

Adoption of International Financial Reporting Standards



MAPFRE

London, 28 April 2005

Disclaimer

Impacts have been calculated on the basis of the standards and interpretations adopted so far by the European Union (EU). Therefore, such calculation has not taken into account: any new standards or changes to existing standards that IASB may issue and MAPFRE may voluntarily adopt; any interpretations that may be released by IFRIC; any standards and interpretations that may be adopted by the EU; nor any interpretations that the industry may arrive at.

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MAPFRE does not undertake to update or revise periodically the content of this document.



- 1 Executive summary
- 2 Summary of Impacts on Equity and Profit
- 3 Main IFRS Effects – Accounting and Valuation Policies
- 4 Presentation and Companies included in the Consolidation
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A new accounting framework...

- International Financial Report Standards (IFRS) are being introduced to increase transparency and harmonise accounting standards across the EU
- In the case of insurance industry, accounting changes will be introduced in two phases, postponing the valuation of insurance contracts to Phase II (2007/8+)
- As a consequence of Phase I, an asymmetry arises between the valuation of assets and liabilities

...for which MAPFRE is ready

- Beginning in March 2005, financial information is published under IFRS and a reconciliation to Spanish accounting standards is provided for the net result and for the balance sheet at the close of 2004

The way we run our business does not change...

- Current IFRS does not affect the technical management of the insurance business

...nor does the process through which dividend distributions is determined

- The process through which dividend distribution is determined does not vary
- In the following pages we present a restatement of shareholders' equity for fiscal years 2003 and 2004 and of the profit for fiscal year 2004, together with a summary of the main impacts of the new standards⁽¹⁾
- The final accounting impacts will be given in the 2005 consolidated Annual Report

(1) The information contained herein has been prepared with the aim to give an overview of the main impacts deriving from the adoption of IFRS. The quantification of such impacts will not be final until the approval by the Board of Directors of the consolidated annual accounts for fiscal year 2005





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Summary of Impacts in Equity and Profit

SUMMARY OF IMPACTS IN CORPORACIÓN MAPFRE

Standard	Items	Impact	MAPFRE
IFRS 3: Business Combinations	Goodwill	High	Goodwill is no longer amortised systematically
IFRS 4: Insurance contracts	Equalisation reserves	High	Appropriations to equalisation reserves are no longer made. Existing reserves are added to equity
	Liability adequacy test	High	Current reserve calculation criteria meet the minimum requirements of IFRS 4's liability adequacy test with two exceptions, fully appropriated and charged to equity net of tax
 IAS 39: Financial Instruments - recognition and measurement	Classification and valuation of financial investments	High	MAPFRE reclassifies most of its investment portfolio to "available for sale" with changes in fair value recorded in equity (and to a lesser amount, in income)
 Other standards: IAS 38, IAS 12, IAS 21	Start-up and capital increase expenses Tax credits and liabilities Positive foreign exchange translation differences	Low	These adjustments are not significant for MAPFRE
IFRS 4: Insurance contracts	Unbundling of embedded derivatives	Inconsequential	Only one product requires the separation and recognition at fair value of the embedded derivative
	Unbundling of deposit components	No accounting impact	Unbundling is not necessary as the deposit component of Life insurance is already recognised
	Product classification	No accounting impact	All products in MAPFRE are classified as Insurance products and existing reserve accounting criteria are maintained



Summary of Impacts in Equity and Profit

RECONCILIATION TO IFRS OF THE CONSOLIDATED RESULT FOR FISCAL YEAR 2004 ⁽¹⁾

ITEM	Gross Amount	Taxes	Minority interests	Attributable result	IFRS/IAS Standard	Page of reference
2004 Profit under PGC/PGEA	403.4	-118.4	-102.0	182.9		
Reversal of goodwill amortisation	29.2	-2.3	-11.0	15.9	IFRS 3	12
Reversal of the appropriation to the equalisation reserve	27.2	-9.6	-5.0	12.7	IFRS 4	13, 20
Differences in the valuation of investments	16.3	-5.4	-5.1	5.9	IAS 39	27, 28, 29
Amortisation of start-up expenses	5.1	-1.3	-0.9	3.0	IAS 38	31
Embedded derivatives (recognition of fair value, hedges)	-2.9	1.0	0.2	-1.7	IAS 39	30
Differences in the valuation of technical reserves	-2.0	0.7	0.6	-0.7	IFRS 4	16, 20
Deferred Income (exchange rate and negative consolidation differences)	0.4	0.1	0.0	0.6	IFRS 3, IAS 21	12, 33
Deferred taxes (timing diffs. and credits recoverable beyond 10 yrs.)	0.0	-1.0	0.0	-1.0	IAS 12	32
Other items	15.7	-13.7	-0.6	1.4	Various	---
Total adjustments	89.1	-31.5	-21.7	36.0		
2004 Profit under IFRS	492.5	-149.9	-123.7	218.9		

