Q2 2013 Earnings Call

Company Participants

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

Other Participants

- Atanasio Pantarrotas, Analyst
- Avinash Singh, Analyst
- Javier Bernat Valenzuela, Analyst
- Maciej Wasilewicz, Analyst
- Michael van Wegen, Analyst
- Niccolo Dalla Palma, Analyst
- Sami Taipalus, Analyst
- Veleka Lakhani, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Thank you for standing by. Welcome to the first half 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 conference is being recorded today, on Thursday, July 25, 2013.

I would now like to hand the conference over to your first speaker today, Mr. Tejera. Please go ahead, sir.

Esteban Tejera {BIO 3910673 <GO>}

Good afternoon, ladies and gentlemen; welcome to MAPFRE's first half 2013 results presentation. As usual, I'll read an overview of the results and the main business developments, and later, Mr. Lubelli will explain the financials in greater detail, and present the European embedded value figures for 2012. Finally, we will take your questions.

Please move to slide number 3.

The underlying trends were positive in the first half. Revenues and premiums grew at a much faster pace, reflecting a pickup in sales in Spanish Life, Latin America, Global Risks and Re. Adjusting for the sale of the Argentina subsidiaries, announced in 2012, premiums increased 6.5% and revenues 6%.

Funds under management also grew, reflecting primarily Life and mutual fund sales, along with positive mark-to-market adjustments in Spain.

The combined ratio remains 50 basis point lower than in 2012, as was the case in March. In this regard, I must note the strong improvement in Latin America, whose combined ratio decreased nearly 6percentage points.

The return on equity also went up, compared to the First Quarter, to 9.1%. Profits and earnings per share are up 5%, year on year. Please move on to the next slide.

The environment continues to be challenging, but we have reached again to grow in this challenging environment. Thanks to the benefit of the geographical diversification, which offset the impact of premiums and results of the depreciation of the Brazilian real, and the decline in the demand in Spain.

The improvement of the Non-Life underwriting results, with a significant decrease in the combined ratio of international business, and the remain of the -- an excellent combined ratio in Spain, despite of the tough conditions.

The recovery in growth in Life Assurance, thanks to the international insurance business, and in this quarter, we have had an excellent performance on the agents' channel in Spain.

In this quarter, we have registered a lower financial income, as a result of the decrease in interest rates, and negative mark-to-market of the trading portfolio in Brazil.

In page 5, you can see that the reported attributable result is up 5% year on year, as I mentioned before. The recurring results fell, reflecting a series of development.

The fall in demand and higher combined ratios in Spain, with other related losses in Spain, in the US, and several countries in Latin America, especially in Argentina and in Mexico; the appreciation of the euro, which is the most important driver of the results of the quarter; and the lower recurrent financial income due to a decrease in interest rates in Europe and the USA, and an increase in interest rates in Brazil.

The environment remains challenging, even if we have received today good news in Spain, where the figures of unemployment have improved, we can report now a decrease of the unemployed people of 225 people during the last quarter. It is the third month in a row of the decrease in figures of unemployment, which is very good news, even if the rate of unemployment remains very, very high, at a level of 26%.

In this environment, we are taking initiatives to raise business volumes and increase profitability, and we trust we will bear fruit in the remaining of the year, and we'll be able (to) reverse this trend.

Already in the Second Quarter, we saw the pickup in sales I just referred to, and a continuation of the significant improvement in combined ratios in Latin America.

On page 6, you have a summary of the changes in our equity story in the last two years. We are now, as you know well, the leading insurer in Spain and Latin America. We have a more diversified Company with more than two-thirds of the business outside of Spain. And we have, when you compare with last year, a more clear financial horizon.

On slide 7, you can see how MAPFRE is benefiting from diversification into world markets, as well as markets with a comparatively better economical look, such as the US. This is helping it withstand the prolonged contraction in the Spanish market.

As you can see on page 8, where we have a presence in countries which, according to the IM forecast, are markets with more possibilities for growth than Spain in the coming years. And with possibilities of improving the sales to insure people in a bigger proportion than the growth of the countries themselves.

As you know very well, there is a positive elasticity of insurance demand to the growth of GDP, and this should support, over the next year, the strong growth that we expect coming from our diversification, as we are observing during the last years in our figures coming from Latin America.

On page 9, you can see the details of the new credit facility we have signed at the end of June. This is a new facility of EUR750 million. It's a revolving facility with a maturity date in five years, that is in 2018, which replaces the EUR500 million revolving credit facility maturing in June 2014 we have cancelled in advance, with better conditions from the point of view of prices, and with a very, very, high participation of the Spanish and foreign banks. We have a syndicate of five Spanish banks and seven foreign banks, and this facility is fully undrawn at this moment. This gives us the possibility of having a clear horizon from the point of view of the funding during the next years.

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

Luigi Lubelli {BIO 4108780 <GO>}

Thank you, Esteban. Good afternoon, to all those following this conference call today.

Please turn to slide number 11. Here we see a continuation of the trend that we have been observing for years now. The weight of business activities abroad continues to rise. The contribution to premiums stands at 69%, compared to 66% a year ago, while contribution to profit, if we adjust for the non-recurring items we had in the first half of 2012, went from 49% to 53%. As Mr. Tejera just highlighted, the strength should continue, based on the prospective macroeconomic situation of the countries we operate in.

Compared to March, we see a considerable jump in the contribution to premiums. That is due to the significant pickup in issuance at MAPFRE America, MAPFRE RE, and MAPFRE Global Risks.

