

CORPORACION MAPFRE S.A

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CORPORACION MAPFRE:
1986 RESULTS, 1987 PROSPECTS

by Domingo Sugranyes, Executive Vice President

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MAPFRE
DOCUMENTACION

This presentation will deal with CORPORACION MAPFRE, the company which is listed on the Stock Exchange and the one in which outside shareholders are interested. My talk will be in 4 parts:

1. I shall first describe Corporación MAPFRE's place within the MAPFRE System of Companies, as the central "downstream" holding company in our Group with full control of the Group's insurance operations in all sectors (except Motor Insurance, operated by the parent Mutual) and consumer credit business. At the same time, Corporación MAPFRE is a reinsurance company and the base for further international development.

2. Then, in a second part, I shall comment in detail on each of Corporación MAPFRE's main subsidiaries.

3. In a third part I shall describe Corporación MAPFRE's own operations as a reinsurance company.

4. And, fourth, I shall refer to our company's consolidated results and balance sheet.

Finally I should like to give you some data on the first two quarters of 1987, and future developments we are presently working on.

1. CORPORACION MAPFRE WITHIN THE MAPFRE SYSTEM

May I draw your attention to slide 1: this is the chart of the main companies in the "MAPFRE System".

On the upper side you can see MAPFRE Mutual, the System's parent company, specialised in Motor Insurance (with 1.2 million insured vehicles, 20 pct more than a year ago). The MAPFRE Foundation is on the same level: it is a non-profit organisation, which receives grants based on agreed criteria from all MAPFRE companies, and which dedicates its income exclusively to prevention, safety and loss reparation activities (training and research). The Foundation controls the MAPFRE Safety Technology Institute, ITSEMAP, in Avila. There is another MAPFRE Mutual, specialised in Workmen's compensation, which by law has to be completely separate and to report separately from the rest of MAPFRE, but which is a co-promotor of the MAPFRE Foundation.

MAPFRE Mutual and external investors control Corporación MAPFRE, a stock company listed on the Madrid Stock Exchange, with approximately 40% now in the hands of outside investors and 60% with the parent company. The area marked in the square, including Corporación MAPFRE and its subsidiaries, is the group of companies which is of interest to outside investors. MAPFRE makes two separate consolidations: one for MAPFRE Mutual and subsidiaries, and one for Corporación MAPFRE and subsidiaries. Both include in the published notes a detailed account of transactions between Corporación MAPFRE and MAPFRE Mutual, so that the shareholder can have a transparent view of relationships among MAPFRE companies (note 12 to Corporación MAPFRE's consolidated accounts, at the end of our Annual Report). By the way, MAPFRE was the very first Spanish financial group to publish consolidated and internationally audited financial reports.

2. CORPORACION MAPFRE AND SUBSIDIARIES

Corporación MAPFRE, which on the chart appears as a holding company, is at the same time the Group's reinsurance unit. The main subsidiaries are:

Insurance

MAPFRE VIDA (Life)

MAPFRE INDUSTRIAL (SEGUROS GENERALES)(General Insurance)

MAPFRE CAUCION (Surety & Credit Insurance)

Non-Insurance

MAPFRE FINANZAS (Consumer Credit)

The existence of separate specialised companies for each line of business is a consequence of the Group's management philosophy, based on decentralisation and specialisation.

MAPFRE XL is a new reinsurance subsidiary, specialised in non-Proportional reinsurance acceptances.

MAPFRE INTERNACIONAL is an instrumental holding company which controls shares in foreign based insurance companies. We have presently substantial shares in companies in Argentina, Colombia and Chile and smaller shares in companies in Italy and Tunisia, as well as delegations or offices in Lisbon, Rio de Janeiro, Manila and Mexico City. The Lisbon delegation, based in our own premises recently acquired in the best business area of the Portuguese capital, will allow us to develop our first foreign direct insurance operation, mostly in Life. Our offices in Brasil, Mexico and the Philippines are part of Corporación MAPFRE's assumed reinsurance and service operations, to which I shall come back after describing the four main subsidiaries operating in Spain.

(a) MAPFRE VIDA (Slide nº2)

This slide describes MAPFRE VIDA's life assurance and pensions operations from 1982 to 1986, and a 1987 forecast.

The premium increase of the last four years has been spectacular: 16% for 1983, 29% for 84, 45% for 85 (4%, 16% and 33% in real terms). 1986 was more than double the 85 premium income (+ 111%). The 1986 increase was exceptional, for it was partly based on single premiums policies, which had a very strong increase linked to a peculiar situation on the Spanish private investment market in 1986 (tax loophole). As you can see on the slide, single premiums grew 620% on the previous year and represented 46% of total life premiums in 1986. The growth in single premiums is being weaker this year but the growth trend of normal business continues vigorously at 25%. This growth trend will continue because of two important long term factors:

- crisis of confidence in the official pension scheme, which in the Government's own declarations will not be able to maintain its promises in the long run.
- relative low level of life insurance per head of population: in 1984, we had 8.9 US\$, compared to, for example, 17,6 in Italy, 84.9 in Austria or 440 in Switzerland,- a situation which is quickly changing with the "modernization" of Spanish savings and investment habits.

