

S1 2012 Earnings Call

Company Participants

- Esteban Tejera, General Manager
- Luigi Lubelli, Deputy General Manager, Finance

Other Participants

- Atanasio Pantarrotas, Analyst
- Federico Salerno, Analyst
- Giulia Raffo, Analyst
- Maciej Wasilewicz, Analyst
- Niccolo Dalla Palma, Analyst
- Vinit Malhotra, Analyst
- Will Hardcastle, Analyst

Presentation

Esteban Tejera {BIO 3910673 <GO>}

Good afternoon, ladies and gentlemen. Welcome to MAPFRE's First Half 2012 Earnings Call. As usual, I'll give a overview of the results and the main business developments. And later Mr. Lubelli will explain the financials in greater detail, representing a (inaudible) of the budget figures for 2011. Finally, we will take your questions.

Please, let's move to slide number two.

MAPFRE had to, once again, provide evidence of its resilience, which is underpinned by the strong profitability of our domestic business activities and the sustained growth and proven results of our business abroad.

Premiums grew more than 15%, basically the same rate as for the year 2011, driven, once again, by the foreign business activities and primarily by Brazil.

I must note that the agreement with the Banco do Brasil came into force in the Second Quarter of 2011, where we only consolidated these activities in once month.

Revenues grew a little less than premiums. But we should keep in mind, however, that last year we recognized a gain of EUR124 million generated from the agreement with Banco do Brasil, which was not repeated this year.

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Funds under management grew nearly 4%, reflecting primarily the consolidation of Banco do Brasil and (inaudible).

The combined ratio showed notable improvement, in line with what was already observed in the First Quarter. I might remind you that in 2011 it was affected by earthquakes in Japan and New Zealand, as well as weather-related claims at MAPFRE USA.

Underlying profit growth was around 10%, taking into account several non-recurring items that I will shortly analyze in greater detail later.

Please move to the next slide. Here you can see the highlights of the first half results. Organic growth of the international business, enhanced by depreciation of the euro, has given us -- left us a current composition of our business where the international business already contributes two-thirds of the premiums and half of the recurring results.

In non-life, we had an excellent underwriting result in Spain and improvement in the combined ratio of the insurance and direct international insurance.

In life, improvement in recurring results due to the growth of the international business and the focus on Life Protection insurance in Spain, according to the new strategy we adopted two years ago.

We have (inaudible) in our accounting, the impairment of the shareholdings in Bankia and Cattolica, as well as the provision of EUR20 billion for the persistent volatility in the financial markets. And the negative impact on equity of the volatility in the financial markets in the Second Quarter.

In page number five, we have the writedown of the shareholdings in Bankia and Cattolica and you can see how they affect the different subsidiaries in the accounts. The Board of Directors has decided to write down the value of the MAPFRE shareholdings, as I mentioned before, in Bankia and Cattolica, according to the evidence available of a poor recovery of the investment in these (inaudible).

In page number six, you can see the development of our recurring results. As was the case in March, the figures for both years contain special non-recurring items that need to be taken into account.

In the First Quarter, we basically only had the writedowns on the holdings of the Greek public debt, which were not realized. But the release of the provisions appropriated in 2011.

In the Second Quarter, the following charges were recorded -- the writedowns of our shareholding in Bankia and Cattolica I just mentioned, a provision of EUR20 million, which raises the total amount appropriated for the effect of the financial markets' volatility to approximately EUR50 million, pretax. And additional (inaudible).

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Taking into account these items, we see that the result of insurance operations rose slightly, representing strong profit growth abroad that compensates for the decrease in underlying results in Spain and reinsurance.

The recurring attributable results grew a solid 10%, helped, among others, by the exit from most of our non-insurance businesses.

On page seven, we can see. And later Mr. Lubelli will explain this a little, one of the most notable developments in our first half figures, which is the strong increase in the weight of our foreign business activities, which now constitute two-thirds of our premiums and half of our profit.

MAPFRE is consistently benefiting from the combination of the strong cash generation in its domestic corporations, compounded by the increasing diversification provided by the strong premiums and profit growth of our foreign operations, most of which also provide the benefit of currency appreciating against the euro.

That is a (inaudible) for sustained financial strength that (inaudible) MAPFRE to absorb, we believe, inevitable losses in the coming financial market volatility.

And finally, I would like to show you that, given these figures, we have continued to operate in corporate transactions. As you know, in the Third Quarter, we acquired a 10% shareholding in MAPFRE America for EUR244 million and after this operation, MAPFRE holds 99.22% of the subsidiary.

And now in June, MAPFRE America has acquired the 35% shareholding that it didn't control of MAPFRE Mundial. So we are now the owner of 100% shareholding in our Central American operations.

And finally, we have reached an agreement with Euler Hermes to develop a joint venture of our credit activity insurance in Spain and in Argentina, Chile, Colombia. And Mexico. This joint venture is expected to start operating in the beginning of 2013. And we think that will be a source of the new operations that will complement our activities in Latin America.

I will now hand the call to Mr. Lubelli, who will comment upon our financials in greater detail.

Luigi Lubelli {BIO 4108780 <GO>}

Thank you, Esteban. Good afternoon, to all those following this conference call today over the phone and over the Internet.

Please let's move on to slide number 10.

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Here we have the (inaudible) breakdown of premiums and results by line of business and geographical area. And (inaudible) pointing the weight of the foreign business has jumped to 66% of total premiums. We were at 62% a quarter ago, only. And 58% a year ago.

This acceleration has been driven mainly by the strong organic growth abroad. We had 23% in Latin America, excluding Brazil, 11% in (inaudible) excluding Malta. And 14% in global businesses, which compares to a 6% contraction in Spain.

In addition to this, we have non-organic growth with the consolidation of the business with Banco do Brasil in the whole first half against only one month in 2011, plus the contribution of nearly EUR65 million from Malta.