(1) Figures have not been reviewed by the external auditors of the Company and may include round-ups
 Figures in million euros



Summary of Impacts in Equity and Profit

RECONCILIATION TO IFRS OF THE CONSOLIDATED EQUITY AT THE CLOSE OF FISCAL YEAR 2004 ⁽¹⁾

ITEM	Gross Amount	Taxes	Net amount	Equity breakdown as at 31 December 2004						IAS / IFRS Standard
				Share capital	Reserves/ valuation adjustments	Attributable result	Reserves	Minority interests	TOTAL Equity	
Under PGC/PGEA	---	---	---	119.5	---	182.9	1,369.0	731.4	2,402.8	
Differences in the valuation of investments	1,649.7	-574.6	1,075.2	---	551.8	5.9	---	517.5	1,075.2	IAS 39
Differences in the valuation of technical reserves	-1,394.6	488.1	-906.5	---	-461.0	-0.7	---	-444.9	-906.5	IFRS 4
Reversal of the appropriation to the equalisation reserve	100.0	-34.3	65.7	---	35.1	12.7	---	18.0	65.7	IFRS 4
Deferred taxes	---	29.5	29.5	---	21.4	-1.0	---	9.2	29.5	IAS 12
Reversal of goodwill amortisation	29.2	-2.3	26.8	---	---	15.9	---	11.0	26.8	IFRS 3
Embedded derivatives (recognition to fair value, hedges)	25.0	-8.7	16.2	---	18.1	-1.7	---	-0.2	16.2	IAS 39
Deferred Income	15.2	-1.5	13.7	---	10.4	0.6	---	2.7	13.7	IFRS 3, IAS 21
Amortisation of start-up expenses	-17.7	4.8	-13.0	-5.6	-8.5	3.0	---	-1.8	-13.0	IAS 38
Other items	1.0	-0.2	0.8	---	-2.4	1.4	---	1.9	0.8	Various
Under IFRS	407.7	-99.2	308.5	113.8	164.8	218.9	1,369.0	844.7	2,711.2	

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Figures in million euros



Summary of Impacts in Equity and Profit

RECONCILIATION TO IFRS OF THE CONSOLIDATED EQUITY AT THE CLOSE OF FISCAL YEAR 2003 ⁽¹⁾

ITEM	Gross Amount	Taxes	Net amount	Equity breakdown as at 31 December 2003						IAS / IFRS Standard
				Share capital	Reserves/valuation adjustments	Attributable result	Reserves	Minority interests	TOTAL Equity	
Under PGC/PGEA	---	---	---	90.8	---	141.3	856.4	675.7	1,764.2	
Differences in the valuation of investments	897.6	-313.7	583.9	---	300.7	---	---	283.2	583.9	IAS 39
Differences in the valuation of technical reserves	-735.4	257.4	-478.0	---	-243.3	---	---	-234.7	-478.0	IFRS 4
Reversal of the appropriation to the equalisation reserve	73.0	-24.5	48.5	---	34.5	---	---	14.0	48.5	IFRS 4
Deferred taxes	0.0	29.2	29.2	---	20.4	---	---	8.8	29.2	IAS 12
Embedded derivatives (recognition to fair value, hedges)	27.8	-9.7	18.1	---	18.1	---	---	0.0	18.1	IAS 39
Deferred Income	13.8	-1.4	12.4	---	9.8	---	---	2.6	12.4	IFRS 3, IAS 21
Amortisation of start-up expenses	-11.0	2.3	-8.7	---	-7.2	---	---	-1.5	-8.7	IAS 38
Other items	9.5	-9.8	-0.2	---	-1.3	---	---	1.2	-0.2	Various
Under IFRS	275.5	-70.3	205.2	90.8	131.6	141.3	856.4	749.3	1,969.4	

(1) Figures have not been reviewed by the external auditors of the Company and may include round-ups
Figures in million euros



Summary of Impacts in Equity and Profit

STATEMENT OF CHANGES IN EQUITY BETWEEN 01.01.04 AND 31.12.04 ⁽¹⁾

	Share Capital	Reserves	Valuation adjustments	Profit	Minority interests	Total Equity
Balance as at 1 January 2004	90.8	856.4	131.6	141.3	749.3	1,969.4
Net unrealised gains recognised in equity		-45.8	33.4		21.9	9.5
Other increases/decreases		9.7	-0.2			9.6
Profit for the period				218.9	123.7	342.6
Distribution of previous year's result		112.6		-141.3		-28.7
Capital increase of April 2004	23.0	471.9				494.9
Dividends		-35.8			-50.3	-86.1
Balance as at 31 December 2004	113.8	1,369.0	164.8	218.9	844.7	2,711.2

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Figures in million euros*



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GOODWILL

PGC/PCEA

- Goodwill is depreciated systematically by the straight-line method over a term of up to 20 years

IFRS 3, IAS 38

- Amortisation of goodwill and intangible assets with indefinite useful lives is not permitted
- Instead, they must be tested for impairment annually, or earlier, if a Triggering Event occurs and creates reasonable doubts about initial expectations. If the impairment is confirmed, the resulting loss is charged against the result for the period

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- Goodwill is no longer amortised systematically and is tested for impairment annually
- At the date of transition, negative goodwill (negative consolidation differences) is derecognised as a liability and is booked as a positive adjustment in reserves



INSURANCE CONTRACTS – SUMMARY OF PHASE I REQUIREMENTS

Discontinue...

