactions during the first quarter, but the units are there and regarding the rotation of real estate units, we will keep on doing the same as last year, and we expect some realized gains to come up in the remaining quarters.

Natalia Núñez Arana

Okay, thank you. The next one is also from Ivan Bokhmat and it's regarding the leverage level of 24%, which appears slightly above the 22 percent level you flagged as comfortable during the Investor Day.

Fernando Mata Verdejo

That's correct. Let's say that, it was almost a 1.5 increase in our leverage and basically the main driver for this increase is the BMN Bancassurance acquisition. But also there was some temporary funding of subsidiaries due to the cash flow of dividends. What we expect for the year end is to have an increase in leverage similar or equivalent to the consideration, the amount paid, for acquisitions. Basically this is our policy and we will stick to this policy.

Natalia Núñez Arana

Thank you very much. Now, we are going to talk about MAPFRE RE.

This block of questions is regarding the Reinsurance and Global Risks businesses. Ivan Bokhmat also at Barclays has sent us the following question. MAPFRE RE result was strong despite a large industrial claim from global risks business, with good premium growth and a better combined ratio. Reinsurance rate seems to be hardening across regions, particularly in property business. Are you more optimistic now than in March?

Fernando Mata Verdejo

Thank you, Ivan, again. As we said during the Investor Day, what we have seen so far is some strengthening in the market, especially in those territories affected by large losses in the last years, but we've seen prices picking up at least a bit.

We should see medium-sized price increases in these affected areas. In the rest, a stable outcome should be expected. Our main renewals period is January, but there is another renewal period as well in June – April and June – and so far nothing has happened to make us change our opinion. So far everything is going well.

Natalia Núñez Arana

Okay. Thank you very much. There's another question regarding MAPFRE RE that comes from Michael Huttner in JP Morgan.

Why is MAPFRE RE down so much, when the combined ratio is just up 1%? And why are premiums down 10%, but allocated capital up?

Fernando Mata Verdejo

Thank you, Michael. The fall in the result in the reinsurance business is due to lower earned premiums in Non-Life, which are still reflecting somehow last year's fall in written premiums, as well as the EUR10 million less in realized gains.

As I previously mentioned, we should retake the pace of realizing gains particularly for MAPFRE RE during the second quarter. Written premiums are growing over 10% this year and shareholders' equity is up to 7%. These figures reflect the incorporation of the Global Risks businesses.

Natalia Núñez Arana

Now we have questions regarding IBERIA. Ivan Bokhmat at Barclays has asked, results in IBERIA remain very strong, particularly on the P&C technical result side with combined ratio on the lower end of the 92-94% range. Do you consider it sustainable? Is there any reason for us to think this trend should change over the coming 6 to 12 months.

Fernando Mata Verdejo

Thank you, Ivan, again. Yeah, we're growing in premiums over the market in both Life and Non-Life segments with an excellent combined ratio – best in class in Motor at 90.6%, and maintaining an over 5 percentage point gap compared to the market. As we mentioned in past results presentations and also our Investors Day, we consider more sustainable a combined ratio for Motor of around 92%. Anyway, we are quite happy with the current combined ratio that stands at 90.6%.

Regarding growth, economic activity in Spain should continue to stimulate the premium growth in the insurance business, especially Non-Life. And also our excellent profitability level will allow us to select market share segments that we consider most interesting. That's what we are currently doing, particularly with fleets and we are selecting those low combined ratio expected fleets, and so far they're quite profitable.

Regarding competition in Spain, let's say that the Motor segment is still very competitive. As you probably know, a couple of peers already published results showing deterioration of combined ratio in both cases; that's the same for Mapfre but to a lesser extent, in our case, just 30 basis points. Competition is fierce, and they're advertising on TV practically every hour with lower prices and also free periods of time for coverage if you change your carrier, but we're keeping the same underwriting discipline. One of the examples is that our average Motor premium is growing 20 basis points while the market is dropping the same amount - 20 basis points.

So overall, let's say that the competition is still there in the market, but Mapfre is quite strong. Our underwriting discipline is extremely stable and we expect to keep the same trend in business, in profit contribution, for the remaining quarters.

Natalia Núñez Arana

Thank you very much Fernando. There is another question coming from Carlos Peixoto, at CaixaBank. And this question is regarding the increase in hospitalization costs witnessed this quarter in Iberia. Do you see that as sustainable?

Fernando Mata Verdejo

Well, what we have seen in the past is that the hospital costs were quite low and an increase was expected and that is what are are seeing. But our management is taking the measures we need in order to reduce this impact in our combined ratio in Health, particularly trying to reduce the impact from the hospital costs.

