

Q3 2013 Earnings Call

Company Participants

- Esteban Tejera Montalvo, First Vice Chairman
- Luigi Lubelli, Finance Director

Other Participants

- Andreas Fernando, Analyst
- Atanasio Pantarrotas, Analyst
- Edward Williams, Analyst
- Maciej Wasilewicz, Analyst
- Michael Klien, Analyst
- Niccolo Dalla Palma, Analyst
- Vinit Malhotra, Analyst

Presentation

Esteban Tejera Montalvo {BIO 3910673 <GO>}

Thank you. Good afternoon, ladies and gentlemen and welcome to Mapfre's Results Presentation for the first nine months of 2013. As usual I'll give an overview of the results and the main business development and later on Mr. Lubelli will explain the financials in detail.

Today, I would like to start my presentation talking about the new sector that yesterday the Board of directors have approved to adapt a reorganization of Mapfre to the strategic challenges we have to call in the near future.

The change will facilitate the company moving forward with this globalization ethic [ph]. And we will try to approach the organization to our real geographical presence and improve the schemes of the corporation to about into both the activities of our subsidiaries all over the world. You will have the new chart in that release in just a few minutes and as you can see, they have a stronger position of the main corporate areas of the Group in order to help conduct and supervise closer the activities of our insurance companies all over the world.

We have changed also the geographical approach and now we will have three big areas of activity or direct insurance. One will be Iberia that includes Spain and Portugal, whether is LatAm with key different regions and the concept of the region will be very important in order to provide support to the subsidies that's included in each region for an approach in that -- I say that will be closer than before. And we will not be LatAm but will be placed in

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Mexico, South LatAm the place in effect of the revision in motor in Brazil, obviously we would be placed in Sao Paulo. International business we create different regions, one for Europe, Middle East and Africa, other for North America and other for Asia-Pacific. They will be in the first for Europe in Madrid, the second in Boston and the third in Shanghai.

As you can see we'll explain within the release, this new approach to the -- and to improve our efficiency will be set up during the next month and we will try to help all the demonstration [ph] in place in the first quarter of 2014.

Now, as usual I start my presentation of the results of the nine months. You can see in page 3, you can see some changes in the trip and compared to the first half. Revenues continue, remain basically in line compared to 2012. This is due primarily to the compassion of the Life assurance services Spain and this is important to underline to the appreciation of the euro.

The big part of the growth in Latin America and in International business is offset by the evolution of the foreign currencies in this third quarter, we will explain in more in-depth. (inaudible) which grew in line with premiums continue accelerate the growth in relative terms, hence once again to life account whose technical financial result improved considerably as well as to as more share of minorities.

Equity per share increased very strongly in the third quarter of 2012, this explain give our view to the call of interest rates last year, this has caused this yearly low rate to fall from 9% in June to 3.2% in this September. The reality shareholders equity increased 136 million in the quarter. The other figures down by substantially assets under management maintained a sustained pace of growth compared to June. The increases in Life is more are due to a foreign business volumes in the Spain and to the impact of the exchange rates as I mentioned before on the Latin American business.

The combined ratio continues to be excellent and the ROE remains in the region of 9%. The solvency margin remains among the strongest euro.

Please move to next slide. I'd say before the depreciation of the euro, I alluded to you, the Life had a strong impact on growth. Adjusting for it when the Life business continues to do well. Non-life premium growth is driven by North America due to organic growth in (inaudible) diversification of business line formerly and grew between the Life account by Mapfre Asistencia, Mapfre Internacional, and Mapfre Re. These businesses made up for the fall in demand in supply in the Spain.

And the combined ratio remains stable at an excellent level. Sets a fall in demand in the main explanation for the contraction in life premiums. The truly bright spot remains the foreign business, which once I guess we've talked, transfer and exchange rate is growing at a rate of 10%.