On the next slide, number 12, we see the contribution to premiums and insurance result by business areas. If we compare June to March, we see that the contraction in premiums in Spain halved, and that was thanks to a strong development of the Life business. If we look at the rate of the total premiums we will, however, see a fall, and that's because the growth abroad was even stronger, as I mentioned in the previous slide.

In terms of profits, if we compare to March, the picture, however, has changed. Spain has reversed its contraction, and now contributes the same it did a year ago, that is 47.2%.

A year ago, we recorded significant writedowns, which drove down the contribution of Spain to total profits. This year we have no writedowns. Actually, we even have EUR20 million of pretax gains, but we have lower volumes and a larger combined ratio. So the drivers have changed, and in both years they lead to the same percentage contribution.

Brazil continues its upward strength, driven by larger business volumes, a hotter market and substantially lower combined ratios, as well as a more mature operational structure. These improvements offset the negative impact of the appreciation of the euro.

The rest of Latin America shows a fall both year on year and quarter on quarter, which reflects several reasons. One is the appreciation of the euro, as I already mentioned, then we have lower realization gains, and which is significant on figures, the transfer of Puerto Rico under MAPFRE International.

If we bear all of this in mind, the Second Quarter was actually okay, and was broadly in line with the same period of 2012. Overall, if we look at the performance, it is much stronger at an underlying level than it was a year ago, in spite even of currency depreciation.

MAPFRE USA improved its contribution compared to the First Quarter, but remains below the previous year, and this is because of a worse technical result. Also it must be said that, being below the previous year in both quarters, it was considerably better in the Second Quarter of this year, despite weather-related losses.

MAPFRE Global Risks was affected in the Second Quarter by foreign exchange losses. Overall it was up, thanks mainly to a much better combined ratio and a EUR13 million gain from the creation of Solunion.

And finally, MAPFRE RE shows a decrease compared to the previous quarter, due to a higher combined ratio. Year on year, however, it increased its contribution, thanks to larger foreign exchange gains and the absence of writedowns.

On the following slide, we go deeper into the Non-Life accounts. Here, the trends are broadly in line with what we saw in the First Quarter.

In Spain, premiums widened their fall and that's because the market continues to contract. We have seen a deterioration in sales in the market at large, and especially in the Motor business. And that is due to the purchase of cheaper covers, both because people have less money to spend, and also because the car fleet is aging. The sales of new cars has fallen considerably.

A higher loss ratio, along with lower net premiums earned, led to a decrease in the underwriting results. Nonetheless, the combined ratio remains at exceptionally low levels, and it has to be seen that its gap over the previous year has narrowed in the Second Quarter.

Brazil grew, thanks from the reclassification from Life to Non-Life of some lines of business we told you about in the last quarter of 2012, as well as to organic growth and to a hardening market. The underwriting result improved notably, thanks to this reclassification, as well as to a decrease in the expense ratio and, as I said, to the hardening, to an increase in prices.

The rest of MAPFRE America appears to fall, but that is due to the sale of the Argentine subsidiaries and the transfer of the Puerto Rican business, which was compounded by the appreciation of the euro.

If we adjust for that, the increase year on year is 5.5%, thanks to growth across the board and especially in Venezuela, Colombia and Chile. The underwriting result reflects the sale of the Argentine business, which had a poor combined ratio, and several initiatives to improve underwriting and risk selection.

MAPFRE RE shows premium growth. As we told you in the First Quarter that's due to the formalization of reinsurance operations with Group companies. If we exclude that, premiums grow 6%, which is actually a quite good result.

The combined ratio increased, if we compare it to the previous quarter, due to larger charges for profit sharing, which were partly offset by lower frequency.

MAPFRE USA shows growth, and that's due to rate increases in all states and to the appreciation of the dollar. The loss ratio was affected by snowstorms in the First Quarter and rainstorms in the second.

MAPFRE Global Risks perhaps shows the most significant change in trend, compared to the First Quarter. Premiums went up, reflecting growth in Latin America, especially in fire and transport, which more than offset the impact of the deconsolidation of Solunion, which is now accounted for by the equity method.

In MAPFRE (Global Risks) now, the premiums issued outside of Spain and its subsidiary make up over 60% of its overall business. The combined ratio improved, thanks to a better loss experience on the back of a lower frequency. Moreover, if we look at the combined ratio in the same period of the previous year, June 2012, at that time it was negatively affected by exchange rate differences, which magnifies the improvement year on year.

Finally, MAPFRE Asistencia recorded organic growth in Europe and Asia, as well as the positive impact on its US business of two developments which took place in the second half of 2012, a large roadside assistance contract and the acquisition of Century. The combined ratio improved, reflecting the impact of the exchange rate on technical reserves, which was negative a year ago and positive this year.

On slide 14, we have the remainder of the Non-Life account. I already talked about premiums and technical results. Financial income includes a realization gain of EUR95 million, of which EUR22.2 million came from the sale of the headquarters in Istanbul, and EUR12.9 from the asset transfer to Solunion.

This compares with basically EUR140 million of writedowns in the same period of last year. If we adjust for that, we see that the financial income falls year on year, and that is due to lower yield basically across the board and also to the fact that we have negative mark-to-market adjustments in Brazil in this year. Last year they were positive, so it's a change in sign in amounts year on year, which magnifies the fall also in this case.

In this account, we also have EUR20 million US gains on dollar-denominated assets recorded in Venezuela and coming from the devaluation of the bolivar.

On slide 15, we have the Life account. The Life account changes a bit, compared to the First Quarter. Spain improved notably, thanks to strong campaigns in the agents' channel and above market average sales in life protection.