This trend offers oportunities to the whole Spanish insurance sector. The prospects concerning pension funds

will depend on the new legislation recently approved, to be applied from 1988. In any case, MAPFRE Vida is in an excellent position to profit more than others from this life insurance boom, thanks especially to a remarkably motivated and well trained sales force.

Earnings are understated in this company because of a very conservative accounting policy: acquisition commissions are fully written off against the policy's first year of income, and technical reserves are established equally since the first year, and not progressively towards the end of each policy's life time (like in the "Zillmer" system). Other underevaluations of assets can be identified in the company's Property portfolio. These accounting principles are described in detail in the notes to our consolidated financial statements. The capital of MAPFRE Vida, fully held by Corporación MAPFRE, was increased from 800 to 2000 million Pesetas paid-up. The company's earnings were up 83% on the previous year, and dividends paid in 1986 were up 146% on 1985.

In terms of capital insured, most of MAPFRE Vida's operations are in risk and savings mixed products with 90% of investment income retroceded due to policy-holders.

(b) SEGUROS GENERALES (Slide nº3)

We are now turning to the area of Property & Casualty Insurance. The companies operating in this area are:

- MAPFRE Industrial.

- 5 new regional companies in Spain, which have just started to operate and should help us in coming years to boost our market share in Property & Casualty insurance through more aggressive marketing and better service, closer to the client.

As you can observe on the slide, we have had steady premium growth of 15 to 25% every year in the last 5 years, which means as much as 16% annually in real terms in the last twelve months. The very remarkable thing here is the amount of claims incurred in each year, which have been constantly contained in a range between 45% and 55% of earned premiums, with 86 figures back at 49% after a slightly higher claims ratio in 1985. 1987 until now is running on the same patterns as last year. This indicates the very peculiar balance of business we have in our portfolio: we are much stronger in simple risk combined policies - where our main area of growth has been in the last ten years - than in industrial larger risks. That means better rates, and lower claims ratios. With acquisition and overhead costs in the area of 33%, our experience leaves a good margin for profit, as appears in the last column (after tax earnings). This experience has not been endangered and will not be by Liability and Marine results, which in Spain still show reasonable claims ratios and in which MAPFRE has applied very selective underwriting criteria.

86 earnings were 33% up on previous year. The dividend paid out by MAPFRE Industrial in 1986 is 17% of paid-in capital.

(c) MAPFRE CAUCION (Slide nº4)

The area of Bond or Surety insurance now on the screen only represents 2,7% of Corporación MAPFRE's consolidated gross premium in 1986 and growth in premium income, which was high in this class until 1985, is now slower due to increased competition. MAPFRE has been active in this line of insurance since 1976, mainly in performance and surety bonds, excluding both fidelity and purely financial guarantees. We have about 22% of the bond market, and the technical profit has been substantial in every year except 1984, where we had two large customs bonds recalled (though not paid, fully reserved for, until the Courts decide on the case).

Good results in this line depend upon a very careful underwriting policy and working only with the best contractors and suppliers, which is what we try to do. To maintain high standards of risk-selection, underwriting decisions in this class of business are kept under strict control from headquarters.

MAPFRE Caución earnings are high in proportion to premiums, in spite of a relatively high percentage of premium reserves kept to meet future obligations of bonds in force.

(d) MAPFRE FINANZAS (Slide nº 5)

The network of consumer credit companies owned by Corporación MAPFRE includes one nationally active

company based in Madrid and another five regional companies. The slide shows figures for the whole of them. These companies traditionally gave loans for car purchase, and refinanced mainly through discount of commercial paper. However, a growing competition in automobile financing has led them more and more towards smaller consumer items. On the other hand, the MAPFRE Finanzas companies issue one-year debit notes directly to the public, and now cover through this channel a substantial part of their own financial needs.

Results were mixed in the past, but are now very much under control for the last four years. Bad debt provisions, as you can see on the slide have been strongly increased, much beyond legal minimum obligations: they represented 1.7% of all outstanding loans in 1986. And still, net earnings were as high as 25 % of the companies own funds in 1986. Capital invested in this area was increased in 86 from 490 to 1330 million pesetas. The MAPFRE Finanzas companies have a future in the consumer credit market, still largely underdeveloped in Spain, and they are well prepared to take up this opportunity thanks to their computerized administrative and rating system.

3. CORPORACION MAPFRE'S ASSUMED REINSURANCE OPERATIONS (Slide nº 6)

Assumed reinsurance is Corporación MAPFRE's own line of specialised operations. MAPFRE was active in international reinsurance throughout the last 15 years, though with very specific and limited objectives: as you can see now on the screen, our book of assumed business in 1982 was mainly from Spain and Latin America. These regions still account for the bulk of the 1986 premium volume, even more clearly than 4 years earlier. We are a specialised reinsurer, active mainly in Spanish and Portuguese speaking countries.