(inaudible) of Life accounts in Group considerably especially in Spain but also in Latin America which we're getting more some of the negative impact for the Life in Europe, a negative mark-to-market agreement. And the Life of the growth is driven by the improved

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technical results in the Life account, the absence of the right balance, lower tax rate and as a more of share of minorities in which make up for the negative of exchange rates.

Shareholders equity grew 200 million in the year despite dividend, the dividend negative impact of the exchange rates. In the slide number four, you can see how -- number five, excuse me, you can see how the different foreign currencies have depreciated against euro. And we exclude the net contraction, [ph] all our main currency representing more or less strongly. Especially as emerging -- the depreciation of the Brazilian Real which fell almost 28% year-over-year. We consider this effect in cost plant exchange rates, Mapfre's grow nearly 6% in premiums, and over 9% profits.

Please, we move to slide number six. Recovering results felt reflecting a series of developments, decline in demand if I get combined ratios in Spain with 80% improvement in the motor business. Weather related losses in Spain especially (inaudible) -- the countries like USA and Mexico and Argentina also. Depreciation of the euro and lower recurring financial income Q2 decreased an interest rate in Europe and the USA.

Compared to June, however, we see that the contraction has helped. Thanks to the improvement in the significant financial results of the right accounts. EBTIDA are under right term results in the United States and as more of share of minorities. And I think with wasn't there in June is the impact of regulatory change in the calculation of 75% in Argentina for an amount of EUR12.6 million.

We move to the next slide. On page seven, we have reflective year, in the impact of the selling of the shareholding of what's owned by Bankia. As we said in different occasions in the market showed a strongest than we (inaudible) even and the take was fledged in the market very quickly and the consequences of shareholders today have been quite positive. As you can see this stock has become much more liquid and it has outperformed in the market. Our relationship which remains excellent and business relations go on as usual.

On the slide eight, we have seen the investment, we have done in undertaking in Indonesia. The Group have the -- were the key figures shown in the slide eight is a largest non-life insurance company in the country with a market share of 2.5%. And this investment is more in terms of the quantity could be interesting from the point of view of quality, in terms of the improving of our knowledge of this market. And gives us the opportunity how to learn the possibilities of this growing economy where the insurance penetration is very low and the company is a specialized in motor insurance and and health insurance are our specialties. So it is our average in debt of the -- in this market and has -- these more concedes by our management.

On the slide number nine, represent new agreement and approval of the Board of Director that has resolved to pay an interim dividend. Again the 2013 results of the EURO.05 per share. In that the total of the \$0.12 per share paid during the year amounts 370 million. And these are in terms of the interim dividend that we paid in last year of \$0.01.

And I'll pass to (inaudible). Please, Luigi.

Thank you, Esteban. Good afternoon everyone on the line and thanks for being here with us. Let's move on to slide 11, where we have the breakdown of premiums and insurance results by origin. Compared to June, we see no change in the underlying trends, was so -- yet a further increase in the weight of the business activities of the growth. The contribution to premiums went up 4% to 6.71% [ph] and the contribution to profits adjusting for non-recurring items rose over five percentage point. So the increase in contribution to profits is faster than the increase in contribution to premiums and then reached 53.1%, as I say, just in for non-recurring. Compared to the previous quarter, we see a fall in the contribution to premiums from the Spanish business, which is our lowest issuance volume primarily in the commercial business, which is normally experiences a lower volume of sales in the third quarter, and in the Life business and which sales that's also concentrated on mutual fund sales.

We also see a fall in the weight of the foreign Life business, which is due to the reclassification of the Brazilian Burial business into the (inaudible).

On slide 12, we have the information by business area -- excuse me, we see that Spain, we call it a contraction in both premiums and profits of the previous year, reflecting a lower issuance volume. In the quarter the premium contraction was amplified by an especially lower volume in the Life business.

The profit contribution on both the year, the end of quarterly basis sale due to a higher loss ratio and worst results at affiliate company. Brazil continued its upward trend driven by larger business volumes and harder markets. Its contribution to profits which grew until the first half, decrease in the third quarter due to an increase in the loss ratio.