The technical financial result improved considerably year on year, thanks to the absence of writedowns, while on a quarterly basis, if we look at it quarter on quarter, it doesn't show any significant variation.

As I said before, Brazil last year reclassified some business from Life into Non-Life, and this is the reason behind its growth, which is only modest. Nonetheless, the earnings growth improved. Second quarter sales tend to be stronger.

The technical financial result is very much in line with the figures we saw for the First Quarter of this year, and reflects a fall due to the reclassification I've talked about already a few times, and to negative mark-to-market adjustments.

The remainder of MAPFRE America's Life business goes up strongly and that comes primarily from Colombia. The fall in the technical financial result is due to the fact that, a year ago, we recorded a gain of EUR18.3 million in Panama. If we adjust for that, the underlying growth is 7%.

MAPFRE RE's premiums decreased because of a different issuance calendar in 2013. However, if you compare it to the previous quarter, the contraction was much smaller because the cessions for the European clients went up on a comparative basis. We had profit in the technical and financial result in the Second Quarter, compared to losses in the first, thanks to a much better loss experience.

And finally, Middlesea continues to benefit, we saw that already in the First Quarter, from very good growth in the sailing business. Compared to the First Quarter, we see a contraction in the technical financial result, and that also in this case is due to mark-to-market losses.

There's not much more to say on the Life accounts, so I'll skip slide 16 and move to slide 17 directly. Here, we have the other Non-Life activities. We see the development in revenues and expenses, which comes from the growth of the services business at MAPFRE Asistencia and the consolidation of Funespana, the listed company in which we acquired a majority stake.

The net financial income remains negative, because of the interest payments. We have interest payments at the consolidated level. And we have also realized capital losses of EUR2 million. Last year, they were EUR19 million for the impairment of the shareholding in Cattolica.

If we compare to the First Quarter, we see a decrease in the growth rate of expenses and revenues. And this is due to the fact that, in the same period of the previous year, we reclassified some lines into other business activities, and that led to a strong increase in figures a year ago. So of course, on a year-on-year basis, that depresses the growth rate.

On slide number 18, we have the bottom line. If we compare to the First Quarter, we see a clear trend reversal, with profit growth driven on a comparative basis by the absence of writedowns which you will recall in 2012. We see that the share of minorities goes up, and that's due to profit growth in Brazil.

On slide 19, we have the balance sheet. We see variations in assets and liabilities. That basically reflects two drivers; the depreciation of the US dollar and the Brazilian real. Then, we had the recovery of values in the financial markets, especially when it comes to assets in Spain and the USA and, of course, business growth, which we have seen in the previous slide.

As usual, on a half-yearly basis, we have a more detailed breakdown of our investment portfolio, which we begin to cover on slide 20. We have a breakdown of the investment portfolio at the close of the first half. No significant variations, except for a slightly larger weight of government paper, and a slightly smaller weight of corporate bonds.

On slide 21, we have the breakdown of the fixed income portfolio. We see an increase in the weight of government paper. That is due to both mark-to-market and also to new purchases.

On slide 22, we have the breakdown by rating, but it's only a small migration from A to BBB, due to basically to downgrades on some of the paper we had. Then we have the breakdown of assets with reserves. About 40% of the fixed income portfolio matches Spanish Life Assurance technical reserves.

Finally, on slide 23, we have the changes in equity. We have a recovery in the market value of investments here. As you know, usually, the shadow accounting is about half the change, but this year they have the same amount, and that's due to the fact that the assets which have the shadow accounting are in Spain, they increased considerably more than that. But we had, as I mentioned before, negative mark-to-market adjustments in the assets outside of Spain. So we have this deviation from normal figures.

We did have a major change in translation adjustments, which reduced, if you compare to the end of the year, about EUR450 million, the consolidated equity. The rest is dividends, and that was something known which we also had in the First Quarter.

With this, we conclude the results presentation. I will now give you a few seconds to move on to slide number 3 of the European Embedded Value presentation.

On this slide, we have a summary of the main figures in our EEV. If we compare to 2011, we see a decrease, which is reflecting lower new business volumes, due to lower sales through the bancassurance channel, which were partly offset by strong sales at the agents' channel.

Then we have a change in the composition of business. In 2012, we had a greater weight of life savings products, at the expense of life protection, which translated into a comparatively lower margin on new business, and then we had higher lapse rates.

As a note, throughout the document, compared to the previous years, we now separate more clearly the parts that correspond to shareholders and minority interests.

On slide number 4, we have the main changes in the EEV. The ANAV barely grows year on year. It actually decreases in minorities, and that is simply due, as we will see on the rollover, to a higher dividend payout.

The present value of the in-force shows a decrease. I already explained that, that it was due to high lapsation and which also, as we will see, affects the negative change in assumptions, and to lower new business volumes, especially in the Protection business.

The cost of capital increased. That was due to the application of a lower discount rate. We see that the weight of the time value of financial options and guarantees fell slightly, and that was due to a lower duration of the with-profits portfolio that offset the negative impact of lower interest rates.

On slide number 5, we show the breakdown of the EEV by business line and distribution channel. As I explained on the previous slide, the present value of the in-force of the Insurance business fell, primarily due to higher lapse rates and lower new business volumes.

We can see on the slide that the impact of lapsations affected especially the agents' channel. And that explains the fact that the decrease was concentrated in such channel.

The cost of capital increased in Life Assurance, due to the application of a lower discount rate, but you'll see that it falls in pension funds. And that is because of a reduction in the regulatory capital requirements applicable to this business, which will equalize to those of the mutual funds.