- Under IFRS 4 it is not permitted:
 - **To recognise equalisation or catastrophe reserves.** CORPORACIÓN MAPFRE no longer makes appropriations to equalisation reserves and adds existing ones to equity



INSURANCE CONTRACTS – SUMMARY OF PHASE I REQUIREMENTS

Allowed to continue but not start...

- IFRS 4 allows to continue but not start the following accounting policies:
 - **Recognition of deferred acquisition costs (DAC):** CORPORACIÓN MAPFRE does not defer the commissions and expenses related to new policies, which are charged to the results of the period in which they are incurred, with the exception of the Life subsidiary in Puerto Rico, whose DAC is not material
 - **Measuring insurance liabilities on an undiscounted basis.** CORPORACIÓN MAPFRE and its subsidiaries do not discount their Non-Life reserves and will be allowed to maintain this accounting policy
 - **Measuring contractual rights to future investment management fees at an amount that exceeds their fair value:** CORPORACIÓN MAPFRE and its subsidiaries do not apply this accounting policy
 - **Subsidiaries using non-uniform accounting policies** for insurance contracts. CORPORACIÓN MAPFRE's policy in this respect is defined under note 5.d of the 2004 annual report.



INSURANCE CONTRACTS – SUMMARY OF PHASE I REQUIREMENTS

Allowed to continue but not start...

- IFRS 4 allows to continue but not start the following accounting policies (cont.):
 - **Future investment margins.** An insurer need not change its accounting policies for insurance contracts to eliminate future investment margins. CORPORACIÓN MAPFRE does not apply this accounting policy
 - **Current market interest rates.** Insurance companies may, but are not required to, change their accounting policies and recalculate liabilities arising from insurance contracts to reflect current market interest rates, recognising any resulting changes in the result for the period. This policy need not be applied consistently to all liabilities. CORPORACIÓN MAPFRE has opted for maintaining local reserve calculation criteria



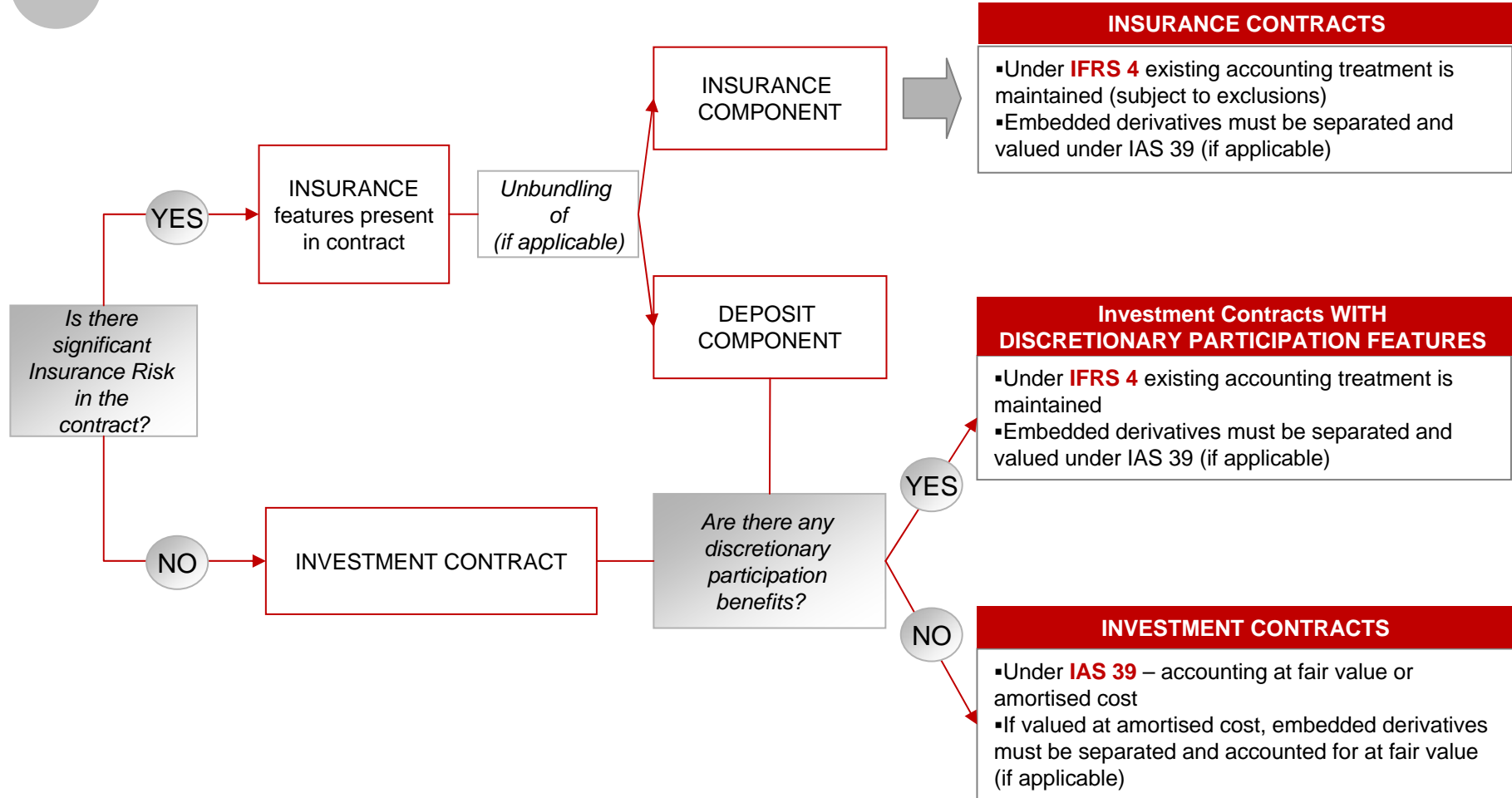
INSURANCE CONTRACTS – SUMMARY OF PHASE I REQUIREMENTS