This professional specialisation stems from the way we developed our book of accepted business, through personal contacts several times a year with our ceding companies, to whom we offer not only reinsurance capacity, but also training and service to improve their management and technical controls.

We are growing quickly in Western Europe, the Mediterranean countries and also in the Far East. I already mentioned our regional office, which was established in Manila and from there is beginning to operate very cautiously in the whole area even including, if you allow me, with some of the Japanese insurance companies with whom we have enjoyed friendly relationships for many years. Our approach to the very competitive world reinsurance market will always be based on the same policy of looking for special "niches" and working only with ceding companies selected by us through direct contact.

This policy has brought excellent results. At a time when professional reinsurance (not to speak of new "innocent" capacity) has shown very bad technical results, we have

obtained quite reasonable technical profit in all years except in one: 1985 was the year of the Chile and Mexico earthquakes. However, these events remained by far below the limits of our own catastrophe reinsurance "umbrella". In fact, Latin American countries, in spite of all their problems, are still among the few profitable reinsurance markets in the world, and we have strong positions, fortunately, in all of them. Technical profit derived from reinsurance operations are to a large extent kept as an additional, non compulsory technical reserve, which now amounts to 250 million pesetas.

In absolute terms, our assumed reinsurance premiums represented 9.5 billion Pesetas in 1985 (around 75 million US Dollars); nearly half of this volume is business from other MAPFRE companies, of which Corporación MAPFRE only retains a limited, additional part, while the rest is retroceded to first class international reinsurance. Slide 7 shows the growth in reinsurance assumed and retained premiums. According to accepted security standards, with a capital and free surplus of 15.7 billion Pesetas, Corporación MAPFRE could accept four or five times more reinsurance premiums. As you can see on slide 8, our capital is 220% of our retained premium level, whereas it is normally accepted that capital should be at least one third of retained premiums. However, we shall not increase our volume quickly, because we deem selective underwriting as absolutely necessary.

4. CORPORACION MAPFRE CONSOLIDATED FIGURES

(a) ASSETS (CONSOLIDATED) (Slide nº9)

All the information I am giving you today you can find in the Corporación MAPFRE Annual Report in English, copies of which are available. In these reports you will be able to find more data on the company and its subsidiaries.

In the rest of my presentation I shall make references to the consolidated financial statements of Corporación MAPFRE and subsidiaries which you will find with all the auditors' explanatory notes at the end of Corporación MAPFRE's Annual report.

This slide shows Corporación MAPFRE's consolidated investments and liquid assets in 1985, 1986 and a 1987 forecast.

About 28% of our total assets are invested in Real Estate. Only a very small part of the amount shown is invested in buildings and offices for our own use, since in most cases these are owned by MAPFRE Mutual. The bulk of the investment is in new office buildings, mainly in the Madrid and Barcelona area, which at present are extremely dynamic markets. Corporación MAPFRE also owns probably the best developable piece of land still free in Barcelona, acquired in 1986. Our property is shown at acquisition cost plus the limited revaluations authorized by law; the last revaluation law was in 1983, and much of the property was acquired later on. Our guess is that their real market value might be as much as double. The net income, measured on acquisition cost, is an average of 8 pct. At this date, all our office space ready for rent (100.000 sq. metres) is occupied and the rest is under construction. The amount of Property held (at acquisition value) is up 29% on 1985.

Investments in equities and bonds included the following items at the end of 1986:

	<u>Percentage</u>	<u>Million Pesetas Value</u>
State guaranteed debt	58%	16.289
Fixed income	30%	8.430
Foreign bonds	4%	1.286
Equities	8%	2.244

Most of the equity held are shares of a leasing company, LICO, which operates together with MAPFRE Finanzas and several Spanish Savings Banks.

This rather conservative investment policy is absolutely normal for an insurance group, and the average return is considered satisfactory (around 13%) last year. The Government recently allowed us to invest a large part of assets in foreign currency securities.

The relatively large amount kept in cash or in short term Treasury bills can be explained by the fact that the end of the year is a time of maximum accumulation of cash. Another important factor is that Corporación MAPFRE is allowed by Spanish legislation to keep current account balances from reinsurance operations in foreign currency cash without changing them into pesetas. This is of prime importance for an international reinsurance company and it allows us to cover month after month our obligations in each group of currencies with assets in the strongest currency of each group (principle of congruent coverage, not compulsory in Spain, but voluntarily applied by us).

The total amount of financial investments and cash (43.6bn pesetas) is up 63% on 1985.

(b) PAID-UP CAPITAL, SHAREHOLDERS SURPLUS AND EARNINGS
(Slide 10)

Now please consider on the screen a summary of three years of Corporación MAPFRE (1984, 85 and 86). On the left you have paid-up capital and free reserves, making up shareholders equity; on the right you have after-tax earnings. The 1985 increase in earnings (after tax and minority interests in subsidiaries) was 29%, and 1986 over 1985 was 65%. It is not easy to compare with the company's earnings previous to 1983, since the structure of affiliates was quite different. However, the average annual growth in earnings in real terms of the two main subsidiaries over the last five years was well above 30% pro year.