And, furthermore, we have only (inaudible) factor raising the weight of the foreign business, which was the depreciation of the euro against all currencies but the real.

The contribution to total results on this slide is shown according to adjusted accounting figures. On slide 42 of the appendix, you will see adjusted figures and this excludes non-recurring activities. You will see that foreign business activities contributed 49% of total insurance profit, up from 43% a year ago. And 45% in the previous quarter that closed in March of this year.

The (inaudible) developments provided us with a high degree of international diversifications in market operations, which enhanced its resilience to the adverse developments in our domestic market.

On the next slide, number 11, we have the same information. But broken down differently to highlight the main contributors to MAPFRE's premiums and profits, which are Spain, Brazil, the USA. And the reinsurance business.

Compared to the previous quarter, we see an acceleration in non-life premium growth in MAPFRE Re and the MAPFRE Global Risks due to the depreciation of the euro and to organic growth. Conversely, the Spanish business has suffered from a comparatively lower volume of issuance in the life business, especially in Life Assurance, compounded by a slightly bigger contraction in the non-life business.

Compared to the previous quarter, the contribution of the Spanish business to profits falls because of the writedowns in Bankia and the increase in the loss ratio. On the other hand, the contribution of Brazil goes up very considerably because of the inclusion of two extra months of profits in the Second Quarter of this year, while in the (inaudible) of the previous year, it was affected by the stoppage of the issuance from MAPFRE Caja and the expenses incurred upon the establishment of the joint business with Banco do Brasil.

On slide number 12, we move on to the non-life business. In Spain, compared to the previous quarter, we see a slight additional slowdown in sales, which is a reflection of the economic situation. The combined ratio goes up due to the increase in the loss ratio and

to the fact that the expense ratio was lower than normal in First Quarter, due to the change in the accrual for expenses in MAPFRE Brasil.

The underwriting results remain, nonetheless, extremely strong and is a major driver of the Group's profit. America continues to record sustained growth. The loss ratio improvements in our insurance health and accident lines versus the First Quarter.

MAPFRE Re is very much in line with the First Quarter, except for the fact of favorable ForEx effects. Year on year, the comparison continues to be flattered by the Japanese earthquake occurred in 2011.

MAPFRE USA benefits strongly from the appreciation of the US dollar and from the absence of the exceptionally large claims incurred in 2011.

MAPFRE Global Risks is experiencing strong growth abroad. These figures are impacted twofold by the depreciation of the euro. We will see this in a few other companies. On one hand, they increase the premium growth. And on the other, inflated the cost of claims, leading to a worse loss ratio.

Additionally, the Company incurred two large claims in Europe.

MAPFRE Asistencia is in line with the First Quarter. Its growth continues to be driven primarily by travel insurance in the UK and France, where it experiences comparatively higher acquisition costs.

On slide 13 we have the non-life account. I'll skip the description of premium growth and underwriting results, which I think I've covered in detail. Anyway, trends and figures are very much in line with those we saw in the First Quarter.

Financial income, including non-recurring items, especially writedowns, goes up by about 30% year on year, driven by higher yields in Spain and by the development of the foreign business.

In this account, the provision for writedowns amounted to EUR139.5 million.

Let us now move on to the life business on slide 14. We see external growth is a powerful driver of top-line growth in the life business, with a contribution of EUR540 million from Brazil and EUR46 million from Malta.

As I said before, last year the MAPFRE Caja business was in runoff, awaiting the commencement of the business activities with Banco do Brasil. This year the business activity is off and running, with a strong impact on both sales and the technical financial results.

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Additionally, we have strong organic growth in Latin America at large and in MAPFRE Re, which recorded a very large increase in sales coming mainly from European sailing companies.

Overall, if we compare it to June 2011, the size of the foreign life business is up 80%, 8-0, in the year.

MAPFRE Re experienced strong performance from the agents' channel, which is partly making up for the contraction of sales through the bank assurance channel. The technical financial result continues to benefit from the growing weight of Life Protection insurance, whose benefits we will see shortly in the (inaudible) presentation.

The life account itself is shown on slide 15. Once again, I've already run through the main drivers. I would like to note the notable increase in the technical financial results, excluding non-recurring items, which were mainly the agreement with Banco do Brasil a year ago. And certain (inaudible) losses and writedowns this year.

Once again, the main driver, by far, of this positive development was the Brazilian venture.

On slide 16, we have the other activities. Here you have the details. Basically, we have a few classifications of items related with non-insurance activities, the writedown of the investment in Cattolica. And an additional provision of EUR10.5 million for losses on real estate assets.

On slide 17, we have the bottom line. The impact of the writedown on the development of free cash profit was remarkably low. We had year-on-year contraction of 3.3%, which compares with 1.7% as of March this year.

I must note that this figure includes the total amount of provision for impairment of EUR197.6 million.

Compared to the previous quarter, we see a significant growth in taxes. There's nothing especially strange. This is just a factor that last year the tax rate fell because of a series of adjustments arising from the commencement of the joint business activities with Banco do Brasil.

In 2012, the tax rate is quite stable. It was 29.5% of the total in June and 29.1% in March.

Commenting the growth rate of the share of minority interest falling compared to the previous quarter. And that is due to the fact that in June of 2011 we had already booked a month of the joint business with Banco do Brasil.

In addition, we have bought back this year the -- BFA's 10% stake in MAPFRE America, which means that around that percentage of the total company's profit for the Second Quarter was retained this year.

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On slide 18, we are going to the balance sheet. Here, the valuations are not dissimilar to what we already saw in the First Quarter. We have an increase in goodwill and intangible assets, especially intangible assets, including our alliance with Banco do Brasil. Cash and equivalents have fallen because of the purchase of financial assets.