Required to continue or start...

- La IFRS 4 requires to continue and, if applicable, to start, the following accounting policies:
 - **A liability adequacy test is required.** Current reserve calculation criteria required by the regulations of the countries in which MAPFRE operates meet the minimum requirements of IFRS 4's liabilities adequacy test, with the exceptions detailed in page 20
 - **Gross presentation of reinsurance.** It is not possible to offset reinsurance assets against the related insurance liabilities. Likewise, it is not possible to offset income or expense earned from reinsurance contracts against the expense or income arising from the related insurance contracts. There are no meaningful differences between Spanish regulations and IFRS, therefore CORPORACIÓN MAPFRE does not need to make any adjustments
 - **An insurance related liability shall be removed from the balance sheet when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.** This requirement is substantially equivalent to those laid out by current regulations, therefore CORPORACION MAPFRE and its subsidiaries need not change their accounting policies



PRODUCT CLASSIFICATION

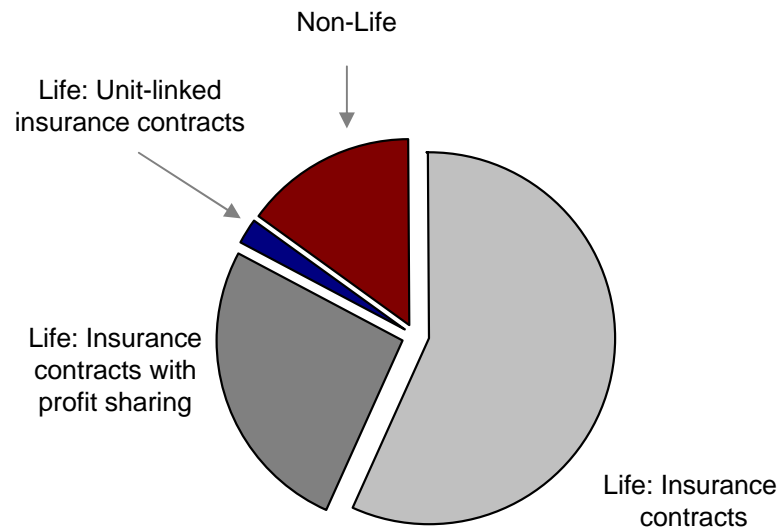


The legal form of a contract does not determine its classification – substance prevails over form



PRODUCT CLASSIFICATION: MAPFRE

MAPFRE: technical reserves under IFRS



- The classification of a product determines its accounting treatment

IFRS 4: Insurance contracts

- CORPORACIÓN MAPFRE: all current Life and Non-Life products are classified as Insurance products
- The main changes with respect to current regulations are explained in the following pages

Contracts under IAS 39

- Contracts that do not transfer insurance risk or do so to a minimal extent
- In CORPORACIÓN MAPFRE, there are no contracts of this kind



PRODUCT CLASSIFICATION – SOME EXAMPLES OF INSURANCE CONTRACTS

Product	Branch of business	Reason why it is classified as insurance	Unbundling of components	
			Embedded derivatives	Deposit components
<u>Regular premium Life insurance</u>	Life	Insurance risk element > 5% of surrender or maturity value	Yes, but not necessary to unbundle (closely related to host)	Yes, already recognised
<u>Single premium Life insurance</u>	Life	Insurance risk element > 5% of surrender or maturity value	Yes, but not necessary to unbundle (closely related to host) ⁽¹⁾	Yes, already recognised
<u>Unit-linked insurance</u>	Life	Insurance risk element > 5% of surrender or maturity value	No	Yes, already recognised
<u>Immediate annuities</u>	Life	Insurance risk element > 5% of surrender or maturity value	Yes, but not necessary to unbundle (closely related to host)	Yes, already recognised
<u>Credit insurance</u>	Non-Life	Policyholder is only paid if a loss on receivables is incurred into	No	No