Net earnings were given after full provision for employees pensions obligations until 1986, as well as depreciation of foreign weak currency investments. Without these new provisions, earnings increase would have been 79% over 1985.

Dividends paid to shareholders were 10 % of par-value capital in 1984, 12,5% in 1985, and 20% in 1986.

1987 FIRST HALF YEAR, AND FUTURE DEVELOPMENTS

In the first six months of 1987, issued domestic insurance premiums were as follows:

Life	5.4 bn	+ 42%
Single premiums	1.4 bn	(69%)
General	2.6 bn	+ 28%
Bonding	0.3 bn	+ 7%

while income from consumer credit was growing at 74%. Reinsurance assumed premiums were growing 24%. 1987 looks as a year of stable development, after extraordinary growth in life business in 1986. Results so far look again very satisfactory.

Which are now our main future plans ?

1) Property & Casualty

I already mentioned the five newly created regional companies for Property & Casualty insurance, which we expect to grow together with the existing company from a 5% to a 15% market share roughly in 10 years, without changing the strict and highly profitable underwriting policy.

2) Life assurance

MAPFRE Vida is again taking the lead in the market with two totally new products: one is an investment linked pension product, and the other one is a risk policy linked to free annual medical check-up. Both products are having a very good start.

I already mentioned before that MAPFRE Vida is also beginning a direct branch-office in Portugal, which means a fully new market for us and an excellent challenge for our marketing skills.

3) Financial services

MAPFRE Finanzas and MAPFRE Caución y Crédito will continue to develop new services to clients, both private and corporations. These may include Mortgage loans, Credit Insurance, Investment advice and Financial information services.

4) International

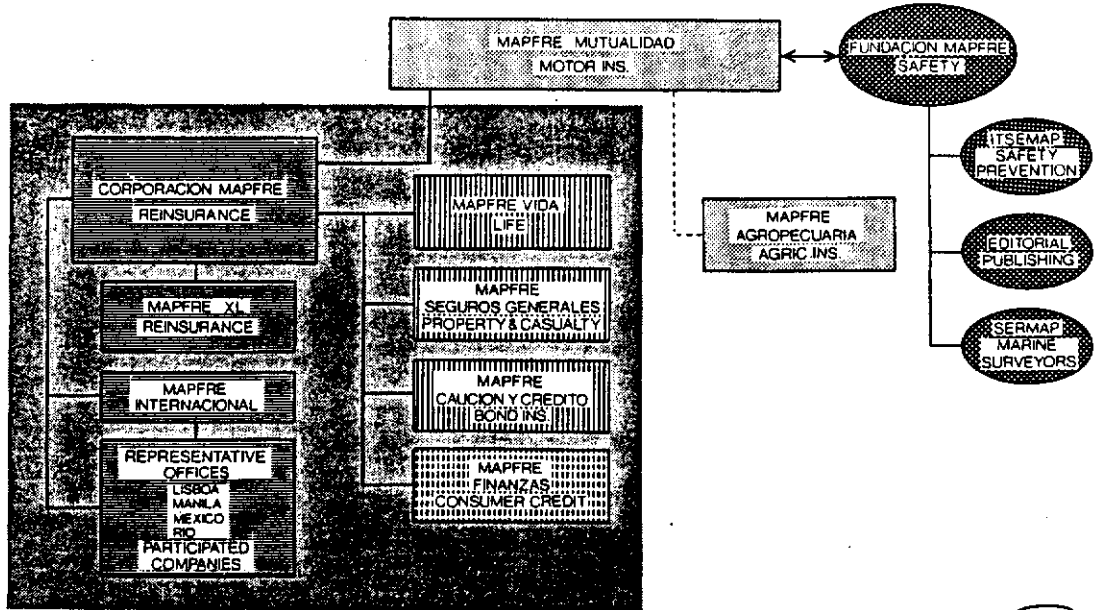
The reinsurance area will offer opportunities for development in the form of the already created specialised reinsurance company for non proportional business (MAPFRE XL), and an off-shore reinsurance company, for the location of which we are still considering alternatives.

Finally, we shall keep some money earmarked for investment in foreign insurance or financial services companies. Our policy in this matter is formulated very strictly, with a number of requisites to be met in each investment opportunity. For example, we shall always try to "secure" our investment with real estate owned by the company in which we have a share; we shall also look basically for companies which are in a position to become listed in their own stock-exchange soon after our investment, so that our share will gain revaluation potential, and the associated companies will cover a large part of their future financial needs on their own market. And above all, we shall only invest in companies with a strong, creative, local management, on which we can rely for growth, and which will be able to adapt our philosophy and methods to their own country.

These are, in a nutshell, our main development projects.