In this quarter, unsurprisingly, we had a negative impact of the volatility in the financial markets on the total value of investments, as you will see in the movement of equity.

And the rest I think we already covered in the First Quarter. This quarter we've seen on the balance sheet the impact of the depreciation of the euro versus the main currencies, as I said before, except the Brazilian real.

On slide 19, we have the breakdown of the investment portfolio, one of the three. This updates the figures we provided for the full year 2011. The main differences that you'll see are a slight imbalance in the fixed income, with a naturally smaller weight of corporate debt. And a decrease in the weight of Spain to 50.7% from 52.8% at year end. That is 2 full percentage points, that were made up for by higher weight of Latin American and US investments.

On slide 20, we have the breakdown of the fixed income portfolio. The total weight of fixed income has barely varied. However, it now shows notable development in the Second Quarter, arising from the combination of changes in market values and specific de-risking initiatives.

Particularly, to compare with March, the Spanish sovereign bonds holdings have fallen by over EUR1 billion, reducing their total weight to 51.6% of total sovereign bonds from 59.4% a quarter ago. Part of the decrease comes from diversification into non-peripheral euro-zone countries' bonds, which explains the strong increase you see in the line "other sovereign," which went to 14.5%, up from 10.3%.

The rate of Irish and Portuguese bonds has gone up due to a recover in market values. And holding of financial institutions' bonds have fallen by about EUR360 million. Of these, EUR420 million came from the reduction in the holdings of bonds issued by Spanish financial institutions.

On slide 21, we have the further breakdown of investments. Here the change, once again unsurprisingly, is the impact of the downgrade of Spain's sovereign rating to the BBB range, which means that this capital has gone up from 8.2% at year end to 45.6% at the end of June.

Finally, for this presentation, on slide 22 we have the movement in equity. Compared to the previous quarter, it won't come as a surprise to anyone, we had a negative impact from the increasing spreads of Spanish bonds. If you look at the line, -- investments available for sale, that accounts for a loss of EUR660 million over the last three months.

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However, as (inaudible) were largely assigned to the (inaudible) business, around 58% of this negative impact, or EUR380 million, was neutralized by shadow accounting.

Translation differences had a further loss of EUR127 million, due to the fact that while the dollar has appreciated 2.4% since year end, the real has depreciated 6.2% over the same period. Given that the amount of equity invested in both currencies is broadly similar, the loss on the real outweighs the gain on the dollar, leading to a negative translation adjustment.

And the other changes are detailed on this slide.

Now, this is all for this presentation. If you allow me, I will now move on to the European embedded value presentation. I'll give you time to change documents and let's us move on to slide number three of that document.

If you already have it, on slide number three you have the summary development of the European embedded value in 2011.

The value of the in-force business was 4%, which compares with 1% the year before, driven primarily by new life production business sold through the bank assurance channel.

On a like-for-like basis, the EEV grew around 10% against the 8% we saw in 2010. This reflected mainly the (inaudible) increase in the VIF, the expected return. And the capital increase carried out by MAPFRE Vida to receive the shareholdings in the life and pension subsidiaries of Union Duero and Caja Castilla La Mancha.

If we exclude such capital increases, the valuation would have been slightly lower than the one we saw in 2010. And that is due to the substantial increase in the time value of financial options and guarantees.

This year we also provide the EEV on a consolidated basis, which, from now on, will be the basis for comparison. It's (inaudible) EUR3.33 billion, EUR1.83 billion of which were attributable to MAPFRE shareholders.

The return on embedded value improved substantially, to 7.9% against 4.9% in 2010. The change is a logical consequence of the stronger underlying growth in the VIF and the adjusted net asset value. It also benefited from a non-working consequential impact of changes in assumptions, unlike what was the case the previous year.

Business-wise, the sales pattern was characterized by strong growth in the Life Protection business, a falling sale of (inaudible) business in mutual funds, reflecting the greater financial uncertainty and lower levels of household savings. And the modest increase in pension funds. These trends, by and large, are continuing this year, as we just saw in the first half presentation.

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Given that the Life Protection business has comparatively lower volumes. But higher margins, this led to a fall in the present value of new business income, accompanied by a rise in the value added by new business and a notable improvement in the new business margin, which went to 6.1%, up from 5.4% in 2010.

The remarkable performance of the agents' channel, which increased the present value of new business income by (inaudible). And the value of new business by 9%, must be noted. As we just saw, again, such performance is continuing into 2012.

On slide number four, we have the summary of what happened in 2011, the reason for which we now provide a consolidated EEV. Previously, MAPFRE Vida acted a single management unit. So we managed the life business. But the ownership of some companies was divided between MAPFRE S.A. and MAPFRE Vida itself. On the 1st of January 2011, the last shareholding held in the activities of Caja Castilla La Mancha and Union Duero were transferred to MAPFRE Vida by means of an in-kind capital increase.

So now we can present the embedded value on a consolidated basis, centered around MAPFRE Vida and that's the reason for providing this figure this year.

On slide number five, we have the customary roll forward of the EEV. I have already spoken about the change in the amount and the present value of the in-force. You can see the cost of capital went up nearly 12%. That is due to the growth in the volume of business and to the upward revision of the methodology used for the Caja Castilla La Mancha business.

Especially remarkable was the near tripling of the time value of the financial options and guarantees, which was due to the decline in interest rates, (inaudible) in the money.

Overall, as I mentioned before, the aggregate EEV went up by EUR238.5 million, or 9.6%. After consolidation adjustments in the region of EUR400 million, we are left with a consolidated EEV of EUR3.33 billion, as I said before.

On slide number six, we have the breakdown of the EEV by business line and by distribution channel. As was shown on a previous slide, the present value of the in-force grew a net EUR164.8 million, thanks, primarily, to sales of Life Protection insurance, which made up for the impact of the outflows in the savings and funds businesses.

