

Q1 2013 Earnings Call

Company Participants

- Esteban Tejera, First Vice Chairman
- Luigi Lubelli, Deputy General Manager Finance

Other Participants

- Atanasio Pantarrotas, Analyst
- Maciej Wasilewicz, Analyst
- Mari Paz Ojeda, Analyst
- Michael Van Wegen, Analyst
- Niccolo Dalla Palma, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Thank you for standing by. Welcome to the First Quarter results 2013 conference call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session. (Operator Instructions) I must advise you that this call is being recorded today on Friday, May 3, 2013.

Let me hand the conference to your speaker today, Esteban Tejera. Please go ahead, sir.

Esteban Tejera {BIO 3910673 <GO>}

Good afternoon, ladies and gentlemen. Welcome to MAPFRE's First Quarter 2013 results presentation. As usual, I'll give an overview of the results and then the main business developments, and later, Mr. Lubelli will explain the financials in greater detail. Finally, we will take your questions.

Please move on to slide number 3.

MAPFRE continued to deliver growth and profits despite another challenging environment. The revenues grew 1.6% until EUR6.9 billion. Premiums grew in this ratio only 0.2%, reaching EUR5.9 billion.

We registered a growth of 9.6% in the managed savings. In this case, we have introduced for the first time the finance management managed outside Spain in these -- in the mutual funds, and this represents that. If we exclude these, the growth will be 5.7%.

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We have improved again our Non-Life combined ratio to 95.1%, and this is due mainly to the consistent improvement of our combined ratio in Latin America, even if we have suffered a lot of the climate, very bad climate conditions in Spain, and the frequency in Spain had reason. And also in the USA due to the snowstorms, the combined ratio is going down.

And the shareholders' equity per share grew by 12.6% and is now EUR2.60.

Attributable result of the EUR264 million is 2.6% minus in comparison with the same period of last year.

Let's move on to the next slide where we can see how the equity has grown by EUR355 million in the quarter as a result of the benefits of the geographical diversification and the stability of the Non-Life underwriting result, which I have mentioned before.

And even if we had suffered not only the decline of the premiums in Life Assurance in Spain and also in the Reinsurance, but also the conditions in Spain, we have in this quarter the impact of the depreciation of the Brazilian real which has reduced our premiums growth by over 2percentage points.

In fact, in Brazil, the domestic growth was 18%, and due to the depreciation of the real, we had registered in euros only 5%.

Additionally in this period, we registered also the sale of the Argentine companies that were taken away 1 additional percentage point. You remember we (sold the activity) in (wage) compensation in Argentina in the last quarter of the year.

On slide number 5, we have the recurring results. In this period, we haven't any special extraordinary gains, only the gain from non-recurring exchange rate differences of EUR13.2 million, mainly due to the extraordinary gain registered in the period due to the devaluation of the bolivar in Venezuela. And we had registered also a capital gain from the creation of SOLUNION, our merger with Hermes in the credit insurance.

The recurring results fell, reflecting mainly the fall in demand in Spain, the weather-related losses in Spain and the USA I mentioned before, the depreciation of the real; the lower recorded financial income due to the generalized decrease in the interest rate, and our lower recorded Life business volumes and results in Spain in Reinsurance.

In any case, we are taking initiatives to raise (business) (inaudible) volumes, mainly in Life during this quarter, and to increase profitability which we trust will bear fruit in the remainder of the year and (diverse distant).

Please move on to the next slide. Here we report the final dividend which was approved in our AGM on March 9. And as you know, the final dividend is EURO.07 gross per share. So the outlay against the 2012 results amounts to EUR339 million. This dividend will be paid on June 28.

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On slide number 7 is a snapshot of our portfolio. Converged with the close of 2012, there was a 1.5percentage point increase in the worth of the government bonds, and 1.1percentage points decrease in corporate bonds.

In the financial institution portfolio, the worth of the Spanish bonds fell 1.3percentage points, primarily because of the reinvestment in public debt. The fall in interest rates had a significant impact on values compared to year end.

And as usual, I will now hand the call to Mr. Lubelli, who will comment on the financials in a bit more detail.

Luigi?

Luigi Lubelli {BIO 4108780 <GO>}

Thank you, Esteban. Good afternoon to you all. Please let us move to slide number 9.