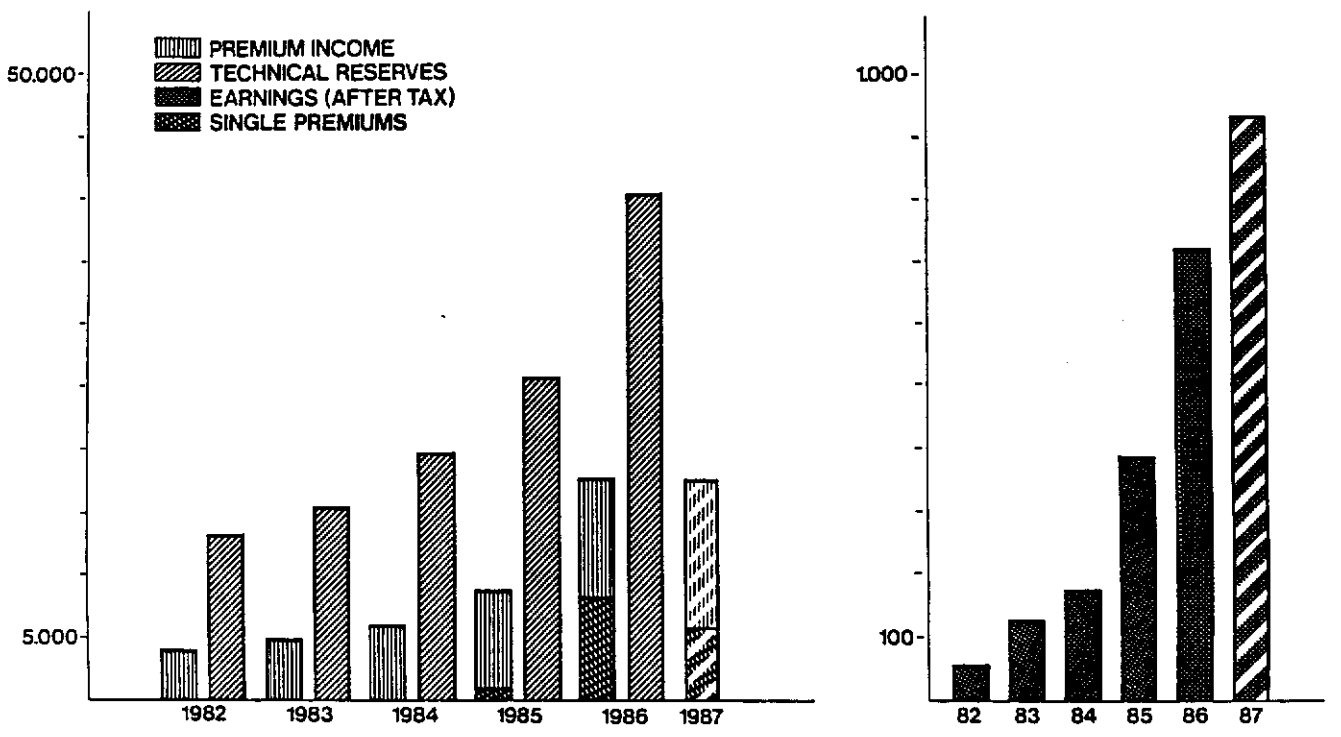
Our aim is to make Corporación MAPFRE an ever stronger, more efficient and more profitable company, both for the benefit of its main shareholder, MAPFRE Mutualidad, and of its minority shareholders. At any rate, we pledge our intention to always offer maximum information, as clear and objective as we can, on our operations.