The cost of capital varied in line with the value-in-force, except in case of the pension funds. In this case, the value of the in-force fell and that was due primarily to larger reimbursement and expense assumptions. But not to any substantial changes in volume. If we had, though, then we would have had an impact on the cost of capital. But that wasn't the case.

Actually, cost of capital rose because, as I said before, a change in calculation criteria applied to the pension fund business of Caja Castilla La Mancha, which previously were calculated in a different way and this year were aligned to the criteria applied for our

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businesses. As the base of calculation is unchanged, 100% of the solvency requirement at a 4% rate.

By channel, the contribution to the growth of the present value in force came primarily from bank assurance businesses with partners other than Bankia. The behavior of the cost of capital is different if you look at this way, by channel, that is. In the agents' channel, you will see it increased comparatively much more than the value in force due to withdrawals and to a decrease in the margins in the funds business, that dampened the overall increase of the value in force.

In the case of MAPFRE Caja Madrid Vida, the value in force rose much less than the cost of capital due to higher mortality and (inaudible) assumptions.

In the other bank assurance channels, the value in force and the cost of capital moved broadly in line. In this case, as I said before, the growth of the cost of capital is reinforced by the changes applied to the Caja Castilla La Mancha.

And I already stated the reason for the strong increase in the attained value of financial options and guarantees.

On slide number seven we show MAPFRE's new share on the VIF. Compared to 2010, you see an increase of 11% in the share of minorities, which is understandable, given that most of the increase in the value came from Life Protection sales through bank assurance partners in which, as you know, we have a 50% minority.

Slide number eight we have the roll forward for the embedded value, which breaks down the change of embedded value between components. And let's look at that, beginning on slide nine. As I said before, we had the consolidation at MAPFRE at the level of the subsidiaries of Caja Castilla La Mancha and Union Duero, which had a positive impact, net of the intangibles.

We have changes in the model. We had a -- we've used the same cash flow projection horizon in all subsidiaries. On some externalization, we've updated the assumptions on an externalization business. And we've taken into account the profit-sharing programs of the insurance contracts, which we had not been taking into account to date. The figures are there for your appraisal.

The intangible assets had a positive impact due to the amortization on a regular basis of the Value of Business Acquired.

We continue on slide number 10. We have changes in assumptions. As usual, the interest rates carry twofold. We have an impact on lower discount rates. But also an impact on lower returns, which is compounded, in this case, by higher credit risk.

And then larger unit costs. When you (inaudible) they have no impact. But taken one by one, they are quite large.

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The expected return, as usual, the unwinding of the discount rate with the expected after-tax return on the beginning of the year.

The valuation with respect to expectations were slightly higher than expected actual profit. And higher-than-expected lapse rate. So, it's positive and negative. And I've already spoken about the time value of financial options and guarantees.

Moving on to the value added by new business, we had positive developments. Last year we had a fall. We closed 2009 with a 5.6% margin, then in 2010 we went to 5.4% and now we're back up to 6.1%. This is mainly reflecting the growing contribution of the Life Protection business across all channels and the strong sales performance of the agents' channel, which, together, more than made up for the decrease in the funds and savings businesses.

Finally, on slide number 12, we have the main sensitivities. As usual, in market portfolios, both the value in force and the value added by new business, which is shown on the next slide, are more sensitive to variations in interest rates and in the lapse rate.

The sensitivities to increases in the probability of a default on Spanish (inaudible) fixed income portfolio is broadly in line with the figure reported a year ago, which was EUR205 million. The fall is due to a decrease in the technical reserves of the life savings business.

Just for it to be perfectly clear, the value in force already assumes for 2012 a default rate that's nearly 7 times the average historical default rate calculated by S&P. So, it's already stressed in the ordinary calculations. With this sensitivity, we want to quantify the impact of a further 0.25% increase of the default rate included in the base scenario.

And this will be all on my side and I'll now give back the conference call to Mr. Tejera for questions.

Esteban Tejera {BIO 3910673 <GO>}

Thank you, Luigi. And, as usual, now we are available for you for questions. (inaudible).

Questions And Answers

Operator

Thank you. (Operator Instructions) Your first question comes from Vinit Malhotra. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi. Thanks for the opportunity.

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Just, the first thing is, on the global risks, I'll focus more on the P&L presentation. The global risks, could you just break out what was the impact of the large losses versus this currency factor which you mentioned? That's the first question.

The second question is, in the Motor business in Spain, there's a very strong improvement in 2Q, while (inaudible) was a bit weak. So, maybe you could talk a bit about that.

And lastly here, there was a gain of EUR18 million from (inaudible), just could you elaborate?

And just one comment, the MAPFRE Re holdings at Bankia was, to be honest, a bit of a surprise. But really there was nothing to read there. But maybe comment on that. Thank you.

A - Esteban Tejera {BIO 3910673 <GO>}

Hi, Vinit. Good afternoon.

Now, the -- I mean, we do not exactly disclose the -- but let's say, by and large, it's about a third of the total valuation in the loss ratio comes from those claims in MAPFRE Global Risk. The -- Vinit?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, I'm listening. Yes.

A - Esteban Tejera {BIO 3910673 <GO>}

I'm sorry (inaudible).

On the Motor business, your question was why it fell in the Second Quarter?

Q - Vinit Malhotra {BIO 16184491 <GO>}

For the Company, it was a very strong combined ratio, very high -- very low.

A - Esteban Tejera {BIO 3910673 <GO>}

Well, I mean, it's okay. It's not -- it improved. (inaudible) was on a community basis a year ago. We have -- seasonality frequency, also it's not especially high, unfortunately, I should say. We have nothing special. It's reasonably normal variation.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay.

A - Esteban Tejera {BIO 3910673 <GO>}

Then you asked about the gain on the purchase of minority in (inaudible).