On this slide, we show the new operational structure. As you might remember, last year, we announced that in order to maximize synergies, we were going to introduce some organizational changes. That is that Portugal is now part of the Spain & Portugal Insurance division, and MAPFRE Puerto Rico will report to MAPFRE Internacional. And as Esteban just said, we also sold two Argentine subsidiaries.

Therefore, the accounts of MAPFRE America, and I'm referring now to -- in order to all the figures that are shown in this document, the accounts of MAPFRE America no longer contain those Argentine subsidiaries and Puerto Rico.

The accounts of MAPFRE Internacional contain Puerto Rico and exclude Portugal, and Portugal is included in the accounts of the Spain & Portugal division. And therefore, the figures for Q1 that we are presenting in this document reflect these changes.

I must stress that these changes reflect the way the business is managed. From a legal standpoint, for the moment, there is no change. The accounts remain as they were. But the way they are presented, the aggregation of the companies changes, and that is reflected in this document.

In the appendix, you will find the like-for-like First Quarter 2012 and First Quarter 2013 under the new operational structure.

On slide number 10, we have the breakdown of premiums and profits by line of business, and basically Spain and non-Spain. And unsurprisingly, our activities abroad continue to gain weight in premiums and results, contributing the majority of both.

A year ago, the foreign business contributed 62% of premiums and 45% of profit. Therefore, what we have seen this year is an especially strong jump of nearly

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10percentage points in the contribution to profits, which is the most remarkable change.

On slide number 11, we get a more granular look at these figures. We see that Spain's weight fell in both premiums and profits. And as I just explained, the contribution of our foreign business activities was especially notable in profits.

The activities of MAPFRE America outside of Brazil recorded major progress, which was driven primarily by foreign exchange gains in Venezuela, but also profit growth in Mexico, Colombia and Chile.

Brazil's contribution fell because of the depreciation of 10.7% of the real against the euro, which Mr. Tejera just cited, the 300 basis point fall in the SELIC rate and the higher tax rate on account of a lower amount of deductible tax credits.

If the exchange rate had been stable, premiums would have grown, as was just said about 18%, and profits roughly 10%. I'm talking Brazil.

MAPFRE GLOBAL RISKS benefited from foreign exchange and realization gains. The profit in MAPFRE USA fell, primarily because of the snowstorms that also were mentioned, and of a higher tax rate.

And finally, we see that the contribution of other countries went up significantly, and that mainly comes from Turkey, where we sold a building, the headquarters.

On slide number 12, we have a breakdown of the Non-Life results. In Spain, the premiums fell moderately, and that reflects primarily a market-wide fall in the Motor business, which perhaps does not come as a surprise. It's due to the fact that people buy cheaper (covers) because the available income is falling and because the car fleet is aging.

The higher loss ratio, along with the lower net premiums earned, led to a decrease in the underwriting result. Nonetheless, the combined ratio remains at levels which are exceptionally low, and quite good by industry standards.

Brazil on the Non-Life side grew, thanks to the reclassification from Life to Non-Life of some lines of business, which as you can remember, we carried out in the last quarter of 2012, and to organic growth as well.

The underwriting result improved notably, thanks to the reclassification I just talked about, but also thanks to a decrease in the expense ratio.

We have a fall in MAPFRE America's non-Brazilian business, but that's only apparent, and it is due to the sale of the Argentine subsidiaries and to the transfer of the Puerto Rican business. If we adjust for that, the underlying growth was strong at 11.7%, thanks to growth across the board, and especially Mexico, Colombia, Chile and Peru.

The underwriting results reflect the sale of the Argentine businesses, as well as several initiatives to improve underwriting and risk selection.

MAPFRE RISKS premiums grew, basically because of an internal contract with MAPFRE Spain covering the Retail business. If you exclude that, they would have been roughly flat, in line with the previous year. The combined ratio fell, thanks to a better loss experience.

MAPFRE USA grew, thanks to rate increases in all states, and to the appreciation of the dollar. The loss ratio, as I already said, increased because of the snowstorms.

MAPFRE GLOBAL RISKS shows a contraction in premiums. That's mainly due to three reasons. One is the change in the issuance date of a large contract -- it was normally issued at the beginning of the year, will be issued later on; the transfer of the Credit business to SOLUNION, the JV we have with Euler Hermes; and the -- and some cancelations which shouldn't come to us as a surprise as a result of the cut in the Company's ratings.