(1) Only a single-premium product sold in 2004 through the bank channel contains an embedded derivative that must be separated from the host contract and accounted for at fair value (the policy's value at maturity is linked to a basket of equity indices)



INSURANCE CONTRACTS - TECHNICAL RESERVES

PGC/PCEA

- The appropriation of equalisation reserves is mandatory
- Claims and Life insurance reserves are calculated in accordance with the requirements of the Regulation and Supervision of Private Insurance Act (“Reglamento de Ordenación y Supervisión del Seguro Privado” or “ROSSP”). There are transitional regulations applicable to some branches of business (Life and Burial)

IFRS 4

- Present reserve appropriation and valuation criteria can be maintained under IFRS 4 (Phase I), although:
 - a liability adequacy test must be carried out
 - the appropriation of equalisation reserves is not permitted

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- Appropriations to equalisation reserves are no longer made. At the date of transition, existing reserves are added to equity
- Current reserve calculation criteria required by the regulations of the countries in which MAPFRE operates meet the minimum requirements of IFRS 4’s liability adequacy test, with the following exceptions:
 - The amount yet to be appropriated corresponding to the adjustment to the new mortality, survival and disability tables introduced in Spain in 2000 is fully charged to equity, net of tax
 - Reserves for the Burial insurance portfolios underwritten prior to 1 January 1999:
 - At the date of transition, the amount accumulated through the yearly appropriation of an amount equal to 7.5% of accrued premiums is added to equity. The mathematical reserved calculated using the same criteria applied in Life insurance is then appropriated through a charge to equity. The balance of both adjustments is not material



INSURANCE CONTRACTS – UNBUNDLING OF EMBEDDED DERIVATIVES

PGC/PCEA

- Current Spanish regulations do not require the identification of derivatives embedded in insurance contracts
- There is no specific regulation on embedded derivatives applicable to insurers

IFRS 4

- Embedded derivatives must be separated from their host contract and measured at fair value under IAS 39, if and when such instruments:
 - have the characteristics of a derivative
 - are not closely related to the host contract (i.e. they are not contingent on the occurrence of the insured event)
 - are not already measured at fair value
- Unbundling is not required for surrender options at a fixed amount
- Unbundling is required if the surrender value is a function of the changes in a financial variable (indices, etc.)

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- The impact is not material:
 - Only one single-premium Life insurance product sold in 2004 through the bank channel requires the separation of the embedded derivative, as its value at maturity is a function of a basket of indices



INSURANCE CONTRACTS– UNBUNDLING OF DEPOSIT COMPONENTS

PGC/PCEA

- Current Spanish regulations require, in the case of Life insurance, the recognition in the reserve of the deposit or savings component contained in the premium

IFRS 4

- IFRS 4 requires the separation of the deposit component contained in any type of insurance contract if:
 - it can be measured separately
 - the insurer's accounting policies do not require the full recognition of all obligations and rights arising from it
- If separation applies, the deposit component is accounted for under IAS 39, while the rest of the insurance contract is booked in accordance with IFRS 4

- The impact is not material:
 - The deposit component of Life insurance is already recognised under Spanish regulations
 - Moreover, MAPFRE has not underwritten any financial reinsurance contracts



INSURANCE CONTRACTS– REINSURANCE

PGC/PCEA

- Current Spanish regulation specifies that:
 - It is not possible to offset reinsurance assets against the related insurance liabilities. Likewise, it is not possible to offset income or expense earned from reinsurance contracts against the expense or income arising from the related insurance contracts
 - A provision must be set aside for the estimated uncollectible amount of doubtful receivables, including reinsurance receivables

IFRS 4

- IFRS 4 establishes the following:
 - It is not possible to offset reinsurance assets against the related insurance liabilities. Likewise, it is not possible to offset income or expense earned from reinsurance contracts against the expense or income arising from the related insurance contracts
 - If there is objective and reliably measurable evidence that a reinsurance asset is impaired, the cedant shall reduce its carrying amount and recognise that impairment loss in the income statement

- There are no meaningful differences between Spanish regulations and IFRS



INSURANCE CONTRACTS– SHADOW ACCOUNTING

PGC/PCEA

- Current Spanish regulations do not generate accounting asymmetries in the carrying amounts of liabilities and of their backing assets

IFRS 4

- IFRS 4, allows shadow accounting to reduce the asymmetries arising from the application of different valuation criteria to assets and liabilities
- Both realised and unrealised losses or gains in the backing assets are recognised in the valuation of technical reserves