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Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, I mean, that was also a one-off. Anything to add there? It's just a simple -- it's never simple. But --

A - Esteban Tejera {BIO 3910673 <GO>}

I'm sorry. I missed your question. You said something about gains, which --

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, the EUR18.3 million runoff gain on Mundial.

A - Esteban Tejera {BIO 3910673 <GO>}

Okay, fine. So, that's fine. Yes, it's simply that the option was exercised for an amount that was lower than the amount booked in the option and that's why there was a valuation difference. So, basically, we did the transaction for less than it was expected to be.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, fair enough. And if I can just sneak in one more, this EUR20 million provision for volatility of markets, I'm presuming that's pretax and I can -- it seems to be more in the life business, in MAPFRE Vida. Is that a fair understanding?

A - Esteban Tejera {BIO 3910673 <GO>}

No, not really. It's just a provision. It's not -- it can be for accounting convenience it can be booked to one account or another. But it's a general provision. Generally it cannot be attached to an account specifically.

Q - Vinit Malhotra {BIO 16184491 <GO>}

But it's not for policyholders. So, there's nothing there. Okay. All right.

A - Esteban Tejera {BIO 3910673 <GO>}

And then MAPFRE Re, when we acquired the Bankia stake, it was acquired by MAPFRE at large as an investment of technical reserves. So, it was carried out by several companies at the same time.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Fair enough. Thank you, very much. Thank you.

A - Esteban Tejera {BIO 3910673 <GO>}

You're welcome.

Operator

Your next question comes from Niccolo Dalla Palma. Please go ahead.

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Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

Yes, hi. I have three questions, please.

The first, on MAPFRE Re, if you can update us on how much in H1 of the premiums was internal MAPFRE business and non-Group business. And maybe if you have it, also a profit split. But I guess the premium split is easier. I think it was 36% MAPFRE business in 2011.

On the Spanish P&C, two things. First, the GSP has reiterated that the work on Baremo is carrying on and expected to be completed by year end and, perhaps, a drop before that. Do we have any visibility at this stage or any more visibility than you had a quarter ago?

And lastly, on the top-line outlook, we see that the very profitable burial business is under strong pressure and in Home, instead, volumes are holding up pretty well, notwithstanding the market conditions. Maybe you could explain these two extremes in a bit more detail, while on the Motor side I think it's a little more straightforward. Thanks.

A - Esteban Tejera {BIO 3910673 <GO>}

Good afternoon, Niccolo. Let's see.

I don't have the precise split. But I think I can help you out with this one on exactly -- I can give you the figure of the premium. Let me see. I suppose this one will do. This is using the (inaudible) filing. Roughly -- no, that wouldn't do. No, I don't have the precise figure. But usually this figure varies very little. Usually 35% of the business of MAPFRE Re comes from MAPFRE. I don't have the precise figure for this half. I would be most surprised if it was substantially different from that.

Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

Okay. So just to check, there's no big changes from last year.

A - Esteban Tejera {BIO 3910673 <GO>}

No, not really. No.

The Baremo, nothing to report, especially for the (inaudible). I mean, there's nothing major to say on that. It's going on. But in terms of the consequences anticipated of that, we have no -- nothing new to report.

On the burial business, the burial business is -- and it's not a joke, it's doing okay. It's just that on the line in MAPFRE (inaudible) it's burial business and other. What is causing the apparent pressure is the other, because there were two line transfers. One was accident that was moved to the account of MAPFRE Vida and the other one was small businesses, if I'm not wrong, which was transferred to MAPFRE (inaudible). If you adjust for that, it's basically flat, it holds on.

Niccolo?

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Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

Yes, that's very clear, thanks. And how come the Home volumes are holding up so well, even if the environment is, I'd say, not the most favorable one?

A - Esteban Tejera {BIO 3910673 <GO>}

Well, possibly because we do something good from time to time. Well, it's basically sales effort by the network. I mean, it's a very tough year. There are some things you cannot make up for, because you have a country which is experiencing a contraction in aggregate demand. So, there is little you can do against that. But our network continues to be extremely effective, as you could see in our performance in Motor, in our performance in Life Protection. And in our performance in Housing.

Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

Okay. So there's no (inaudible) -- no factors like regulatory support which has been there.

A - Esteban Tejera {BIO 3910673 <GO>}

No, no way. No.

Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

Okay. Thank you.

Operator

Your next question comes from Atanasio Pantarrotas. Please go ahead.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Yes. Good afternoon. (inaudible) three questions.

The first one is on capital. If you can provide us, if you have some data on the solvency two capital position of MAPFRE? And, generally speaking, if this tough environment could drive you to review your EPS policy in the future, meaning -- or to pay lower dividend or to pay in shares, like you did in the past?

The second question, in regards to your exposure to the Spanish govies, I wonder if it is only (inaudible) or there is also regional debt in your total exposure to the Spanish govies?

And the last question regarding the Motor business. We saw a positive decline of the claim frequencies in the Motor business for the whole market in Spain in the First Quarter, according to the insurance lobby data. I wonder if this trend is continuing for, also, the Second Quarter. And what is going to you in your business specifically?

I note that this time you did not publish the number of cars insured by MAPFRE. So I would like to know, also, if you can provide this data, to have the sensitivity, which is your trend of

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the average Motor premium. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Hello. In terms of capital and solvency two, it's not (inaudible) to the market in the tough situation of the Spanish economy. But our position in terms of capital is remaining very strong. As you know, we have a very good position in solvency one ratio, which is, maybe, the strongest position in Europe. And, in solvency two, the position remains also very, very strong.

Due to the nature of our business, we have in the reinsurance, mainly in non-life, (inaudible) with very global activity and even it's now in the investment policy (inaudible) is not in terms of the volatility in general terms the current situation that's in Spain.

In any case, we come from a very strong position. There is no worry about our capital position.