MAPFRE SYSTEM



CORPORACION **MAPFRE**

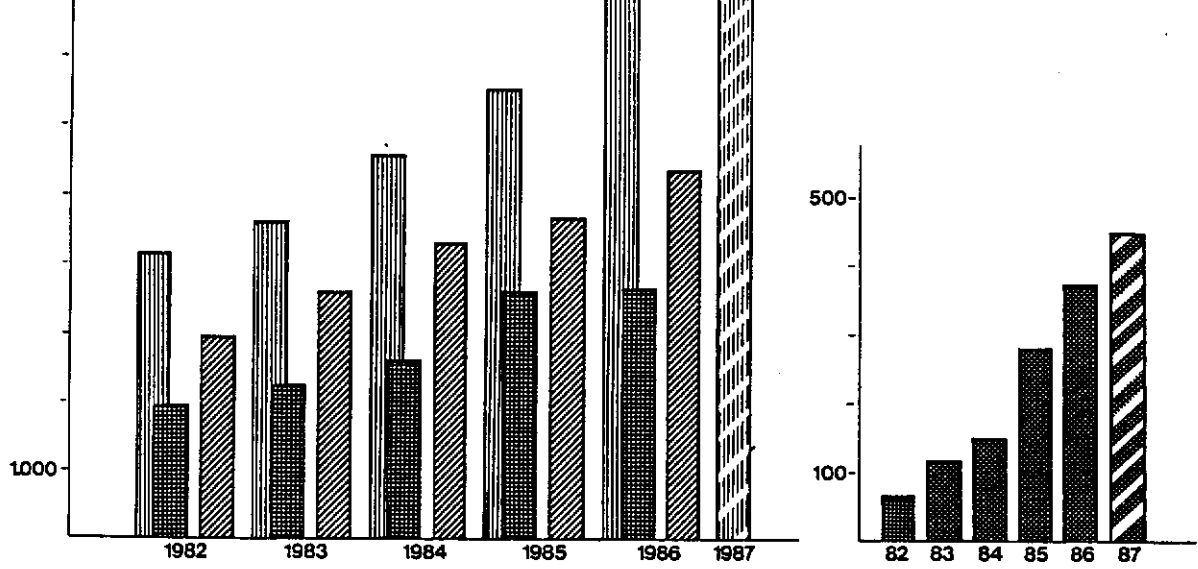
MAPFRE VIDA



CORPORACION **MAPFRE**

MAPFRE SEGUROS GENERALES

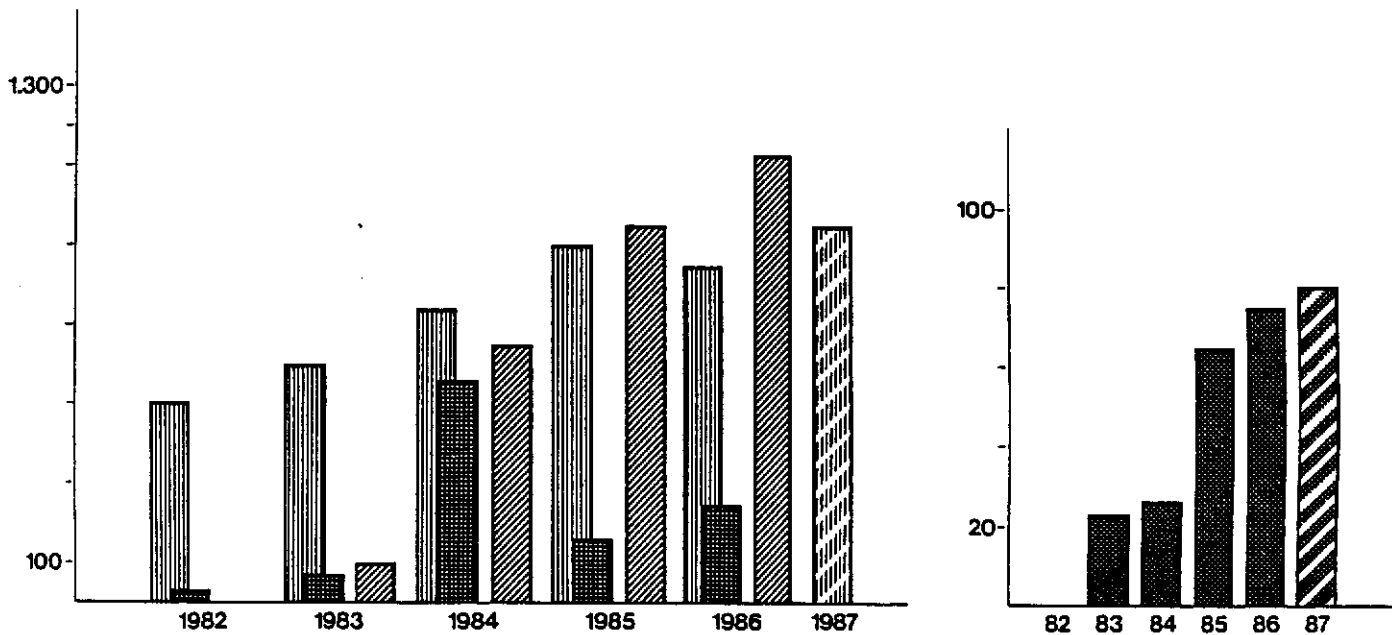
- ▨ PREMIUM INCOME
- ▨ CLAIMS
- ▨ TECHNICAL RESERVES
- ▨ EARNINGS (AFTER TAX)



CORPORACION MAPFRE

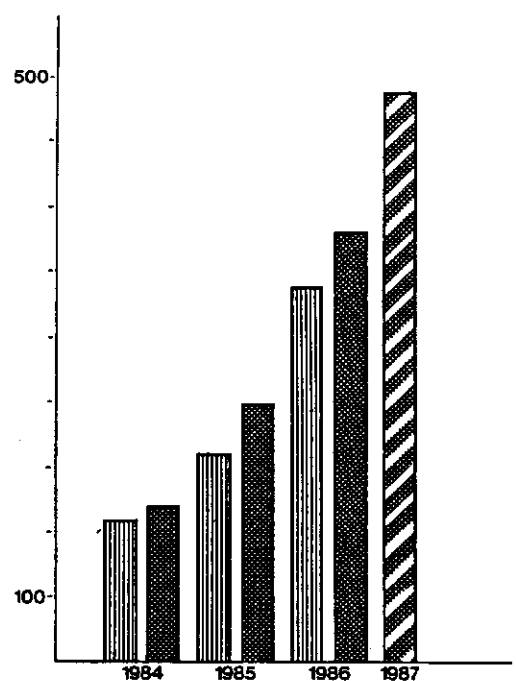
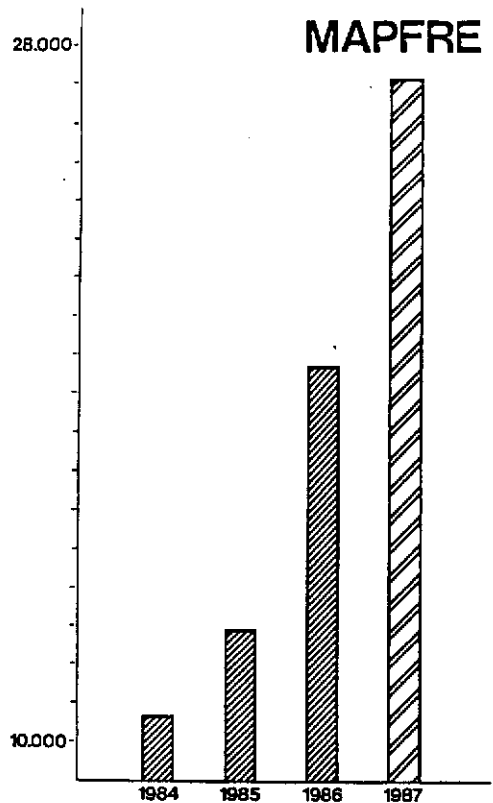
MAPFRE CAUCION