The combined ratio increased due to the impact of the dollar's appreciation of the -- on the liabilities denominated in this currency, and to higher insurance costs, reinsurance costs.

And finally, MAPFRE ASISTENCIA recorded very strong growth, thanks to two business developments that took place in 2012; the acquisition of a company in the US called Century that operates in warranty extension insurance; and a contract, also in the US, in Roadside Assistance, a large one. The combined ratio remained broadly stable.

On slide 13, we have the explanations of the Non-life account. I've already talked about premiums growth and underwriting results. We see the financial income that was impacted primarily by falling rates, with a special mention for the 300 basis points in the SELIC.

We also have larger realization gains; EUR51 million this year against EUR24 million the previous year. Non-recurring exchange rate differences of EUR20 million. When I say non-recurring, that is in Venezuela, because in that country, we have dollar-denominated assets, and because of the devaluation decided by the Government, those assets led to a gain which was recognized in that Company's accounts.

On slide number 14, we have the Life account where we see a fall in premiums and results. In the case of Spain, the decrease was due to a focus of sales campaigns on mutual funds.

The technical financial result in 2012 contained a EUR7 million realization gain which we don't have this year, and that affects the comparison. And furthermore, this year it decreased because of the lower business volumes.

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Brazil falls. As I said before, we reclassified some lines within Non-life account. Even excluding that, we would still see a contraction in premiums and results which would be due in that case to the depreciation of the currency.

The remainder of MAPFRE America's Life business grew strongly, and that was due primarily to the business in Colombia.

MAPFRE RE's premiums decreased because the issuance calendar has changed in 2013. Some premiums which were issued in -- well, accepted, I should say, in the First Quarter of 2013 this year will be recognized later on. The technical financial result decreased because of a higher loss experience.

And finally, Middlesea is benefiting from very good growth in the Savings business and larger financial income.

On slide 15, you have the explanation of the Life account, but really there's nothing significant to add with respect to what I just said, so I'll move on to the next slide, 16, the other activities.

Here, we have the explanations. They don't really change with respect to previous periods. And the bottom line has barely changed year on year. So if you will allow me, I will also skip this page.

On slide 17, we see the net attributable result which decreased, as was just said already by 2.6%. That reflects, in addition to all the business and financial income trends, a lower tax rate and comparatively slower profit growth at Life's bancassurance subsidiaries in Spain and abroad in which we have minority interests.

Slide 18 we have the balance sheet. Here we had the appreciation of the US dollar and Brazilian real which increased the value of the assets abroad, and had an upward impact on intangibles and investments.

Investments also went up because of the (varied) business growth, of the reinvestments of part of the liquid assets, and -- which was an especially significant phenomenon in the First Quarter, and if things stay as they could be also in the second, was the recovery in market prices.

On slide 19, we close with the statement of changes in equity. We had a significant increase in asset values of about EUR274 million, and we saw that we had shallow accounting absorbing about 72% of that, which is a higher than average share. And that is -- was due to the fact that most of the appreciation took place in Spain. The assets, Spanish assets, were those that appreciated the most.

It is also worth noting the positive impact of the appreciation of the US dollar and real. As you know, a very significant proportion of our total equity is invested in these currencies.

And finally, we have in the movement of equity the dividends, both those approved by the Annual General Meeting and those paid by subsidiaries with minority interests.

That's all on my side, and I will now hand the call back to Mr. Tejera for the Q&A.

Questions And Answers

Operator

(Operator Instructions) Vinit Malhotra.

Q - Vinit Malhotra {BIO 16184491 <GO>}

I think a few very small quick ones. You mentioned on MAPFRE FAMILIAR that weather caused unfavorable underwriting. Could you just comment on if it was -- what's the number there?

Second thing; just seeing on Spanish insurance the commercial lines obviously doing much better, even on the growth side. And if you could just comment on why the economic slowdown is not impacting that.

Second, just one clarification. You mentioned EUR22 million capital gains on the Turkish building insurance, on the Turkish building sale, and it's not adjusted for in the recurring results slide. Is it because most of it went to policyholders?

Then on Brazil, there's a 1.2% I think in the Fourth Quarter from this classification positive impact. Is it a similar magnitude even now in the First Quarter?

Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Good afternoon, Vinit. Can you just please repeat your last question? I was taking notes of the previous ones, and I was --

Q - Vinit Malhotra {BIO 16184491 <GO>}

I'm sorry for this. Too many questions. I apologize.