In terms of what will be the dividend policy, this is a question is in the competence of our Board. (inaudible) usually a decision is taken at the end of the year, in the report of the Third Quarter. For now -- until now, as you know, our (inaudible) position remains very good (inaudible) with our capital position.

I don't see a special change in this field. But, in any case, the environment is changing every day and we must wait until the end of the Third Quarter to know exactly if something can change in the policy of the dividends.

A - Esteban Tejera {BIO 3910673 <GO>}

Okay. In terms of the Spanish govies, we basically have no regional debt.

Frequency falling, I would say in response to a previous question, fortunately or unfortunately, it reflects the depressed state of the economy. So, it's difficult to get that, according to the present economic environment, such low frequency, one would expect it to continue. But that's all I can tell you. Certainly, it has a positive impact on the development of our loss ratio in Motor.

True, I have to say we didn't put the number of cars. But, basically, it's probably in line with the year-end figures. There's not any major variation with respect to that. We're probably holding on to the volume of business.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Okay, thank you.

A - Esteban Tejera {BIO 3910673 <GO>}

You're very welcome.

Operator

Your next question comes from Maciej Wasilewicz. Please go ahead.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Hi. It's Maciej from Morgan Stanley. I've got two questions.

The first question is focused on MAPFRE Empresas. When I look at the results in six months '12, impressively you've managed to grow premiums into what should be, I imagine, an extremely tough market. Yet, if I look at your combined ratio, although it appears to have fallen, year on year, you've mentioned that there's a 3percentage point one-off positive in the six months figures for 2012. If I add that back in, actually your combined ratio would have gone up.

I'm just wondering if you can comment a little bit like what the environment is out there for MAPFRE in that for Empresas? Because I imagine that sales are tougher, do you have to have your sales people offering bigger discounts? Do you have to sort of be a bit more aggressive? How do you expect that business to evolve, both from a top line and combined ratio perspective?

And my second question will be on your ratings downgrade by S&P and by, I presume, other agencies, as well. I'm just wondering, is there anything in your capital structure at all, any debt covenants or any sort of contracts you have that could, potentially, be triggered if your rating hits a certain point or are you fairly safe from anything like that happening? I know that's a very broad question. But if you could just give us some clarity there, that would be great.

A - Esteban Tejera {BIO 3910673 <GO>}

Hi, Maciej. Let's see, for Empresas, it has premium growth because this year there was a line transferred to it by MAPFRE (inaudible) that's a small businesses line and that explains the growth in premiums.

If you exclude that, the premiums are actually contracting about 6%.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Oh, okay.

A - Esteban Tejera {BIO 3910673 <GO>}

That is an unsurprising reflection of the economic environment.

It's true that the combined ratio of this company has gone up. But, frankly, the combined ratio of this company is to dream of. It has the best combined ratio we have in MAPFRE. So it was not abnormal that it went up a bit, just because it was exceptionally low in the First Quarter.

Additionally, as you know, we changed the expense accruals criteria in the First Quarter. The impact was especially strong then. And it (inaudible) as the year passes. So, it also led to an increase in combined ratio.

But, anyway, the combined ratio is exceptionally low.

The environment is, as you can imagine it, there are fewer and fewer companies out there. So, there's fewer clients to insure and the results are very good. So there is some competition that is offering some rates that, perhaps, are not entirely technical and we don't want to be part of that game. So, that is one of the reasons for the contraction in the premium volume of this company.

But is it (inaudible), no one is expecting volume, economic growth in Spain any time soon. So I imagine the sales of commercial insurance will remain depressed worldwide.

Does that answer your question, Maciej?

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Yes. No, I guess it does. Yes. Thank you.

A - Esteban Tejera {BIO 3910673 <GO>}

And then, the rating downgrade, if it were especially severe we would have to, let's say, renegotiate the terms of some loans. But it's -- that's something we take into account in our liquid assets, our (inaudible) liquid assets.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

And what size? I mean, is there any way you can -- I don't know if you can, actually, give me any kind of quantification on what size of loans might need to be renegotiated if there is a significant further downgrade?

A - Esteban Tejera {BIO 3910673 <GO>}

It's a significant further downgrade.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

I -- yes. But the size of the loans that if -- that would be renegotiated, are we talking about like EUR500 million or could it be in the sort of -- you have EUR4 billion of financial -- of debt. Of course, a lot of that's not actually loans to banks or anything like that. But there are some substantial line items in there. I'm just wondering if any of the big line items in there would potentially be up for renegotiation with a downgrade.

A - Esteban Tejera {BIO 3910673 <GO>}

We do not have EUR4 billion of debt. We have EUR1.8 billion debt.

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Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Yes, EUR1.8 billion of sub-debt and financial liabilities. Would any of that, I guess, would any of the EUR1.8 billion need to be renegotiated?

A - Esteban Tejera {BIO 3910673 <GO>}

Well, yes, as you know, we have some bigger loans and the bigger loans have the standard clauses that require -- not the bonds. The bonds do not have such clauses.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Okay. That's very clear. Thank you, very much.

Operator

Thank you. Your next question comes from Giulia Raffo. Please go ahead.

Q - Giulia Raffo {BIO 7573856 <GO>}

Hi. Good afternoon. Thank you, very much.

One first question relates to reinsurance. At Q1, you made comments about downgrade from rating agency having had no direct impact in terms of volume yet or ceding appetite. But you made the point that it required a bit more effort, let's say, from your perspective in terms of like explaining to cedants it was just an automatic rating change following the sovereign and it had nothing to do with your quantum of capital.

Can you just update us on the situation. Is it still the case that it's only conversation and do you have a sense that your customers are still feeling fine with the exposure towards you?

Then, my second question is relating to Bankia. Would you go as far as saying that you can rule out any further investment at MAPFRE SA level in relation to the Bankia equity capital? So, could you rule out any involvement if Bankia was to ask for capital?