On slide number 6, we show how the in-force breaks down between minorities and shareholders. The figures fall compared to 2011, for the reasons I've mentioned already a few times; that is higher lapse rates and lower business volumes.

On slide number 7, we have the roll forward, which breaks down the changes in the main components. As each of these changes is explained on the following slides, I'll move directly to slide number 8.

I already mentioned that we have broken down the minority interests, and that's, basically, a presentation item. We see changes in the model. That's, basically, due to the -- it's a small amount, it's only (EUR15 million), if I'm not wrong. And that's due to the usual improvements that are introduced every year.

We have changes in assumptions, as I said before. The main one that is left out is the lapse rate, because then we have a higher credit risk, which is, basically, completely offset by the impact of the lower discount rates.

The expected return is the usual story. It's the unwind of the discount rate, about EUR33 million, and then, the after-tax return on the ANAV at the beginning of the year, net of the cost of capital.

We see a negative deviation of the actual value from the expectations. And that was due to the fact that we reported a profit that was lower than expected, and once again, to higher lapsation.

As I already explained, the time value of financial options and guarantees improved. It's a favorable impact on the value of in-force, because of the lower duration of the with-profit portfolios.

Slide number 10, we have the value added of the business and the margin. The margin has, basically, fallen back to the levels of 2010. In 2010, we had 5.4%, now we have 5.3%, after a spike in 2011, driven, basically, by the Protection business. This year, as I said on the previous slide, on the business mix, we had a higher weight of Savings business, which brings in lower margins than the Protection business, as well as higher lapse rates.

Finally, slide 11, we have the main sensitivities. As usual, the drivers and directions of sensitivities are basically the same in direction between the in-force and the value in the business, so I'll just explain it on this slide. And as usual, also, as in previous years, our figures are most sensitive to the variations in interest rates and to the lapse rates.

The sensitivity to increases in the probability of default of the Spanish fixed income portfolio, falls compared to a year ago, when it was EUR197.5 million. And that basically reflects a lower duration of the portfolio.

And that's all on my side. I'll now give the call back to Mr. Tejera for the Q&A session.

Esteban Tejera {BIO 3910673 <GO>}

Thank you, Luigi. That finishes our presentation of the results. Now, we are available for your questions.

Questions And Answers

Operator

(Operator Instructions) Niccolo Dalla Palma, Exane BNP Paribas.

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

I would have two questions, if possible. So the first one is on your growth rate in Spain. I wanted to ask you a bit more color on the difference in growth between yourself and the sector, and especially if I look at the three main lines of business, Motor, Health and Home.

So in Motor, you're decreasing 3 points more than the sector, at 9.5% versus 6.5% for the sector. In Health, you're also decreasing the top line 1.5% versus some growth of 1.5% of the sector. And while in Home it's the opposite, so you're growing more than the sector.

So could you maybe give me a bit more color, is someone behaving irrationally on the Motor and Health business lines? How do you expect this, going forward?

And the second question is on LatAm, and in particular, the Brazilian combined ratio, which was exceptionally strong in this first half. Could you maybe say something about the sustainability of this combined ratio, and what drove the 9 point improvement in the expense ratio in Brazil? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Niccolo, thanks for your questions. In Motor, look, this is a trend we saw in the First Quarter as well. The market is going where it is going. We had other years, other periods in which we had a comparatively worse performance than the market. We had quarters with a better performance.

I think the long and short is that we are the largest ones, and we are comparatively more attacked than other groups; that's part of the game. I wouldn't say it's anything to worry too much about. It's a tendency in this area.

You said irrational behavior; there clearly are companies that are being very aggressive on prices and that, in the short term, may have an impact, for sure.

On Health, we also explained this in the First Quarter. There has been a change in our accounting. We brought forward the cancellations that we would have recorded normally during the year. And that continues to affect us negatively in terms of comparison. And also here, of course, there is competition, as you rightly are saying.

In Household, I didn't understand your question exactly. The reality in Household, we actually (multiple speakers) -- we are doing better than the market.

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

Yes, you are doing better than the market, so just wondering if there was some specific expansion that you're undergoing in some areas, or what's driving this?

A - Luigi Lubelli {BIO 4108780 <GO>}

No, not really, it's just sales efforts. But yes, we're doing -- the figure is small, but we are doing comparatively better; that's absolutely true.

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

And just out of curiosity, before you answer the other question, on the Motor part, you have a very strong position outside some of the main cities in Spain. Do you see some changes of efforts made by competitors also there, or is it still too difficult to compete with your very dense network, which -- are you seeing differences in competition in big cities and outside the big cities, where you're historically very strong?

A - Luigi Lubelli {BIO 4108780 <GO>}

Look, I don't have figures by province now, in order to answer your question precisely and numerically speaking. From a qualitative standpoint, I would say that continues to be the case.

Also because, let's say that the most aggressive and most visible competitors normally focus their efforts on the larger metropolitan areas where they can get more bang for their buck. Clearly, they need less sales effort in order to reap a greater increase. So I would say that logically, that seems to be an accurate assessment.

In terms of sustainability in LatAm; really when you say LatAm, these days it's more and more Brazil and there, we do have a change. Because a year ago, as you remember, we were still in the transition from the previous business structure to the present one.

That's why, in my previous comments, I said that improvement in Brazil owes a good part to a greater operational stability, because now the structure is much more defined than it used to be a year ago.

There's been several trends. Last year, we had expenses from the switch from Sulamerica, which used to support Banco do Brasil to MAPFRE, and that led us to incur some, let's call them, one-off expenses. Then we have had rate rises in Brazil market wide, and that is benefiting the technical result.