A - Esteban Tejera {BIO 3910673 <GO>}

No. It's all right.

Q - Vinit Malhotra {BIO 16184491 <GO>}

In the Brazilian combined ratio, the reclassification had led to a 1 point/2 points of improvement last quarter. And is it a similar magnitude even now, or is it -- or is there no impact this time around?

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A - Luigi Lubelli {BIO 4108780 <GO>}

Okay, fine. I would -- well, first. Good afternoon, and thanks for your questions. The Brazilian combined ratio, I wouldn't compare the two quarters, because in the last quarter of 2012, we basically adjusted the whole year backward. So I wouldn't take it as a comparison.

I don't have the exact figures, but I would say I tried to convey that in my speech. The reduction is -- let's say there is a reclassification element which is the larger one, but even without the reclassification element, the combined ratio would have fallen, and for (inaudible) I've got it here, we would have fallen below 100% as well because of expenses.

You will remember last year we had -- we still were absorbing many one-offs due to the (value) creation of the joint business, which we no longer have; and that somehow lifted the expense ratio, and we don't have that this year.

To your next question, I don't have the precise figure for the impact of the weather. It primarily impacted household insurance, but also motor and also communities; we call it communities, which is basically buildings. It was basically bad weather in Andalusia. But that's all I can tell you qualitatively. I don't have the figure.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure.

A - Luigi Lubelli {BIO 4108780 <GO>}

The commercial lines went up primarily because of Agricultural business. The Company -- there's a, say, public-supported scheme for agricultural insurance in Spain, and our Company increased its share in this sort of a pool, and that is what is reflected in the First Quarter. I wouldn't necessarily expect that to continue in the coming quarters, but that's the primary reason for which you saw this increase in this quarter.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

And you're right. The capital gain in Turkey on normal conditions would have been reflected, but the fact is that you had a similar magnitude increase in the appropriation to loss reserves for underwriting. And basically, as the two amounts erased each other, we thought it wasn't necessary because the net amount was -- the amount that would have been left on a net basis would not have been significant for the consolidated account.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, it was for policyholders then mostly?

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A - Luigi Lubelli {BIO 4108780 <GO>}

Yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

(inaudible) Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

Have I answered your question, Vinit?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, very much. Thank you very much.

Operator

Atanasio Pantarrotas.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Hi, everybody. Good afternoon. Thank you for taking my questions. I have three questions. The first one is on the Non-Life financial income. If I look at (slide) number 40 in which you put the Non-Life financial income, it seems that the ordinary financial incomes was put in realization gains and ForEx impact went down materially in the First Quarter 2013 compared to the First Quarter 2012, more than 30%.

And I wonder how it is possible. I agree the fact that there was a slowdown in interest rates, but if I remember well, your duration is at around four or five years in Non-Life, so I expected to see a minor decline of the ordinary financial income.

The second question is on your capital position. How comfortable do you feel after the healthy recovery of the specialist Spanish government bonds and also corporate bonds portfolio? And if we can expect to see an increase in your dividend and in your payout in line with the past years, excluding the last one, so 2011.

And finally, one question on the Motor Spanish business. First of all, I saw there was a sharp decline, if I understand well, of the Motor premiums, and I wonder if this is due to lower volumes mainly or lower tariffs. If you can give us more color on this.

Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Atanasio. Good afternoon, and thanks for your questions. I know it may come as a surprise, but that's the reason. The financial income went down because rates fell down. And the only thing that I would think perhaps complements it a bit, I don't recall the

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figures of every single company, but I would imagine that the investments also in some cases may have fallen due to a lower amount of business, so that compounded a bit.

But really, the reality was that the rates fell. And you have to think that, for instance in the case of Brazil, we are talking about 3percentage points. We don't just have Spain in the accounts. So all these figures compound each other and lead to that effect.

But that was the explanation. That was the main explanation. Yes. The yields fell.

The capital position surely has improved. I mentioned about that. We -- clearly, and especially after the close of the quarter, I would say, because the main impact we are experiencing right now. The spread on Spanish government, that has fallen remarkably since March 31.

So if things remain the way they are now, the impact in June would be likely material on equity, and then it depends how the euro will behave against the dollar. But if we had a scenario in which the dollar appreciates against the euro, we could also see that.