- ▨ PREMIUM INCOME
- ▨ CLAIMS
- ▨ TECHNICAL RESERVES
- ▨ EARNINGS (AFTER TAX)



CORPORACION MAPFRE

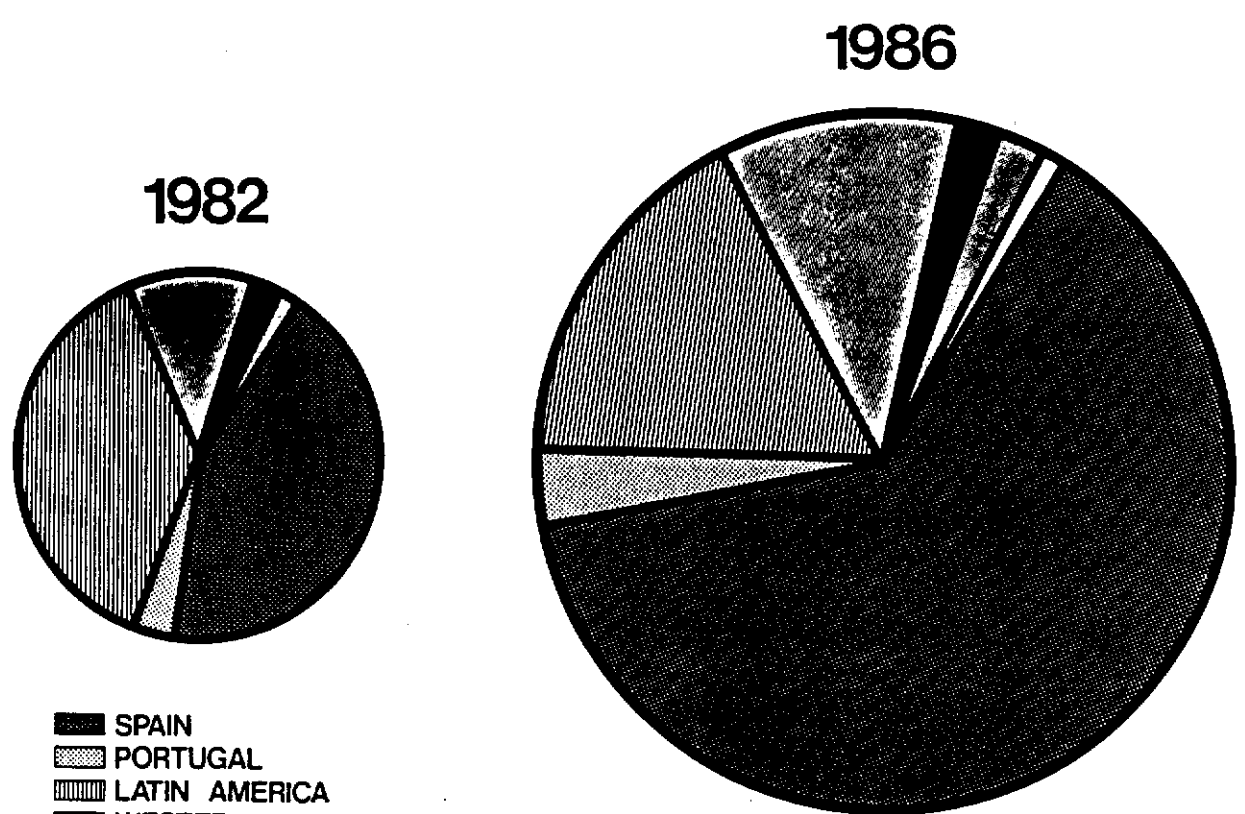
MAPFRE FINANZAS



OUTSTANDING LOANS
 BAD DEBT PROVISIONS
 NET EARNINGS (AFTER TAX)