We ourselves have introduced several initiatives in order to control, much better, the amount of claims, and especially to combat fraud. Then there's a general, let's say, quote, unquote, better behavior due to more effective policing in the country.

So it's a combination of reasons which, I would say, make it comparatively more sustainable than it used to be, yes. This ratio reflects more the reality of the Company than the one we saw a year ago. I'm wondering if I'm answering your question.

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

Yes. I'm particularly curious, though, about the expense ratio, because clearly 9 points improvement is massive. Is that all due to the one-off costs? So could we say the 34% expense ratio is a more normal expense ratio? And maybe (multiple speakers) --

A - Luigi Lubelli {BIO 4108780 <GO>}

I cannot tell you exactly the figure. What we hear from our management is that this result, this combined ratio, reflects much better, much more accurately the reality of the business and what we had a year ago. I cannot pinpoint specifically the amount of expenses but, let's say, this is a more reliable picture.

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

Okay. Thanks very much.

Operator

Michael van Wegen, Bank of America.

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

Three things that I want to check. First of all, on your investment result in Non-Life and the performance there, Q2 I think has been affected again by mark-to-market negative impact from your Brazilian bond portfolio. Can you quantify the impact on Q2 specifically? Or otherwise, can you confirm that the impact is around 50% higher than you've seen in Q1? That's question number one.

Question number two is, again, on Brazil. Your Non-Life premium growth in Q2 seemed to have accelerated a fair bit, compared with Q1. Can you talk us through the drivers for that?

Then finally, you show on one of the slides how your shareholders' equity and your liabilities have grown in the quarter and, amongst others, you cite currency impacts. I think that your equity went up 1%, your liabilities went up 30%. That suggests that there has been a negative impact on your solvency ratio. Can you talk about the development in your solvency ratio Q2 versus Q1, and how much of that is due to currency moves? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Michael. Let's see, first question. We didn't give an exact figure, but you can take, as a rough rule of thumb, the mark-to-market would equal more or less 10% of the pre-tax profit of Brazil. So let's say, in rough terms, the pre-tax profit of Brazil would have grown twice as much as it did had we not had the negative mark-to-market, as a rough rule of thumb.

The acceleration of premiums growth in Brazil in the Second Quarter is basically the way it works. You have to understand that somehow the holiday season in Brazil is more skewed towards what -- it is winter for us. The business activities tend to accelerate in the second and Third Quarter, unlike here. So that's basically a seasonal impact; it happens every year.

The valuation in equity compared to provisions is due to the fact that it is in -- let's see, we've had several mark-to-markets. Those mark-to-markets were positive in Spain, which benefits the technical provisions which, of course, they're the only ones adjusted for that. And it was comparatively negative outside of Spain and the USA and rather Latin America. So the negative adjustment goes on to the equity, and that is why the equity grows less than the technical reserves.

Solvency wise, I wouldn't worry too much because it may be a quarterly negative variation but, year on year, you will see that the equity is about EUR0.5 billion larger than it was a year ago. So in terms of the actual amount of capital available, the Group is developing okay.

Does that answer your question on solvency, or does it not?

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

Yes, I guess so. Maybe going back to the second question, though, on premium growth in Brazil where you indicate that Q2 is always strong because of seasonal impacts; I was talking about growth rates year over year. So that should capture, or should neutralize that seasonal impact, I would say. So still wondering why Q2 saw an acceleration in growth. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Well we have a good performance in agricultural insurance year on year, and that may be a reason for which we have the volume. As I say, that is one of the businesses that works on (sterling), and so that has an impact on Non-Life year on year.

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

Thank you.

Operator

Vinit Malhotra, Goldman Sachs.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Just on the commercial portfolio in Spain now, the Motor book has been showing some pressure, and it was expected probably. But the commercial line has also contracted quite sharply. Is there something that was a one-off large contract, or is there a trend there? So that's the first question.

And the second thing is that on this entire Brazilian mark-to-market, I think slide 20, as was pointed out to me, has EUR2.2 billion of the fair value to P&L. I just wanted to clarify, because this question had come up in the last months, as you can imagine.

The annual report did have a fair value to P&L BBB bond level of only EUR100 million. So was this EUR2.1 billion reclassified, or was it something that we should have known which I did not? So I apologize; I just need a clarification. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. I will almost start from your last question. So what you are saying is that we have (fine) EUR2.2 billion of fair value through P&L in Brazil, and you are comparing that with the figure of BBB bonds?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes.

A - Luigi Lubelli {BIO 4108780 <GO>}

And what is it that it does not check?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Maybe I'll take it off line, if -- I just want to see if there's any -- because the number on the annual report was rather small, EUR100 million or so, on the fair value line. And probably, that is -- again, I apologize; I can ask IR off line as well.

A - Luigi Lubelli {BIO 4108780 <GO>}

Perhaps, because I'm seeing the figure of the trading portfolio which was about EUR4 billion in the annual report for 2012, so this one would (multiple speakers).

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. But the credit risk, and I remember that page because I was speaking to many people about it, but page 155, the credit risk description suggested that Brazil might be a very small number. But it's probably more for the --

A - Luigi Lubelli {BIO 4108780 <GO>}

Perhaps it is best to take this off line, yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. All right. Sorry for that.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. No. That's no problem at all. No. It's just because it's going to be a bit tedious to go through all the figures.

You were saying why commercial insurance, you were talking about MAPFRE Empresas, right?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes.