However, as you can imagine, here we're running a ship. We cannot change our policies so quickly. Firstly, it's a decision of the Board, and the Board will take that decision towards the end of the year. And it's -- a lot of time has to pass and many things can happen.

And secondly, we said in the fall of last year that MAPFRE for the moment, and that moment has not changed yet, we still are in a situation that it's broadly comparable to what we saw last year, we think that we have to be comparatively more liquid and more capitalized than we used to be because the business requires so.

So for the moment, nothing to report on the dividend standpoint, but most importantly because, as I say, the Board of Directors is yet to make any decision on that.

And finally, well, the Motor business. Thanks for asking the question, because I think it's an especially relevant one this quarter. Simply it's the fact that it's both, essentially. You have to think that --

Today, actually, we had the first news that car sales have picked up for the very first time in a long, long time, but that may be due to a government support scheme. But otherwise, car sales have fallen, people's income has fallen, frequency has fallen, and the car fleet is older. So all of that leads to both a fall in demand and a fall in average premiums, because people are buying simpler covers for older cars.

So it's a combination of the two, but the whole market fell very significantly, I have to say. It was a significant fall in this quarter.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Okay. Thank you.

Operator

Maciej Wasilewicz.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

It's Maciej from Morgan Stanley. I've got a couple of questions, if you don't mind. The first question is just whether or not you can give us any update at all on the Aseval or the Bankia overhang issues. I'll group them as one, because you might well say that there's just nothing to say.

The second thing is on MAPFRE RE, you mentioned in your presentation that there was a loss experience that led to a fall in profitability, and also that the premiums falling 20% was something that was due to a delay in recognition.

I guess a lot of people that I speak to think that perhaps the MAPFRE RE business is under a lot more pressure because of the rating situation, that Spain more broadly, but you guys in particular face. I'm just wondering, would you expect a stable volume year on year in MAPFRE RE based on what you've said?

And also, within that loss experience, a lot of other reinsurers had a good loss experience. I know your business mix is probably a bit different, but perhaps if you could thrash out a little bit more why the experience was as it was.

Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Good afternoon, Maciej. I'll take the -- firstly question on MAPFRE RE. I think perhaps it's the fact that I've spoken very quickly and there might have been some confusion.

No. What happened with -- you're talking MAPFRE RE, right?

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Yes, yes.

A - Luigi Lubelli {BIO 4108780 <GO>}

So MAPFRE RE actually had an increase in premiums which was essentially due to an internal contract that it signed with MAPFRE FAMILIAR. If you exclude that, the premiums were actually flat. So -- which is something we already said in the full-year results after the renewal season had concluded that we broadly were expecting figures to remain stable throughout the year. So that remains the indication, and that is what the results for this quarter point to.

And actually, no, the loss experience in MAPFRE RE improved. We had a better non-catastrophic loss experience with a lower frequency.

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Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Oh, no. You know what I've done? I think I've looked at slide 14 and I've gotten confused. So actually, you're right.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. I thought there could have been a confusion. So that's the figures for MAPFRE. I think you're referring possibly to MAPFRE GLOBAL RISKS.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Yes. Look, I think you're right. MAPFRE RE actually flat premiums and margins are good. It actually makes a lot of sense.

A - Luigi Lubelli {BIO 4108780 <GO>}

So that's the (other one).

A - Esteban Tejera {BIO 3910673 <GO>}

Yes. And regarding the agreement between Aseval and Bankia, they had reached an agreement in order to buy the percentage Aviva had in Aseval. So they are in the process of acquiring this percentage.

Regarding us, we keep in the same position we have before. We had the old agreement with Caja Madrid. That includes part of the network of branches of -- the current Bankia network branches.

So from the point of view of our agreement, we remain in the same position as before, and, well, I suppose that in the months coming, we will see how to continue with our agreement, maintaining the same position that we have now. Or I don't know; it depends what the --

But the good thing is that now, and you can look at the figures of the evolution of the business of the MAPFRE Caja Madrid Vida, that is our JV with Bankia, is working very well in this quarter.

So we continue working, launching products and commercial campaigns, and what's changed the situation is that now Bankia has, at the end of the year I suppose, they can have the 100% shareholding of Aseval. What they plan to do with the whole participation they have, I don't know yet.

I suppose that in the future, we can agree with them for a future development of the business, but it will depend on a lot of things. And the future of the network of the Bankia is one of the key elements to take a decision, and this is now something that is in the process of a (restoration). So unfortunately, we must wait and see again.