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- In general terms, changes in market interest rates affecting the valuation of backing assets will be factored into the rate applied to calculate the mathematical reserve and used as a reference for shadow accounting



INSURANCE CONTRACTS– DISCRETIONARY PARTICIPATION FEATURES IN INSURANCE CONTRACTS

PGC/PCEA

- Under current regulations, all contract-related returns, whether guaranteed or discretionary, to which the policyholder has a right according to the terms of the policy, must be recognised each year in the mathematical reserve. There is an option to account separately for the liabilities corresponding to the discretionary participation feature under item “Reserves for profit sharing and returns”

IFRS 4

- The definition includes most participating or profit sharing contracts, including:
 - a guaranteed component, recognised as a liability
 - a discretionary participation feature, which can be accounted for:
 - Jointly, in which case both components will be booked as a single liability with changes recognised in results
 - Separately, in which case the discretionary participation feature can be classified as either a liability or an equity reserve (receiving part of the net result)
- IFRS 4 allows for shadow accounting in the valuation of mathematical reserves

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- A significant amount of the mathematical reserves corresponds to products with profit sharing. The reserves related to the discretionary participation feature will continue to be accounted for together with the guaranteed component.
- Shadow accounting is carried out against equity accounts when backing investments are classified as available for sale
- Only in the case of operations hedged with swaps shadow accounting is carried out against income



INSURANCE CONTRACTS – ADDITIONAL ASPECTS

- Paragraph 31 of IFRS 4 requires to split the fair value of acquired insurance contracts into two components :
 - a) a liability measured in accordance with the insurer's accounting policies for the insurance contracts that it issues;
and
 - b) an intangible asset, representing the difference between the fair value of the contractual insurance rights acquired and insurance obligations assumed and the amount described under a)

At present, CORPORACIÓN MAPFRE and its subsidiaries do not have obligations of this kind

- Paragraph 37.(b) of IFRS 4 requires ceding companies which defer and amortise gains and losses arising from ceded reinsurance to disclose the amortisation for the period and the amounts remaining unamortised at the beginning and end of the period. CORPORACIÓN MAPFRE and its subsidiaries do not defer any gain or loss arising from ceded reinsurance, and therefore do not have to apply this policy



INVESTMENTS

PGC/PCEA

- Real Estate
 - Valued at acquisition cost
- Loans and receivables:
 - Valued at their nominal amount

The DGS⁽¹⁾ divides securities portfolios between:

- Held-to-maturity investment portfolio: fixed-income securities that are intended to be held to maturity:
 - Valued at acquisition cost, amortising differences with respect to the redemption value over the securities' life
- Ordinary investment portfolio: fixed-income securities not held to maturity and equities:
 - Valued at the lower of amortised cost or market price.

IAS 16, 39 & 40

	Description	Accounted for at:	Change in Fair Value
Real Estate	Land & Property	At fair value or amortised cost	Income statement or NA
Loans and Receivables	Financial assets with fixed or determinable payments that are not quoted in an active market	Amortised cost	NA
Investments Held to Maturity	Financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and capacity to hold to maturity	Amortised cost (effective rate)	NA
Financial Assets at fair value with changes through profit and loss	All derivatives (except for derivative designated for hedging) and financial assets held for trading	Fair value	Income statement
Available-for-sale Financial Assets	All financial assets not classified in any of the categories listed above	Fair value	Equity



⁽¹⁾ The Spanish General Directorate of Insurance and Pension Funds ("Dirección General de Seguros y Fondos de Pensiones" or "DGS").



IFRS – Accounting and Valuation Policies



FINANCIAL INVESTMENTS: SOME CONSIDERATIONS

Investments held to maturity	Financial Assets available for sale	Financial assets held at fair value through profit and loss
<ul style="list-style-type: none"> - The requirements of IAS 39 are more stringent than those of the Spanish standards: <ul style="list-style-type: none"> - The entity must have the positive intention and ability to hold the securities to maturity - An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant⁽¹⁾ amount of held-to maturity investments before maturity, with a few exceptions 	<ul style="list-style-type: none"> - Previously, losses were recognised in results only to the extent that they exceeded gains - Under the new standards all valuation differences are recognised in equity while unrealised, and in the income statement when realised 	<ul style="list-style-type: none"> - This portfolio did not exist previously - All financial assets in the ordinary investment portfolio were accounted at the lower of cost or market value

MAPFRE CORPORATION MAPFRE has kept 5% of its total investments in this portfolio and has reclassified the rest as “available for sale”

MAPFRE Under IFRS, 88% of the investment portfolio is reclassified as “Available for Sale”, recognising changes in fair value through equity

MAPFRE They represent 7% of the investment portfolio and include primarily the trading portfolio of MAPFRE INVERSIÓN and derivatives (excluding those designated as hedges)