A - Luigi Lubelli {BIO 4108780 <GO>}

And you were referring to the top line or the technical result? That escaped me.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Top line. So in today's presentation, it's on slide --

A - Luigi Lubelli {BIO 4108780 <GO>}

The top line, if you look at the entire sector in Spain, as of June, it is falling 8%, 8.2%. So I'm afraid there's a decline in the market at large and we are the largest player in the market, so it does affect us as well.

Then, we have an agricultural pool in which we operate in Spain of which we recognize the premiums in the First Quarter. Then, on a quarterly basis, it depresses the comparison.

And there is a decline also in third-party liability. Competition is especially intense in third-party liability in Spain.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. All right then. Thank you very much. Thank you.

Operator

Maciej Wasilewicz, Morgan Stanley.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

So I have essentially one question, but it might be a bit of a long one. In terms of -- if I'm looking at slide 25 of your presentation at the Non-Life combined ratio in Spain, year on year, the movement is from 89.7% to 91.5%. Most of that, in fact all of it, is in the loss ratio.

You did flag that there were catastrophes in the quarter in Spain, particularly flooding. So I wanted to see whether or not you can give us an idea of how much of that deterioration in the loss ratio, that 2.1% deterioration, how much of that is just from the flooding?

And depending on how you answer that, I'd like to also know on page 27, we can see a nice breakdown of your entire portfolio. It looks ostensibly that you've held back business in order to be able to keep your margins, if you look at the premiums versus where the combined ratios have gone. But the combined ratios in pretty much every single line have deteriorated nonetheless.

So I'm wondering, are any of these lines -- I guess some of these lines wouldn't have been impacted by the catastrophes, and is that a genuine reflection of the current conditions in the market and we should flow that forward if nothing changes from here?

A - Luigi Lubelli {BIO 4108780 <GO>}

That's a pretty articulate question, Maciej. Let's see; I cannot tell you exactly. That is not a figure we have given, and now I would have trouble telling you exactly how much money we have lost owing to floods and rain.

On a quarterly basis, it is evident on the loss ratio in the -- let me just grab the figures -- on the Households, we've gone up 2.3percentage points. So as of March, we were going up 4percentage points year on year, and now here we're going up basically 5.3percentage points.

So as a guesstimate, something like 1.5 to 2percentage points could be attributed to that, but this is a rough estimate on the spot.

I just want to draw your attention on the fact that on a quarterly base actually the combined ratio did improve quite significantly in Motor. It was pretty good, so it's not all bad news. In Motor, we perhaps may have deteriorated on the growth side, but not on the underwriting side.

As of March, we had 94.6% combined and we've fallen 3percentage points to 91.5%. We've actually improved also overall as of MAPFRE Spain, we have a narrower gap in the combined ratio year on year as of June than we did as of March.

So actually -- I mean my recall, my impression is on the underwriting side that we actually did better in the Second Quarter than we did in the first one. In the first one, we were 2.6percentage points up year on year, and now we are about 1.8percentage points up year on year, so we're actually doing better.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Okay. That's clear. So that you 're up 1.8percentage points, and included within that 1.8percentage points for Spain as a whole is some kind of a weather loss which --?

A - Luigi Lubelli {BIO 4108780 <GO>}

All right, (that's it) exactly.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Okay fair enough. That's very helpful.

A - Luigi Lubelli {BIO 4108780 <GO>}

And that's because Motor has improved quite a bit quarter on quarter.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

And is that Motor trend you pulling back from the market or is it a market-wide trend, is it frequency, is there any color on what drove that improvement?

A - Luigi Lubelli {BIO 4108780 <GO>}

Honestly no clue, I don't have figures for the market as of June. I would be surprised if the market improved because of the competition level we have on pricing. But this is on my smell test; really I don't have any figures to back it up.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Okay. No worries. Thank you very much for that.

Operator

Avinash Singh, Nomura.

Q - Avinash Singh {BIO 20134511 <GO>}

My first question is more macro in nature; we are seeing a tough market condition economic environment in Spain; we are seeing growth slowing down in Latin America; and in USA we are seeing a kind of a slowing down of increase in primary P&C rate as well as kind of negative movement in reinsurance rates.

So I would be more concerned at how do you see your profitable growth over the next one to two years, from where the growth is going to come? And so this is my first question.

A - Luigi Lubelli {BIO 4108780 <GO>}

Right, yes, your question on macro, well, Mr. Tejera commented in his section of the presentation about the projections. As you know, we lost our crystal ball a long time ago, so it is difficult to tell you exactly what the trends will be.

We can only tell you what we see, and as far as forecasts are concerned we can only base ourselves on those carried out by more qualified people than us, which is the IMF.

There are several -- this is a longstanding question, we receive this question many times by investors and analysts alike. It's impossible to tell you exactly what the growth of the countries will be and how they will develop. However, there do seem to be strong reasons for which the countries in which we are based should maintain a positive gap compared to our home country, which is Spain.

So that is what we're seeing. Then, even though the deceleration on an economic front is taking place, we are not seeing that in insurance sales. That might be a bit disconcerting, but especially in the case of places like Turkey and Brazil it is due to the fact that the GDP per capita and the development of the middle class have reached the point in which there is not a massive, but certainly some disconnects between the GDP and the growth in insurance.

Q - Avinash Singh {BIO 20134511 <GO>}

Yes, my question was more on your growth rather than -- I just kind of outlined the economic environment, because for the last few years your bottom line has been kind of constant due to various different reasons, not just for one reason.