Obviously, you see that the combined ratio for this quarter is pretty high, quite similar as well to last year, and there are seasonality reasons behind this level, and we expect the combined ratio to reduce in the coming quarters.

Natalia Núñez Arana

Okay, thank you. Another question in Iberia. Is Caja Granada Vida and Caja Murcia's contribution this quarter including their activity for the whole three months or have they been incorporated into your accounts at a later moment?

Fernando Mata Verdejo

Thank you, Carlos. There is a full disclosure of this transaction in the financial report. Let me summarize. In terms of premium contribution, the contribution was quite small, 4 million, more or less. Regarding assets, there was an increase of almost 330 million, approximately. And regarding our net equity – let's say it the other way, regarding our goodwill, our intangibles were up, there was a 55 million increase in intangibles, due to the consolidation of these acquisitions in March.

Natalia Núñez Arana

Thank you. Now we can move to Brazil. Ivan asks that in Brazil minority deductions remained at a high level, with a larger share of the profits still going to your partner, despite last year's transaction, and better performance in the Non-Life business. When do you expect a more pronounced improvement of the result attributable to MAPFRE?

Fernando Mata Verdejo

Ivan, thank you. There's going to be high deductions, even for the next years in terms of non-controlling interests, because the percentage held by Banco do Brasil is pretty high in BB Mapfre. It's 75%. So let's say that 3 quarters of the net result goes to Banco do Brasil. Anyway there is a relevant increase in the MAPFRE SEGUROS profit contribution during this quarter, particularly in the business acquired. MAPFRE VIDA is reporting wonderful results and also MAPFRE Vehicles, which is the entity that we bought from Banco do Brasil, and now, together with MAPFRE SEGUROS GERAIS, is improving results compared to last year. So, overall, we're quite happy with

the results. The share of minorities will remain pretty high in the future, because of the 75 shareholding of Banco do Brasil. And also, we're happy with the current outlook in Brazil. We're optimistic regarding the future. It's a country that we know very well, and we're convinced that the reform process that Bolsonaro is pushing for will be very positive for the economy and also the future of Brazil. If they stop the reforms, my guess is that we will have again volatility in macro metrics.

Natalia Núñez Arana

Okay, good. Also Andrew Sinclair, would like to know about the Brazilian combined ratio, that jumped to meet the 2021 targets already. Is it sustainable? Are there any one-offs in here we should be aware of?

Fernando Mata Verdejo

Thank you, Andrew. It's just the first quarter and there are still 3 years ahead in order to transform and convert MAPFRE Brazil operations into a quite profitable business. Obviously, there is a big reduction in combined ratio. We believe that we are doing things in the proper way, but just one quarter is too early to reach a final conclusion regarding the base of reduction in the future. We are pretty sure that we will see a consistent reduction in combined ratio year-by-year, in order to meet the targets that we published at the Investor Day.

Regarding one-off adjustments, let's say that this quarter is a standard quarter in terms of premiums earned and losses, and there are no extraordinary items that could affect the combined ratio.

The only thing – but it's not affecting the combined ratio – is financial income, that is coming from realized gains on fixed income. It is not a big amount – it has been disclosed in our financial report – combining both a Banco do Brasil subsidiary and also MAPFRE SEGUROS, the net profit contribution is like 3 million. And we realized these capital gains in quite a good economic context, and also being opportunistic in order to cash some money in to pay the dividends that we mentioned of 55 million, and cashed in according to the current Brazilian real currency exchange, which is very positive.

Natalia Núñez Arana

Okay, great, thank you. Also there is question regarding Brazil Non-Life premiums, that have been reduced. How far should we expect Brazil Non-Life premiums to reduce after a significant cut in Q1?

Fernando Mata Verdejo

At the Investor Day, we set growth targets for the traditional insurance business – 7% in Motor, and 4% in Multi-Risk. Let me see, I'm reviewing the numbers for the three-year period.

Of course, it's natural in the short term to see a reduction, due to the measures implemented to improve profitability. As we mentioned at the Investor Day, we're applying a significant reduction in some agent accounts, where there are loss-making portfolios, and also increases of tariffs across the board. Obviously, they are causing a reduction in the number of policyholders. We expect this trend to turn around in the next quarter or perhaps in the third quarter.

Natalia Núñez Arana

Okay, thank you. Carlos Peixoto at Caixabank BPI asked, the Brazilian Auto combined ratio stands currently below the 105% target for the year. How much of this improvement was related to external factors – seasonality or weather – and how much was the result of the measures you have implemented? Should we expect a potential upgrade in the combined ratio guidance for the unit?