And then my final question relates to the outlook for Spanish bank assurance. Really, we have seen and we continue to see quite a lot of integration and, actually, it's a situation where we have each insurance provider seeking on the same banks. And, clearly, there is time and the authorities have lengthened the amount of time for banks to sort this problem out. But can you make any comment of what is your appetite to potentially invest further in the Spanish bank assurance space? Thank you, very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Giulia. With regard to the rating downgrade, in the Second Quarter there was a further downgrade of Spain, which had an impact on the ratings of all financial institutions.

So, for the moment, (inaudible) developments, MAPFRE Re is rated A and with that rating we can continue to do business. As you can imagine, clearly, it's contacts with ceding

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companies have intensified.

It is obvious. But for the moment actually the renewal season that the Company went through in May, June and now July, was actually doing pretty well.

Furthermore, a very positive development was the fact that the A, rating by A.M. Best was affirmed. Actually, they took it -- originally, I must say, they took (inaudible) twice in two weeks at the beginning of June and both times the rating was affirmed at A-, which was very helpful for the North American business.

So, that's really what there is to report on MAPFRE Re. It continues to do business and with this ratings, we can do that.

A - Esteban Tejera {BIO 3910673 <GO>}

Hi, Giulia, your other two questions, generally speaking, in terms of the bank assurances in Spain, (inaudible). We now have the position where we must wait and see what happens with the market of the bank assurance in Spain.

The situation is that the -- in terms of the life insurance in part of the savings life insurance, we are thinking it is flat (inaudible), because the (inaudible) all the banks are looking for deposits. As you know very well, this is not the situation to launch a new (inaudible) campaign.

(inaudible) that given this year or these two years it will be difficult to have significant activity in this kind of business, we continue to develop with good results in the evolution of the Life Protection business.

In any case, from the point of view of new alliances of the restructuring of the current situation, the good news is that, as you know, the supervisor has allowed the sector to remain due to the last two years in the same position where it's possible to share different networks of banks. (inaudible) the situation to get only one insurer provider for one bank.

I think that in the future, it will remain the same sense in the new features of the current situation will remain, because the former situation of having only one bank was not -- was something (inaudible).

In any case, our position is that we have several partners. We are working with them in Life Protection campaigns and in non-life assurance. And I don't see at the moment, I don't see any need of increasing our position there or change our position in the next months.

In terms of Bankia, as I said a year ago when we made our investment in Bankia, at that time we thought that this was a good investment. Unfortunately, the situation was not that. We have made impairments. We would have no commitment of increasing our position, because you remember we never took a position that implied having a seat in

the Board or having (inaudible) position that allows us to take an active position in the management company or something like that.

I said a year ago that our investment there was a financial one and, unfortunately, the results of this financial investment has been moving back. But this is the situation. There is no more commitments or implication for the future.

I think that I (inaudible).

Q - Giulia Raffo {BIO 7573856 <GO>}

Yes. No, that's clear, to the extent of what can be said at this stage. But that's very clear.

A - Luigi Lubelli {BIO 4108780 <GO>}

Giulia, just a clarification by myself. I mistakenly said that A.M. Best was A-. It's actually A+, with a negative outlook. I got confused with S&P ratings.

Q - Giulia Raffo {BIO 7573856 <GO>}

Yes, no worries. I think it was more of a qualitative question, right? I was trying to understand if there was any more pressure felt by you in having those conversations with cedants. But it doesn't look like. So that's comforting. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

Your next question comes from Will Hardcastle. Please go ahead.

Q - Will Hardcastle {BIO 16346311 <GO>}

Hi, there. Sorry. I've got a poor line over here. Can I just confirm that you said, based on normal conditions, there are no worries on the capital position?

And then, the second question was is the split of senior and covenant-guaranteed bonds still broadly the same as Q1?

A - Esteban Tejera {BIO 3910673 <GO>}

Yes, we can confirm both things, yes, in terms of the capital and the split -- you're talking about financial implications, is that right?

Q - Will Hardcastle {BIO 16346311 <GO>}

Yes, that's right.

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A - Esteban Tejera {BIO 3910673 <GO>}

Yes, it's broadly the same.

Q - Will Hardcastle {BIO 16346311 <GO>}

Okay. Great. Thanks.

A - Esteban Tejera {BIO 3910673 <GO>}

You're welcome.

Operator

(Operator Instructions) Your next question comes from Federico Salerno. Please go ahead.

Q - Federico Salerno {BIO 2565091 <GO>}

Hi, everyone. Just a couple of things.

Still on solvency, beginning from 287 in the full year '11, can you say what the number was at the end of the semester or at least how it's moved during the first half?

And then, related to that, can you say how much solvency should fall before you begin worrying and look to your dividend with some special attention?

Then, just a clarification on the previous point. Concerning investing in Bankia, I didn't quite understand. You rule out an investment in Bankia or does that include an investment in extending the bank assurance agreement, as well?

And then the last point, is there any news we should be aware about the 15% stake held in MAPFRE by Bankia's holding? That's all.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Federico. Let's see.

Solvency once, I mean, the way it's calculated, if you look at it, it's actually a good question for the benefit of everyone on the line. If you look at our statement of changes in equity on slide 22, you will see that, by and large, the equity stays at the same amount as it was in -- at the end of 2012.

So, in terms of the volume of risks to be covered, we have, on the one hand, some fall in Spain. And, clearly, a robust increase abroad. But even taking that into account, the solvency margin, the way it's calculated under solvency one, it would require a really large stress, much larger than the one we saw to date this year to lead to a substantial fall in the ratio.

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We don't have the figures of June. But the mechanics of the ratio, it probably has moved downward. But it hasn't moved downward by any worrying measure. That would be my replay to your question on that one. I wonder if that -- if you find that clear?