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Q - Maciej Wasilewicz {BIO 16462204 <GO>}

And what about the overhang? Is there any sort of -- has there been any development whatsoever about Bankia's intentions as to the timing of the sell-down of the MAPFRE stake, or is that as it was last quarter, basically unknown?

A - Esteban Tejera {BIO 3910673 <GO>}

We remain in the same situation that the quarter before. We know that they have to sell in a period of time that spans to 2017, but there is no news.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Okay. Thank you very much for that. Thank you.

Operator

(Operator Instructions) Michael Van Wegen.

Q - Michael Van Wegen {BIO 6435238 <GO>}

Yes. Good afternoon, guys. Michael Van Wegen, Bank of America Merrill Lynch. First of all, I wanted to go back to the investment result for the Non-Life business. I understand the comments that you've given, but nevertheless, it looks like the running yield for your Non-Life business in Q1 was around 2.8%.

Even if you were investing in Spanish three-year sovereigns or five-year sovereigns, you would have made more than that. And given your business mix shift towards Latin America, for example, I would expect that to be, yes, a fair bit higher.

So are there any funnies in that number that we should be aware of? Do you think that 2.8% going forward is a right level of yield we need to think of? And are there any further pressures at play that might actually bring that number further down from here?

And I guess related to that, if you have this interest rate decline in Brazil, your bonds there are worth a lot more than they used to be. Are you willing to realize some of those gains to compensate the pressure on the running yield?

Then the next question that I have is on your Spanish Non-Life business. You talked about the volume developments and clients or customers taking, yes, let's say cheaper products. Your combined ratio so far is holding up reasonably well in Spain. What's the outlook there? Are you able to still keep prices reasonably okay even though they take simpler products? Or should we also start to expect a further deterioration in the claims ratio there?

Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

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Hi, Michael. Look, the only thing we can think of to explain your doubt is the fact that in the financial income, many things go, and one of them is mark to market. So you have to appreciate that with falling rates, as you rightly say, in some countries where we do account that way, you have gains flowing through the P&L which raise the yield so that can be an explanation.

But once again, I repeat, I know this is a large group so it includes several companies, but the downwards trend was plainly simply justified by the falling rates.

And as far as whether we -- we normally do not realize those gains to compensate for yield. Gains are realized whenever we need to sell those assets for other purposes. But usually, we tend mostly to hold our assets to maturity.

In terms of Spain, firstly, I've answered your question on financial income?

Q - Michael Van Wegen {BIO 6435238 <GO>}

Yes. I'm not quite sure that I understand this answer though, because in the sense that fair values run through it, if interest rates come down, if anything, your fair value changes are positive rather than negative. So true, there's an upward impact on your financial income in Q1 rather than a negative, so if anything --

A - Luigi Lubelli {BIO 4108780 <GO>}

That would compensate -- that would explain -- because your question I understood was that you think our running yield is too high.

Q - Michael Van Wegen {BIO 6435238 <GO>}

No. It's -- as far as I'm concerned, I think it's surprisingly low what you achieved in Q1. 2.8% for the Non-Life business seems low given where Spanish bond yields are and your mix geographically.

A - Luigi Lubelli {BIO 4108780 <GO>}

Right. But if you're talking Non-Life, Non-Life is mostly towards the low -- the short end. Then they also have cash balances which don't yield that much.

Honestly, that's -- I'm sorry, but there's really not much more I can tell you. That really is what flows through the accounts.

Q - Michael Van Wegen {BIO 6435238 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

And in terms of Spain, one thing is not necessarily related with the other. We try, and our track record is a testimony to that, is to price each cover according to its risk. The fact that

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you are selling simple covers doesn't mean that those simple covers are mispriced. So they -- it's just perhaps --

No. Simply it doesn't make any difference. Each cover -- third-party liability cover has a price which is -- and the bodily damages as well, damages to the car as well. So depending on the product, you have a certain pricing, but it doesn't mean that it necessarily has to do anything with the loss experience.

Really what we have is we continue to have a very benign frequency, and simply people who can afford less to pay, more expensive policies. But that doesn't necessarily have an impact on the loss experience. The frequency does, but the fact that the covers are simpler doesn't necessarily have to have an impact on the loss experience.

Q - Michael Van Wegen {BIO 6435238 <GO>}

Perfect. Thank you.

Operator

Niccolo Dalla Palma.