So I was more concerned to talk of where do you see -- if I see that's the case in western markets are going to be stable over, say, this year and next, from where do you see profit increase? Because for the last few years your bottom line has been kind of constant.

A - Luigi Lubelli {BIO 4108780 <GO>}

Right, but we do not only have emerging markets in our profit base, we also have Spain. So we have two drivers in our bottom line. Precisely the element of strength that we have shown in MAPFRE over this year was the fact that, thanks to the development abroad, we could actually offset the negative impact on the economic crisis in Spain that was so pronounced.

So actually, the fact that the bottom line is, as you refer to, stable, it's actually a really good achievement compared to other listed companies in Spain. I'm afraid that's where things stand.

However, as I say, also in Spain in terms of profitability, the technical profitability in Non-Life, as I was saying in Spain, in this quarter actually improved, and Life certainly did much better, compared to what it was a year ago.

In Latin America, I think that the important element we bring into this results presentation for the first half is the fact that we not only have top line, but what is much more important, we have a technical profitability that has improved considerably. And that does give a shock absorber, even in terms of a supposedly falling top line. As we're seeing the case in Spain; Spain was doing well because in the face of falling premiums, we continue to maintain a very strong technical result.

Q - Avinash Singh {BIO 20134511 <GO>}

Okay. Thank you.

Operator

Sami Taipalus, Berenberg.

Q - Sami Taipalus {BIO 17452234 <GO>}

First of all, and it's a slightly longwinded question I'm afraid, has there been a significant change in your cash position in the holding company and the Spanish Non-Life company? The reason I'm asking is because in Q1 you gave as one of the reasons for the formalization of the reinsurance contract that you wanted to improve the cash position in the Non-Life company.

And the second reason is that you increased your credit facilities in the Second Quarter, although, if I remember correctly, you said in the past that you actually wanted to reduce requirements on these, going forward.

And the second question, I'm afraid, goes back to the Spanish Non-Life business. There seems to have been very little money made outside the Motor line in Q2, and in particular the burial line seems to have been quite weak. Is there anything particular that's driving the combined ratio upwards there?

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay, Sami, let's see. On the first two questions, I think there might be a bit of confusion. There wasn't a cash need, per se, at the Non-Life company. Or, let's see, there was a cash need in the sense that there was a need to fund the growth of the new operation of the company. So instead of deploying the cash that was in the accounts of the company, we used reinsurance to use capital more efficiently within the Group.

But it wasn't actually any movement in the cash. Now I don't have the figure for cash at large. The most I can do is to compare the investment figure for MAPFRE Familiar quarter on quarter, but that has several things; it's investments in cash and there's a reduction of EUR40 million, a 1% reduction quarter on quarter which can be due to anything.

So it wasn't a matter of cash availability, it was just a way in which capital was deployed and cash was used, but nothing more than that.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. And on the credit facility?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes, I was going there. Well the credit facility, really is an exercise, I would say, in liability management that is stemming from a strategic decision. If you can recall, when we released the results for the Third Quarter of 2012 our Board decided that it was appropriate for MAPFRE to be more liquid, and so we started working on both our liabilities and cash.

As you know, we have, on one hand, slightly reduced the dividend, the dividend payment, and then we worked on our liabilities. We issued a bond, a EUR1 billion bond in November, which matures in 2015. Then we had two syndicated facilities; both were repaid with the bond. One was canceled immediately, and then the remaining one we have decided to replace with this one, obtaining a significant extension in terms, because the previous facility matures in 2014 and this one matures in 2018, and it is also for a larger amount.

So we have a greater financial flexibility, and we also have spread out our financial obligations. The redemption of our financial obligations much further out in the future. It really is a financial liability management exercise.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

And if I'm not wrong, you are talking about the other line in Spain, correct?

Q - Sami Taipalus {BIO 17452234 <GO>}

Well that one too, but I guess I was specifically referring to the burial line where I think the combined ratio actually deteriorated in the Second Quarter.

A - Luigi Lubelli {BIO 4108780 <GO>}

Right. What happens there, this line of business is a bit peculiar, not only for its name. The way it works is that results are updated at the beginning of the year, so what happened was that -- and then it's, in turn, linked to interest rates. So last year, we had interest rates (natural) recalculation of reserves and of falling reserves, which was a positive impact on the loss ratio.

This year, the revision of rates has not produced the same impact, so it's not actually as if we had a -- this is classified as Non-Life, but this really behaves as Life Protection. So last year, we had a fall in reserves, positive impact on claims. This year, there wasn't really any need to change the amount of reserves that much. So when I compare these (bases), it looks as if the claims ratio has gone up, but that wasn't the case.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Thank you.

Operator

Atanasio Pantarrotas, Kepler Cheuvreux.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

I have four questions. The first one refers, if you can quantify what was the impact on mark-to-market on the Brazilian bonds in your portfolio which affected negatively the results, especially the Non-Life financial income?

The second question is a clarification about the positive factor of around EUR20 million due to the currency. Is that some hedging that you put in place to hedge your income against the volatility of the LatAm currency?

The third question is on capital and dividend. If you can give us an update on how confident you are on your capital position currently, and if we can expect to see a better interim dividend compared to the past year in the next quarters?

And finally, if you can quantify what was the impact on the change in LatAm of some business which was reclassified out of Life into Non-Life, the positive impact on combined ratio? So I just wonder if there is some positive effect on your very good results in terms of combined ratio in LatAm. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Atanasio, let's see, I'll take three questions. One will be taken Mr. Tejera. We do not give precisely the figure, but just to guide you, the MTM in Brazil was roughly 10% of the pre-tax profit. So the pre-tax profit, let's say, instead of growing 10% would have grown 20% year on year without that.