Q - Federico Salerno {BIO 2565091 <GO>}

Yes, thanks.

A - Luigi Lubelli {BIO 4108780 <GO>}

In terms of dividends, I think, Esteban just said for the moment when the Board of Directors has taken no -- has simply not debated this issue. The Board of Directors discusses this issue of dividends in the fall.

So, for now, no decision has been taken about dividends. So there's nothing to report on that front and the comment of solvency, on solvency, I just said.

I wonder if what Esteban came out -- he may have confused it. There's no obligation to make any investment in bank assurance.

A - Esteban Tejera {BIO 3910673 <GO>}

What exactly was the question?

Q - Federico Salerno {BIO 2565091 <GO>}

No, I mean, you answered Giulia that you don't intend to invest any more money in Bankia, if I understood correctly. But do you include a potential investment in more bank assurance, in more branches within the bank assurance agreements or in that definition or not?

A - Esteban Tejera {BIO 3910673 <GO>}

What I'd like to say is that the current (inaudible) is not (inaudible) of the market situation. There is no interest in doing any new agreements. But, in any case, we would take a lot of the circumstances in the (inaudible) and, honestly, I cannot see any opportunity now. But I don't know how the current map of the different financial institutions in Spain could fuse and then there is an opportunity, which we, obviously, can study it.

But I think that the next months the situation will remain with very, very little clarity. So, I don't foresee in the short term, this kind of investment in general, not only Bankia.

A - Luigi Lubelli {BIO 4108780 <GO>}

And with regard to Bankia, it's a question for Bankia. But in this case we have public statements made by Bankia about the 15% stake in MAPFRE which they singled out as a stake they intend to hold and there is any evidence today, it is that Goirigolzarri has become a Board member of MAPFRE. So I suppose that --

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A - Esteban Tejera {BIO 3910673 <GO>}

It is the only subsidiary of Bankia where the President of Bankia will be in the Board. So, there is a commitment of developing the business and I think that they will remain in the same position in our Company.

Q - Federico Salerno {BIO 2565091 <GO>}

Yes, okay. Thank you, very much.

A - Esteban Tejera {BIO 3910673 <GO>}

You're welcome.

Operator

There are no more questions. Please continue.

I'm sorry. You have one question from Giulia Raffo. Please go ahead.

Q - Giulia Raffo {BIO 7573856 <GO>}

Excuse me, just one quick follow-up question. Can you confirm that, roughly, the duration of your Spanish sovereign portfolio is around five years?

And then just a follow-up on Federico's question about solvency trigger and how far down solvency needs to go to before you start looking at capital preservation measures. Can you, at least, share with us whether there is one specific metric that you look at? Are you primarily focused on solvency one?

Are you primarily focusing on solvency two? Or are you looking at leverage? Because I guess rating agency models are not so relevant today, in the sense that you can hold as much capital as you want, a lot of your rating will actually be a function of what the sovereign situation is going to be.

But if you can just at least give us a sense of what the kind binding constraint is when you look at capital?

A - Luigi Lubelli {BIO 4108780 <GO>}

Giulia, the -- I mean, it's not really disclosed. But basically the duration of the sovereign portfolio is around seven years, more or less, slightly less than seven years.

A - Esteban Tejera {BIO 3910673 <GO>}

And your other question, Giulia, we follow our solvency position in terms of metrics. But on the one hand, we have solvency one. But the position there is always strong. It's falling. But we follow solvency one. We follow solvency two. And, also, in the -- basically in the models of the rating agencies.

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The situation is that now we remain strong in solvency one and solvency two. Our position from the point of view (inaudible) point of view in the capital models of the rating agencies would have probably a AA position and the problem is that we have the correlation of our position the rating with the sovereign.

But we have covered a lot our presentation of the investments in Spain, of the properties coming from abroad. And in the preservation of the income coming from abroad, which helps us to separate a little our position from the Spanish kingdom.

From the point of view of the rating. And taking pressure for improving our solvency, we are (inaudible). But this is not the concern, because this is not the concern now because the rating agency position is not a problem to the capital model, it's influenced by (inaudible) circumstances, as you know very well.

So, in any case, we follow constantly our solvency position. And I can assure that at the moment we haven't any worries about that position.

Q - Giulia Raffo {BIO 7573856 <GO>}

I share completely that view. I guess I was more trying to (inaudible) what, internally, was in -- the management team was perceived as the key binding constraint. Because if I look at solvency one, you were at 285% back in 2010 and back then you were still doing some capital preservation via scrip dividends. Clearly, you didn't raise capital. But you were -- and, at the time, it was the debt leverage that made you and also the acquisition pipeline that made you take that choice.

I was more trying to have a sense of today, which is the key measure of capital that you are using as your binding constraint.

A - Esteban Tejera {BIO 3910673 <GO>}

Well, I know that (inaudible) in very broad and general explanation. But at the end of the day, if I go more in this, in any case, I don't want to give the impression that one change in the policy of the dividends will be taken or not, because, at this moment, due to the evolution of our balances, there is no change in our position.

So, it depends what would happen in the near future. But at that time we remain with the same policy and we have no need to take special measures to reinforce our capital position.

Sorry, Giulia. But I think that's (inaudible) I can't give you more detail, because there is not more details to give, because (inaudible) there are no changes in the (inaudible) position.

Q - Giulia Raffo {BIO 7573856 <GO>}

Okay.

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A - Esteban Tejera {BIO 3910673 <GO>}

Sorry.

Q - Giulia Raffo {BIO 7573856 <GO>}

No, that's all right.

Operator

There are no more questions. Please continue.

A - Esteban Tejera {BIO 3910673 <GO>}

Well, if there is no more questions, thank you for joining us in this presentation. (inaudible) for everyone. I hope to meet you again for the Third Quarter presentation.

Thank you. Goodbye.

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