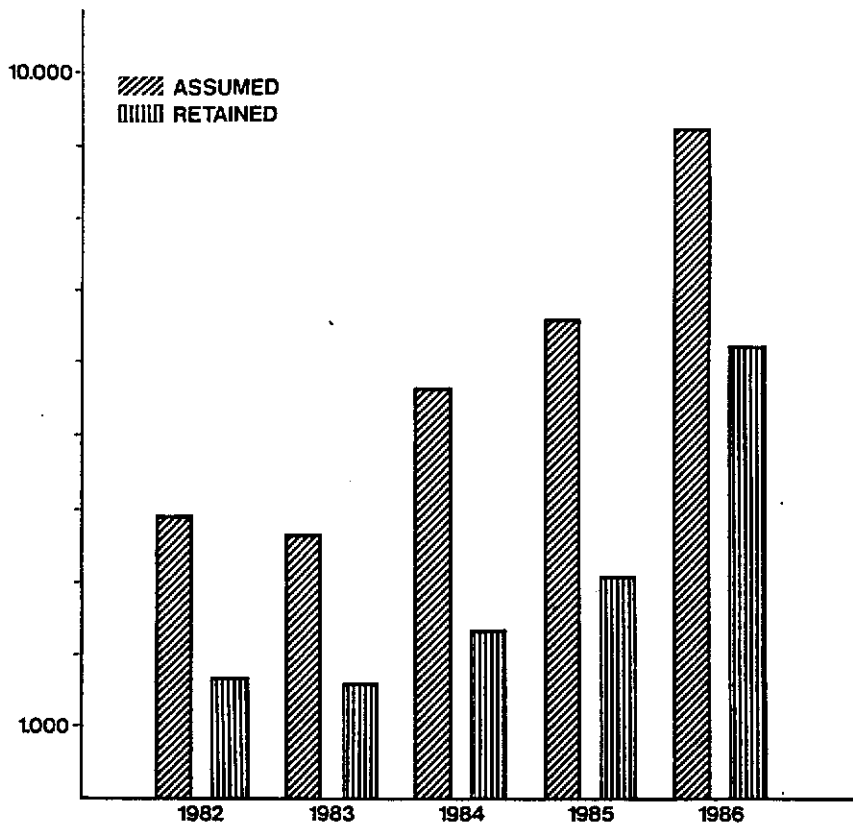
ASSUMED REINSURANCE PREMIUM VOLUME BY COUNTRIES



SPAIN
 PORTUGAL
 LATIN AMERICA
 WESTERN EUROPE
 USA AND CANADA
 FAR EAST
 OTHERS

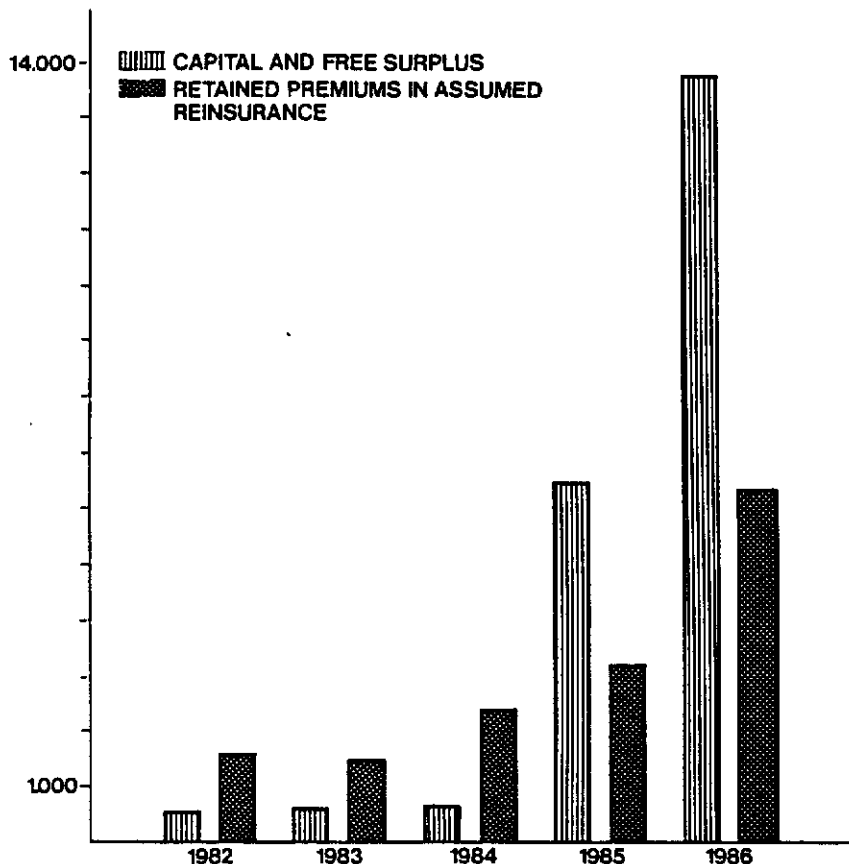


REINSURANCE ASSUMED PREMIUMS



CORPORACION MAPFRE

CAPITAL AND FREE SURPLUS/ RETAINED PREMIUMS IN ASSUMED REINSURANCE



CORPORACION MAPFRE

ASSETS