Fernando Mata Verdejo

Thank you, Carlos. I will answer first your last question. We shouldn't expect a potential upgrade in the combined ratio after just one week, one quarter, sorry. Let's say that what we published, that we set targets for a three year period, and we are still at the first quarter and we believe that those targets are still valid. Regarding the combined ratio improvement, last year a lot of new measures were implemented in order to improve our claims management process, and this year, 2019, most of the measures to be implemented will be focused on underwriting and particularly tariffs.

So let's say that we should expect a better performance once the measures regarding underwriting are fully implemented throughout this year.

Natalia Núñez Arana

Great, thank you very much. Now we can move to Eurasia. Ivan Bokhmat at Barclays is asking, what is your outlook for the Turkey business at the current moment. Should we expect continued losses in 2019, considering weak currency and macro outlook?

Fernando Mata Verdejo

Thank you, Ivan. Well, as I explained at the presentation, the current market context in Turkey is quite complicated and we are carefully monitoring the business. But Turkey – and we have to put

Turkey in the Group context – is a medium-sized entity and it shouldn't represent a large share of the Group results nor equity. But we are implementing a defensive business model in Turkey. Premium growth is low in local currency, and we made our current Motor portfolio more defensive, lowering our units in motor MTPL, in response to the 2017 tariff regulation. I can give you some figures. MTPL [market share] has fallen to 5.6% from over 11% at the beginning of 2017.

And also what we're doing is adapting our cost structure to the new business volumes. What we are facing is a sort of claims cost pressure as a result of a higher inflation. As you know, over 75% of the spare parts are imported and nominated in Euros. We're keeping part of our financial asset nominated in Euros, in order to hedge this situation, but inflation is affecting our results with over 25% of the minimum wage increase. MAPFRE has a lot of experience, so I can give you some comfort, and proven track record in emerging and inflationary economies. We know the importance of cash flow in these economies and despite the short-term volatility, we're pretty confident in the long-term outlook of our business in Turkey.

Turkey is a strategic market, and will remain as that for the coming years. And that's all. Turkey's difficult, it's complicated, but we know what to do.

Natalia Núñez Arana

Okay, thank you very much Fernando. I think that comprehensive answer covers also the one coming from Farquhar Murray of Autonomous that was also regarding the Turkey market. Now we can move to Latam South. We have also received some questions regarding Colombia, Farquhar Murray from Autonomous asks, please could you quantify the negative adjustments in Life Annuity in Latam South from the long-term assumptions update?

Fernando Mata Verdejo

Thank you, Farquhar. We have not disclosed the exact figure, but in Colombia the majority of losses are in run off annuity portfolios. Those are portfolios that we stopped renewals in 2014 and 2015, if I remember well. And as you can see, Non-Life performance has been quite good with a 4% reduction in the combined ratio. We are doing a lot of things in order to have a sort of a protection in our Life portfolio and a lot of measures are being taken to reduce the impact of these runoff portfolios. We have filed with the supervisory body an authorization in order to change our asset investment structure. The majority of the assets are classified as a financial investment held-to-maturity and the situation is against a proper ALM policy. So part of the assets will be classified probably in May as assets available for sale, realizing some capital gains, we expect, and also an increase in yields from new bonds. And also we're going to mix our structure reducing sovies and having corporate bonds in order to increase return from investment.

There are also other measures, as you know. We got rid of some Annuities in Latin America; they're non-strategic business. And if market opportunities arise, we could contemplate potential sales of this portfolio as well. I hopefully will give you more color at the second quarter presentation, when this change in the classification of assets will be completed, and also the yield that we're getting for the new portfolio, and also a better estimation of insurance liabilities.

Natalia Núñez Arana

Okay, thank you very much. Now, we have almost the last set of questions, and they are taking different issues, and the first one is regarding Solvency. What is Solvency at after the two bancassurance deals? I think that Ramón Carrasco could help us with this one.

Ramón Carrasco

Thank you Natalia. It's always difficult to have this impact. If we consider only the cash outflow on the percentage, it could be two percent below the current height of 189.5%. But of course, we obviously need to consider the future generation of own funds and the capital requirement and that will include the business. It's very difficult to take this into account nowadays.