The appreciation of the euro as Mr. Tejera just explained, has had a material impact on the growth of those premiums and profits. The contributions to premiums of the other Latin American country sale, because as you know, we sold two subsidiaries in Argentina and we internally transferred the Costa Rican business to (inaudible). If we're just for that, premiums grew 9%. Profit contribution is up year-on-year, thanks to better performance of the Life business and realization gains on sales of real estate assets.

The non-Life ratio worsened in the third quarter due to regulatory changes in Argentina. Mr. Tejera just talked about that and to weather-related losses, we had some hurricane.

Mapfre raise its contribution to premium, thanks to business growth, partly which came from the Group company. It's contribution to profits decreased slightly both on a quarterly and a yearly basis and the consequence of the catastrophe claims, which were partly upset largely financial income primarily in the Life account. Mapfre USA improved its contribution to premium growth, thanks to larger sales volumes and tariff hikes. It's contribution to profits on a yearly basis fully falling due to whether related claims, which we did in the first half. However, the third quarter was clearly better and that improves the comparison if we look at June figures.

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The contribution of Mapfre Global Risks to premiums is slightly lower on a yearly basis. That reflects the spinoff of the credit business into Solunion, and on a quarterly basis it was slightly impact of the US dollar appreciation. The contribution to profits goes up, mainly thanks so much better combined ratio and a 30 million gain recognized upon integration of Solunion. This year, Mapfre Asistencia is the second largest contributor of the business [ph] growth, thanks to both organic business developments into an acquisition that was carried out precisely in the third quarter of last year.

The contribution to profits goes up, thanks to a better combine ratio. The other line increases materially year-on-year, and that is due to the transfer of the Puerto Rican business which is now classified there very strong growth in Turkey and very good life sales in Malta.

On slide number 13, we have the normalized accounts. If we compare -- we look at Spain compare to the first half of the following premiums is broadly in line. There is no material changes, and that reflects primarily the market-wide contraction, especially in motor business, which however, outperformed better on the quarterly basis as well as seasonally lower sales in commercial insurance in the third quarter.

Higher lost ratio along with a lower net premium are in figure led to a decrease in the underwriting results. The combined ratio early remains an underlet had exceptionally low levels and benefits from a reduction in the absolute amount of expenses which in my opinion is a remarkable achievement. Brazil, is growing. Thanks to series of reasons. There is organic growth (inaudible) market and on a quarterly basis, we have a reclassification of the of the burial business which was in the life account previously.

The underwriting results improved notably year on year. Thanks in part to the reclassification has mentioned, but also if we have any as well to a decrease in the expense ratio.

Of the quarterly basis we see worsening in the combined ratio, which was due to higher losses in model insurance and to the reclassification of the burial business which has a lower loss ratio and a higher expense ratio.

Apparently the Mapfre America's (inaudible) of the business falls by those due to the sale of the Argentine subsidiaries. The transfer of the Puerto Rican business and the depreciation of the euro, so just for that premium increased 10% and that's basically, thanks to growth in all countries, I mean, most countries. The underwriting results on the quarterly basis deteriorated due to the regulatory changes in Argentina, we've already talked about, and weather-related losses.

Premiums growth at Mapfre reflects the formalization of our insurance operations of the Group company, even excluding that they are growing 2%. The combined ratio increased in the quarter due to a larger profit sharing component and cap losses.

Mapfre USA benefiting from larger sales in tariff hikes, in pre-competitive unit, it seems that the pace of growth failed but actually in dollars it went up further from 4.3 to 4.8 from

the ground. The loss ratio increased because of weather-related claims in the first half almost much better in the third quarter.

As I said, Mapfre lower risk premiums fell reflecting the spin-off of the credit business into Solunion and the depreciation of the US dollar, which, however, has a positive impact on the combined ratio which also benefits from lower frequency.

And finally, we have MAPFRE Asistencia, which recorded organic growth in Europe and Asia and the positive impact on the development of the Life business. The combined ratio improved, reflecting Tier 2, the impact of exchange rates on technical results, which was negative in 2012 and is positive this year.