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

I've got three questions. The first one is on the Health Insurance in Spain, which is a significant chunk of the Spanish premiums and especially in the quarter. And just the combined ratio at 107%, I just wanted to check if this is a one-off increase or if there is anything, any worrying trend in this line of business.

The second question relates to what you said regarding the reasons why you did not include the -- adjust for the Turkish building sale in the normalized profit. But you said there's an appropriation on loss reserves for underwriting. Is this the same kind of appropriation of reserves you did at full year? And I'm talking about the EUR54.6 million net of tax that you highlighted in your slides at the full year. Is it the same type? And is this appropriation of loss reserves specific to Turkey, or is the general provision for the entire Group that you can use anywhere?

Then the third question is just to ask if you did consider investing in the IPO of BB Seguridade directly. You clearly have a JV with one of the companies owned by this just listed company. Just curious to know whether you were -- you had considered or were considering an investment in the holding company which is now IPO-d.

Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Niccolo. The Health Insurance in Spain, the claims ratio is basically -- rather than from the claims, it comes from the net premiums earned.

We changed the criteria for the accrual of the provision for the amounts to be paid by policyholders, the pending receipts from policyholders. And we have changed the policy on the recognition of cancellations and we've brought them forward to the First Quarter of the year. So that has led to a contraction of the net premiums earned, and that has increased the loss ratio.

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

Okay. It's a denominator, not a (nominator)?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. The Turkish gains. As we said, (we sold) the headquarters of the Company. And the appropriation doesn't have anything to do with anything else. It's 100% Turkish. It's because the business is growing, and let's say there's a certain market-wide suasion by the supervisors to be prudent on that, so the Company have to somehow, align to that. It's not exactly a law. It's just a recommendation that comes from the supervisors.

And finally, no, we did not invest in the BB Seguridade, and we are not planning to.

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

Okay. Thanks very much.

Operator

Mari Ojeda.

Q - Mari Paz Ojeda {BIO 20586811 <GO>}

Hello. Good afternoon. I'm Maria from Banco Sabadell. I have two questions, one regarding the Reinsurance agreement between MAPFRE FAMILIAR and MAPFRE RE. Can you elaborate a little more about what are the reasons? Which is expected impact, both in MAPFRE RE and MAPFRE America in the timeframe?

And the other question relates to MAPFRE Brasil, because according to my estimates, you are just -- in Life Insurance, you are just growing at the pace of 10% to 13%; no more than that. And last year, you were growing at about a rate above 20%. So this slowdown is here to stay, or just one thing that has happened this quarter and you are going to recuperate your trend in next quarters in local currency?

A - Luigi Lubelli {BIO 4108780 <GO>}

Is that all, Maria?

Q - Mari Paz Ojeda {BIO 20586811 <GO>}

Yes.

FINAL

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Good afternoon. Basically, the agreement with FAMILIAR and RE is the fact that the two Companies were looking for certain solutions for their development needs, and they eventually got to an agreement in-between them.

On the case -- in the case of FAMILIAR, MAPFRE FAMILIAR, as you know, has fast-growing businesses, and one of them is Verti; and then there's other businesses it has invested into recently. So there is a need to provide capital for the growth of these (dividends). And clearly, there is a willingness not to impact the flow of dividends to the Parent Company. So the Reinsurance contract had this benefit, had the benefit of freeing-up capital to support this growth.

On the other hand, MAPFRE RE, for MAPFRE RE, it is quite beneficial to diversify from a capital management standpoint its acceptances with a business like MAPFRE FAMILIAR's, which is very stable, recurring low loss experience.

So basically, we had two companies inside the Group which had needs which could be met internally through Reinsurance. So we basically moved capital in the Group in order to support different needs using a Reinsurance contract and mostly keeping the profits of those businesses in the house. So that was the reason for which we did it.

Was it clear, or --?

Q - Mari Paz Ojeda {BIO 20586811 <GO>}

Yes. It's perfectly clear. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

And the slowdown in Brazil? Well I wish our business in Spain slowed down to a 13% growth. It's simply Brazil is -- the country itself is not growing as much as it did in the past, but you know you have ups and downs. But frankly, 13% is all right.