The second question I didn't really understand. I think you're referring to the EUR20 million that shows up in the Non-Life account. Is it so?

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Yes, because you mentioned in the presentation there was a positive factor due to the currency, and I --

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes, correct. So that's something that unfortunately -- and I say unfortunately because the country regularly suffers devaluations; it is something that we had in Venezuela. Venezuela has dollar-denominated assets. So you are right; they work as a hedge. Whenever the currency devalues, this Company records gains through the P&L. Then when they go to equity, they basically balance out the negative impact of the devaluation.

So the impact this year because of that was about EUR20 million, and that's entirely recognized in the Non-Life account. That's something that, let's say, has happened in previous years.

I cannot tell you exactly what the impact of the reclassification on the combined ratio of Brazil because, as I said, and you may not have heard it, as I said before, the combined ratio does not respond only to that in Brazil. It also responds to higher tariffs. Tariffs are going up in the country, generally speaking.

It also responds more to that than to other reasons, to the fact that last year we did not yet have a mature operational structure. We had to withstand expenses in four different regions. This company used to be managed by Sulamerica and the management of the company switched to MAPFRE and we had to incur some expenses this year which we do not have this year -- last year that we don't have this year.

Then we also introduced improvements in the handling of claims which has benefited us. So there's many reasons going into that. Of course, in addition to the fact that the business that was transferred was quite profitable.

So I don't have any precise -- to tell you exactly how much came from there, I cannot.

On capital and dividend, Mr. Tejera will take your question.

A - Esteban Tejera {BIO 3910673 <GO>}

Hi, Atanasio. The capital and dividend it is still very early in the year to know something will happen in the (remainder) year. I think that's how our procedure now is more and more comfortable from the point of view of capital and liquidity position and financial flexibility now than a year ago, before.

We continue in (this way); we continue with our traditional policy of having the priority of maintaining our solvency and our capital position as comfortable; return to shareholders the amounts will come within this policy according to the profitability of the business that this year I think will be better than the year before.

It's the only thing I can tell you because, as you know, these are decisions that are taken in a meeting with the Board that they usually make these decisions in the last quarter of the year for the interim dividend. But my feeling is, as I mentioned, very positive according to the evolution of the year until now.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Okay. Thank you. Thanks for the explanation.

Operator

There are no further questions. (Operator Instructions) Javier Bernat, Bankia Bolsa.

Q - Javier Bernat Valenzuela {BIO 5317770 <GO>}

My first question is regarding if you could give us some light about which will be the tax rate for the rest of the year?

And the second question is regarding about minorities. I have seen that has increased something like 16%. I'm not sure where the increase comes from as the pre-tax profit increase is something like 5.1%. So if you could give us some light about this please, I would appreciate it.

A - Luigi Lubelli {BIO 4108780 <GO>}

Right, thanks, Javier. Let's see, tax rate, a bit difficult to make a forecast on that. On main rates, those that most of (our) accounts, 30% in Spain, 37%, if I'm not wrong, in the US, and 40% in Brazil. So depending on the relative weight of these profits, they will drive our accounts. This will be somehow diminished, but it won't be a material effect by the fact that we now have some companies that could account it, such as Solunion, but that is not material.

So depending on how these profits pan out, clearly we have a comparatively with faster growth in Brazil, so we may have maybe 1percentage point, 2percentage points addition to the tax rate, but really it's a guess in the dark. The tax is based on so many elements, deductions and calculations, that really only when a precise calculation is made by the specialist we can give you the rate. It's impossible almost to forecast.

And minorities are going up because of Brazil, because the profit in Brazil is growing, and it's growing especially strongly in the business where Banco do Brasil has a 75% stake. And that is why the minorities grow much faster than the net profit before minorities.

Q - Javier Bernat Valenzuela {BIO 5317770 <GO>}

Okay. Thank you.

Operator

(Veleka Lakhani, Citigroup).

Q - Veleka Lakhani

I just had a quick question about the -- in terms of rates on your balance sheet. I know that we've seen a bunch of banks and broker dealers with some market dependent securities on their balance sheet given us an impact of, if the rates were to rise 100 basis points, how much do you stand to take a hit, and unrealized of course?

A - Luigi Lubelli {BIO 4108780 <GO>}

Good afternoon. I'm afraid I did not catch the first part of your question. You were talking about Greece?

Q - Veleka Lakhani

No, rates, interest rates.

A - Luigi Lubelli {BIO 4108780 <GO>}

Interest rates?

Q - Veleka Lakhani

Yes. So if interest rates were to rise, what would be the impact on your balance sheet?

A - Luigi Lubelli {BIO 4108780 <GO>}

Right, let's see. You have a proxy for that in the accounts. We do have a duration -- yes, duration is about (6), so if you apply that to our fixed income portfolio, you should have a rough guess of the impact of 100 basis point change on our portfolio.

Q - Veleka Lakhani

Okay. Do you disclose (VaR) at all?

A - Luigi Lubelli {BIO 4108780 <GO>}

Not on a quarterly basis. We give a VaR figure at the year-end in the consolidated accounts.

Q - Veleka Lakhani

Okay. All right. Thank you.

Operator

We have no further questions. Please continue.

A - Esteban Tejera {BIO 3910673 <GO>}

Okay. Thank you. There is no more questions. I would like to thank you again for being with us another quarter, and I expect we will meet for the next presentation in months. Thank you.

Operator

That does conclude our conference for today. Thank you for participating, you may all disconnect.