Further on the Life accounts, most of these drivers have already been covered, if you look, compared to June, the like-for-like premiums growth slows down, once again, as we already said few times, due to the impact of depreciation of the euro. As well as to the fact that the acquisition of a company called (inaudible) to place precisely in the third quarter of 2012. And from now onwards, we will have a less beneficial effects on the year-on-year growth comparison.

The segmented results shows a contraction as of June, it showed an increased and that is due to a comparative effect in the third quarter of 2012, the combined ratio of sales in this year, in the third quarter, the combined ratio has gone up.

The financial income include realization gains of about 102 million of which 22 million came from the sale of the headquarters in Istanbul and 13 from the recognition of the fair value of the assets transferred to Solunion. Last year as you know we had nearly 140 million of write-downs, so the comparison clearly is flattering year-on-year. If we exclude the developments, reduction is significant and that's basically due to the fact that euros are much lower which seem otherwise is actually a positive development. Brazil also has the mark-to-market adjustments, which were positive a year ago and are negative this year. And lastly, we have gain of EUR60 million in dollars nominated assets in Venezuela.

Slide 15, we have the Life account, in Spain we've had in the quarter, a significant fall in premiums, that possibly one of the most striking developments to you and that is due to the fact that market wide sales of life insurance had fallen considerably in this quarter and that is basically driven by the fact that consumers are tending to put their money rather into mutual funds than in life insurance. That's basically a market wide effect and that's a matter of fact our sales of mutual funds are doing especially well in the year.

We also had in the third quarter of 2012, the large sales of corporate life insurance, about 350 million, which was not repeated this year. The technical financial results improves considerably. Q2 last year we had write-downs, this year we don't and we also have a better loss experience.

Brazil, as it should be clear by now, its fall in Q3 will be a reclassification of some lines, excluding this, they continue to fall, but it's only due to the depreciation of real, at constant exchange rates, the growth would have been 7%.

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The technical financial results decrease is due to the reclassification to the negative mark-to-market adjustments and depreciation of the euro. The rest of North America's Life business shows the strong development and in the technical financial results it also includes a gain of EUR18 million in Panama in 2012 and real estate gains of 7 million this year. The premiums of Mapfre Re decreased due to lower sales, the technical financial results reflects a worse loss experience which to a large extent is offset by larger financial income.

Finally, Middlesea is having a quite good year with a good development in Life saving sales and mark-to-market gains. I will skip the Life account because basically there's no more I should probably on it. On the side 17, we have the other activities, very much in line with what we saw in the first half. We have the growth of service business at Mapfre Asistencia; the consolidation of Funespana. We have larger realized capital gains, the capital losses of 2 million last year, there very much larger and we also have appropriation of reserves for the impairment of property assets which, however, about half of what it were now.

On slide 18, we have the bottom-line, pre-tax profit are growing maybe in line with the first half, small slowdown, obviously, by now it's growing by the appreciation of the euro. In the third quarter of 2012, we saw an increase in profit growth. So, on a year-on-year comparison that is depressing growth, but if you look at the actual amount gain in the quarter is pretty much comparable what we have gained in the previous quarters.

We have a fall in the tax rate year-on-year reflecting a comparatively larger weight of realization gains which are usually taxed at lower rates. Minorities outgrow net profits due to comparatively faster profit growth and Mapfre (inaudible) Middlesea. However, if you compare to the first half on the quarterly basis, the impact is smaller because of the appreciation of the euro anything but on the profits in Brazil.

This concludes the P&L discussions. On the slide 19, we have the balance sheet. We see compared to the previous quarter that shareholders equity grows and minorities fall and this is once again due to the impact of the appreciation of the euro, which affect particularly the minorities and especially minorities in Brazil. That sell marginally about 30 million less than we had in June. The rest of the movements reflect appreciation of the euro, the recovery in the financial markets which was very strong, at least in Spain and that's basically hit.