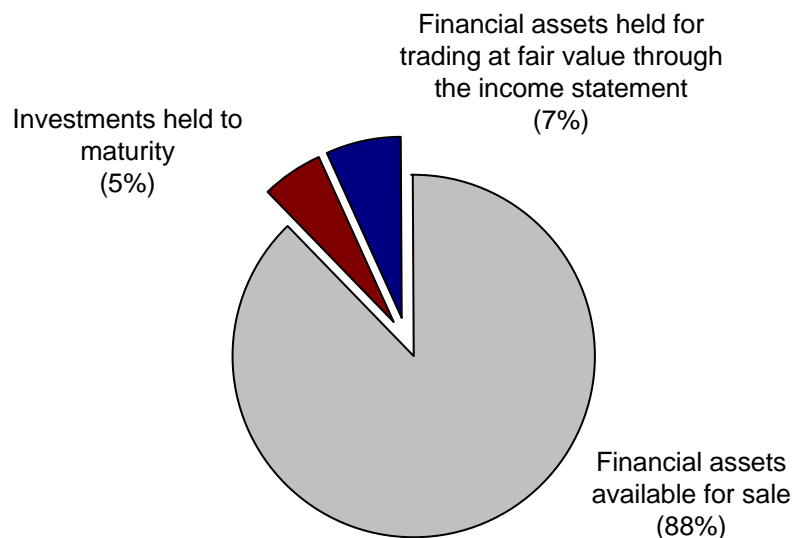


1) Significance is determined in relation to the total amount of held-to-maturity investments



MAPFRE: SUMMARY OF INVESTMENTS

Financial investment under IFRS



MAPFRE: Other investments

- Real Estate: under IAS 16 and 40, the entity can choose either:
 - a cost model: property is carried at its cost less any accumulated depreciation and any accumulated impairment losses
 - a revaluation model: property is carried at fair value

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- 95% of the investment portfolio accounted for at fair value
- Changes in fair value recorded in equity, compensated by shadow accounting

MAPFRE

- Real Estate is kept at historical cost



FINANCIAL INVESTMENTS – DERIVATIVES AND HEDGES

PGC/PCEA

- Hedging instruments:
 - Variations in market values are recognised in results symmetrically to the variations in the value of the asset or liability to be hedged
- Derivatives that are not hedges:
 - Variations in market values are recognised in results

IAS 39

- All derivatives are booked in the balance sheet at fair value, recognising any variations in the income statement
- Hedge accounting:
 - Hedge accounting classification is subject to stricter documentation requirements and to effectiveness tests
 - The balance of the changes in fair value of the hedging instrument and of the item to be hedged is recognised in the result for the period

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- Most swaps used to match the flows from the investment portfolio with the contractual payouts due on Life insurance policies are classified and accounted for as hedges
- The balance of the changes in fair value of the hedging instrument and of the item to be hedged is recognised in the result for the period



START-UP AND CAPITAL INCREASE EXPENSES

PGC/PCEA

- They are fully capitalised and depreciated by the straight-line method in a maximum period of 5 years

IAS 38

- Incorporation and start-up expenses cannot be booked as intangible assets: they are fully expensed in the period in which they are incurred
- Capital increase expenses are accounted for as a reduction of the amount of capital raised

MAPFRE

- Capital increase expenses yet to be depreciated are written off against Paid-up Capital
- Incorporation and start-up expenses yet to be depreciated are written off against equity
- The impact of these adjustments is not material



TAX CREDITS AND LIABILITIES

PGC/PCEA

- Pre-paid taxes are recognised if they are considered likely to be recovered:
 - within a period of 10 years
 - through a sufficient amount of tax breaks or through deferred taxes of equal amount and reversal period
- Deferred taxes are recognised when they arise because of timing differences between accounting income and taxable income

IAS 12

- Pre-paid and deferred taxes are recognised through the balance sheet. Recognition through profit or loss is no longer permitted
- There is no maximum time limit for the recognition of pre-paid taxes whose recovery is considered likely

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- The elimination of the 10 years time limit leads to the recognition of new pre-paid taxes
- New timing differences are recognised as a consequence of assets and liabilities valuation adjustments arising from the adoption of IFRS



POSITIVE FOREIGN EXCHANGE TRANSLATION DIFFERENCES

PGC/PCEA

- Foreign exchange differences realised upon settlement are booked as gains or losses in the period in which they arise
- Unrealised foreign exchange differences at the closing date of the financial statements:
 - If positive, they are booked as “Deferred income” in the liabilities;
 - If negative, they are charged against the result for the period.