Natalia Núñez Arana

Thank you Ramón. There is also another question I would like to take, because we've been asked during this morning about this, and I would like to take this opportunity to clarify the evolution of claims and financial income in the Life Insurance business in Spain and Eurasia. Afterwards Fernando could give us more color about what we can expect going forward. But I would like to tell you that to follow the evolution of the Life business and mainly Savings businesses, you have to take into account together the movements in claims, provisions and financial income. So the line you have to follow to track and to better understand the movements in Life is the total result of Life business. We have not changed the portfolio, it continues to be basically the same kind of products. During the last three quarters, we have seen kind of a stability in the results coming from Life in Iberia and also in Eurasia. In Eurasia, the portfolio comes from Malta. And this portfolio, the assets reflect movement against the P&L account. But basically the policyholders bear the main liabilities from this portfolio. So, I would like to give this idea that the Life business has to be tracked through the line coming from results from Life business together with claims and financial income, because otherwise there is a lot of volatility, there are a lot of movements that counterbalance each other. So, I hope this clarifies, or anyway we can answer more specific questions afterwards.

Fernando Mata Verdejo

Thank you, Carlos. Regarding moving forward – going forward. Apart from what Natalia mentioned, there were a couple of non-recurrent events in Life, particularly in Iberia. First, due to campaigns; there was a lot of new production in Savings, particularly in Bankinter Portugal. And also there was a large policy that was written in the first quarter that was booked in Bankia Vida that fueled premium growth during the first quarter. Going forward, we shouldn't expect a similar premium growth in the second quarter. It was something extraordinary during the first quarter and the premium growth should be lower than the pace that we reported.

Natalia Núñez Arana

Okay. Thank you very much. The next question is regarding investment. It comes from Michael Huttner at JPMorgan and the question is why is the result down despite the better combined ratio? Investment income in Non-Life is down from EUR178 million to EUR148 million; why is it down so much? How long will this decline continue?

Fernando Mata Verdejo

Thank you Michael. We're not worried, but we are working on the fixed income portfolio in order to keep it stable or to reduce the downward trend of accounting yield. In the financial report there is a chart showing the evolution of the accounting yield. If you look at the numbers it's like a 41 percentage point decrease in yield, for Non-Life. Non-Life comprises both Iberia and MAPFRE RE. The base for the financial income in Non-Life is approximately 7 billion, so if you multiply, it's approximately this 30 million difference for this year compared to last year. The base is quite similar, there is a slight reduction because part of the maturities – we set aside some money for alternative investments. But in terms of accounting yields, you're right, there's a decrease.

Regarding the future base, it's extremely difficult. We're taking opportunities according to the changes in the yield curve and for instance last quarter – this quarter – we increased duration, in order to have a better moment to increase positions in more profitable bonds. But the future pace is difficult to foresee, but we're looking at this situation and monitoring the current yield from bonds.

Natalia Núñez Arana

Okay. Thank you very much. There is another one regarding the effective tax rate, in first quarter 2019. The effective tax rate was close to 30%, how close to normalized is that number? Were there any one-offs or should we assume a similar level in the rest of the year? This question comes from Ivan Bokhmat at Barclays.

Fernando Mata Verdejo

Thank you, Ivan. In terms of tax deduction, the quarter was a standard quarter and we should assume that the current level of 30% for corporate tax, the effective tax rate is the standard and should be similar in coming quarters. Regarding the nominal tax rate for different regions, by far the largest is in Brazil with 45%, and as long as profits are increasing in Brazil, obviously the tax rate should grow as well. But since the business in Spain is growing as well, and the tax rate in Spain is 25%, we should offset this increase in Brazil by a reduction in Spain.

Natalia Núñez Arana

Okay. And perhaps to follow up on the question coming from Michael Huttner, Michael is asking about when investment income will stabilize, because it has fallen a lot in the 1Q 2019. Fernando has answered about this decrease in the first quarter, but going to more specific numbers, we can give you some hints because there are lower realized gains.

Fernando Mata Verdejo

Yes, that's correct. I forget this situation. There's lower realized gains, approximately EUR30 million less, that's before taxes, mainly in MAPFRE RE. We should retake the pace of realizing gains – capital gains – in the second quarter. And the other reason for the decline is basically the recurrent financial income that is coming from bonds, and basically the decline is, as I mentioned, the decline of yields.

Natalia Núñez Arana

Okay, so thank you very much. There are no more questions. Thank you very much, everyone.

Fernando Mata Verdejo

Thank you everyone, for joining us today. It has been a quite good start for the year, and we expect this trend to continue in the coming quarters. For those of you in Spain, enjoy the long weekend, five days off. And for everyone else, have a good week. Thank you again and bye-bye.

Natalia Núñez Arana

Thank you very much.