Q - Mari Paz Ojeda {BIO 20586811 <GO>}

Yes. But you were growing at a much more faster pace, and (do you think) your Non-Life insurance in Brazil --?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well Maria, the total economy was growing at a faster pace. It's coming, and it's coming and going. But by and large, the business is doing well. The agreement with Banco Brasil is developing very well on both accounts, and we do have growth. We actually -- we have actual growth.

If we did not have the devaluation, the growth would be 18%. Of course you can do better, but 18% is probably all right.

FINAL

Q - Mari Paz Ojeda {BIO 20586811 <GO>}

Yes. No. I agree with you on the whole Company, but at the end, we are growing at maybe 15% or 20% in Non-Life, but you are growing much less in Life Insurance, and at the (multiple speakers).

A - Luigi Lubelli {BIO 4108780 <GO>}

Like I explained it in the speech that the fact that Life is growing less is because of the transfer of some lines of business to the Non-Life business, and also because of the devaluation.

The whole Group grew in local currency 18%, and 18% -- I can imagine that you would like to see faster growth and we would like to see faster growth, but 18% is not something I would complain about.

Q - Mari Paz Ojeda {BIO 20586811 <GO>}

By the way, have you disclosed the currency rates that you are using? Because there's -- or maybe I have another one, but in my estimate, Brazilian real has decreased 10%, and according to your numbers, it's much more close to 13%/14%.

A - Luigi Lubelli {BIO 4108780 <GO>}

Well we normally don't disclose those rates. We can think about that, but it's -- I think it would be perhaps overkill for most cases.

You have to bear in mind that there is some confusion with the real in these accounts, and it's due to the fact that the profit and loss First Quarter 2012 and 2013 are reported at the average exchange rate for that period in both years, while the equity we are comparing period close for the full year 2012 with period close March 31, 2013.

And the behavior of the currency has been different. If I'm not wrong, on the P&L we see a depreciation, and on the equity we see an appreciation, so that causes some differences.

The average exchange rate on the accounts is a bit difficult to reproduce, while the balance sheet is period closed so it's much easier.

Q - Mari Paz Ojeda {BIO 20586811 <GO>}

Yes. It's much easier. Okay. Thank you.

Operator

Vinit Malhotra.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Bloomberg Transcript

Sorry, I didn't capture something I wanted to understand more. The Reinsurance fee you just mentioned, just quick follow up, was that PT already in place with another reinsurer, or --? Because that would be different motivations on how the capital is being managed, right?

A - Luigi Lubelli {BIO 4108780 <GO>}

As you know, in MAPFRE, the companies, with a few exceptions for the (inaudible) business in Latin America, normally (cedes) to MAPFRE.

The contract was with MAPFRE. It had a different size and, for instance, Verti before was ceding to MAPFRE FAMILIAR itself, not to MAPFRE RE. Now it's become part of an agreement with MAPFRE RE.

But everything is in the house. It's just that the volume and companies involved, that's changed. But everything was in the house before as well.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, fair point. Okay. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Then, of course, as you know, all the internal business gets to MAPFRE RE. MAPFRE RE keeps a slice of that, and then it retrocedes the Group business out because of safety and prudence reasons. The business coming from inside is dealt with differently than the business coming from third parties.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. So the Verti used to reinsure to FAMILIAR, but now Verti reinsures direct to MAPFRE RE?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. From a consolidated standpoint, it doesn't really make a difference.

Q - Vinit Malhotra {BIO 16184491 <GO>}

But it makes a difference where the capital is? Is there a fungibility thing here, or --?

A - Luigi Lubelli {BIO 4108780 <GO>}

No. It's not a fungibility. The capital stays where it was, but the fact that the risk is ceded to a greater extent to MAPFRE RE means that part of the risk of MAPFRE FAMILIAR is now supported by the capital of MAPFRE RE. So there's less -- the capital at MAPFRE FAMILIAR can be employed for other purposes because part of it is supported by MAPFRE RE.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. But at a Group level capital-wise, no issues, no changes?

A - Luigi Lubelli {BIO 4108780 <GO>}

No changes; just a redistribution by means of another insurance company.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Fair point. Thank you very much. Thank you.

Operator

(Operator Instructions) There seems to be no further questions at this time. Please continue.

A - Esteban Tejera {BIO 3910673 <GO>}

Okay. If there is no more questions, I would like to thank you for attending our presentation of the results, and I hope to be with you again for the next presentation.

Thank you for attending the call.

Goodbye.

Operator

That concludes the conference for today. Thank you for participating. You may now disconnect.

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