IAS 21

- Any difference arising from variations in exchange rates with respect to those applicable on the date on which the transaction was entered into must be recognised as a gain or loss in the period in which they are incurred with a few exceptions

MAPFRE

- The amounts booked as “Deferred income” are charged against equity reserves at the date of transition. The effect of this adjustment is not material





PENSION LIABILITIES (POST-EMPLOYMENT BENEFITS)

PGC/PCEA
<ul style="list-style-type: none"> The current Spanish regulations do not differentiate the accounting treatment for defined contribution and defined benefit plans

IAS 19	
<i>DEFINED CONTRIBUTION PLANS</i>	Only premiums must be accounted for as expenses in the period in which they are paid
<i>DEFINED BENEFIT PLANS</i>	<p>If policies are issued by a party related to the company that is publishing the financial statements, the present value of all assumed obligations must be booked as a liability.</p> <p>Assets backing the plan must be recorded at fair value</p> <p>If the policy is not issued by a related party, then the net balance of assets and liabilities must be booked in the balance sheet</p>



- The changes in the booking and presentation criteria for defined benefit plans have not had a material impact on results and equity



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- 2 Summary of Impacts on Equity and Profit
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- 4 Presentation and Companies included in the Consolidation
- 5 Glossary



Companies included in the Consolidation

COMPANIES INCLUDED IN THE CONSOLIDATION

PGC/PCEA

- Full consolidation
 - Evidence of ownership and control
- Proportional consolidation
 - Joint management with another company outside the group
- Equity accounting
 - Tangible influence (shareholding \geq 20% or 3% if the company is listed or 10% if it is an insurance company)
- Cost method
 - shareholding \leq 20%
- Companies accounted for by the equity method due to differences in the type of business activity
 - Companies whose activity is different to an extent that does not contribute to giving a true and fair view of the group are excluded from full consolidation

IAS 27 and 28

- All controlled companies are fully consolidated

MAPFRE

- All companies that previously were accounted for by the equity method due to differences in their type of business activity are now fully consolidated: MAPFRE INVERSIÓN and its subsidiaries, MAPFRE INMUEBLES, VIAJES MAPFRE



PRESENTATION

PCEA

- Balance Sheet
 - Defined format with specific headings
- Profit and loss statement
 - Expenses classified by line of business
- Annual report
 - Statement of changes in shareholders' equity
 - Statement of changes in cash
 - Explanatory notes

IFRS

- Balance Sheet
 - Information breakdown by segments
- Income statement
 - Expenses classified by item type or function
 - Information breakdown by segments
- Statement of changes in equity
- Cash flow statement
- Explanatory notes

MAPFRE

- Breakdown of annual accounts by:
 - Business segment:
 - Direct Insurance (Life and Non-life)
 - Reinsurance
 - Other business activities
 - Geographic segment: Spain, Rest of the EU, Americas, Rest of the World
- New statements of changes in equity and cash flow
- Greater detail in the explanatory notes



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DEFINED TERMS ⁽¹⁾

- Insurance contract**
- A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder
- Insurance risk**
- Risk, other than financial risk, transferred from the holder of a contract to the issuer
- Financial risk**
- The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable is not specific to a party to the contract
- Fair value**
- The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction
- Liability adequacy test**
- As assessment of whether the carrying amount of an insurance liability needs to be increased (or the carrying amount of related deferred acquisition costs or related intangible assets decrease), based on a review of future cash flows
- Unbundle**
- Account for the components of a contract as if they were separate contracts



1) *Defined terms as provided in IFRS 4 and IAS 39*



DEFINED TERMS ⁽¹⁾

- Deposit component**
- A contractual component that is not accounted for as a derivative under IAS 39 and would be within the scope of IAS 39 if it were a separate instrument
- Discretionary participation feature**
- A contractual right to receive, as a supplement to guaranteed benefits, additional benefits:
 - that are likely to be a significant portion of the total contractual benefits;
 - whose amount or timing is contractually at the discretion of the issuer;and
 - that are contractually based on:
 - the performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer;or
 - the profit or loss of the company, fund or other entity that issues the contract



1)

Defined terms as provided in IFRS 4 and IAS 39



DEFINED TERMS ⁽¹⁾

Definitions of Four Categories of Financial Instruments under IAS 39

Asset or financial liability at fair value through profit or loss

- It is classified as held for trading. A financial asset or financial liability is classified as held for trading if it is:
 - acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
 - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;or
 - a derivative (except for a derivative that is a designated and effective hedging instrument).
- Any financial asset [...] within the scope of this Standard may be designated when initially recognised as a financial asset [...] at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured

Held-to-maturity investments

- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than:
 - those that the entity upon initial recognition designates as at fair value through profit or loss;
 - those that the entity designates as available for sale;and
 - those that meet the definition of loans and receivables



1)

Defined terms as provided in IFRS 4 and IAS 39



DEFINED TERMS ⁽¹⁾

Loans and receivables

- Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
 - those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
 - those that the entity upon initial recognition designates as available for sale;or
 - those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Available for sale financial assets

- Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Other definitions IAS 39

Derivative

- A derivative is a financial instrument or other contract within the scope of this Standard with all three of the following characteristics:
 - its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (sometimes called the ‘underlying’);
 - it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;and
 - it is settled at a future date



1) Defined terms as provided in IFRS 4 and IAS 39



DEFINED TERMS ⁽¹⁾

Other terms of IAS 39

Effective interest rate

- The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Hedge accounting

- Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.



1)

Defined terms as provided in IFRS 4 and IAS 39