Finally on slide 20, we have movements in equity compared to June, we should be now coming to the surprise of none, we have a large increase in the value of investments available for sale. And surprisingly, everyone knows how the Spanish risk team as performed and that has created 280 million of unrealized gains, of which about 70% would absorbed by shadow accounting, as also tends to be usual.

On the negative side, we have the strong appreciation of the euro especially against the US dollar and real, this cost us 250 million in the quarter and its costing actually 1.5 billion in the year. On the net basis, we have a net total of negative impact of 160 million, a net of profit credited and dividends paid in the quarter and this translates into a quarterly fall of

about EUR60 million. That is now all on my side and I'll be back to the back the conversation to Mr. Tejera for the Q&A session.

Luigi Lubelli {BIO 4108780 <GO>}

Thank you, Luigi. Well, I've now under retail. So we can start the question session. The line hope for you. Thank you. Do we have any questions?

Questions And Answers

Operator

Good afternoon, ladies and gentlemen. The Q&A session starts now. (Operator Instructions) Thank you. First question comes from Atanasio Pantarrotas from Kepler Cheuvreux. Please go ahead.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Yes, good evening to everybody. Thank you for taking my questions. Sorry, I have four questions. First of all, on the dividend, the interim dividend was increased compared to the past year, we've had -- if we look at past previous years, in which you paid, normally paid \$0.07 still, \$0.02 below. And I wonder, if this could be seen as a message to keep the payout ratio at the lower level compared to the past years. Or if you expected to rise the final dividend in spring 2014.

Second question, if we look at the chart regarding non-life financial income, it seems that excluding the ForEx effect, the realized gain, mark-to-market of bonds, the ordinary financial income declined by some 25%, nine months 2013, compared to 2012. I see that the Spanish bonds yield is half compared to the past year. However, that seems that your non-life duration looks very short to see this tough decline in the ordinary income. And so I wonder, if we can expect some farther decrease -- material decrease in the next quarters, due to the lower interest rates.

Third question regards to the motor business in Spain. I saw that the motor claim frequency increases something, that in the H1 for the full market. And I just wonder, if you see some increase in the motor frequency, given also some pickup in the economy in your domestic market.

Final question on tax rate. You explained that the tax rate was a bit lower compared to the past year due to the realized gain. I just wonder if you can give us a guidance for tax rate in the next future. If we can assume 29%, 30% or whatever. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Atanasio. In the first question on dividend, well -- please do that this dividends -- this interim dividend is 5%. Excuse me.

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Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Hello?

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

Yeah. We have some background noise there.

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, I was telling that the dividend that has been approved today is a dividend of \$0.05. And that is true that it is lower than the \$0.07 of two years ago, but is bigger than the (inaudible) These leasing line would in a position of the (inaudible) of paying to actually to shareholders and the improved demands in the recent amounts in (inaudible) is improving.

But we prefer to wait -- until the end of this year to determine the final dividend and show these return to normal will be more clear at the final of the year. So this dividend that in terms of interim dividend is 25% more than last year. And obviously the bulk of the dividend is in the final dividend, and we must wait until the end of this year to know (inaudible) how the results. And there is no intention of decreasing dividends, usually, as we have shown the increasing the interim dividends, but we must wait until the end of this year (inaudible) final figure.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Okay. Regarding your question on the financial income for the Non-Life accounts, I already told you about that but then why we have several elements, may surprise you, but the fact is that interest rates are lower and also especially in Spain the volume of business is smaller. So the combination of the two, I mean, the amount of the reserves invested, that's what I mean -- it's smaller with lower interest rates. So, financial income goes down and then as we already said, we have negative mark-to-market adjustments in Brazil. So, the combination of both is what actually explains the fall in financial income. I wonder if this answer's your question, Atanasio?

Yes. No, my calculation of mine was 26 exactly, it was made after excluding the contribution of realized gain or losses.

A - Luigi Lubelli {BIO 4108780 <GO>}

Exactly. No, no, you're right.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Impact and the impact on mark-to-market. I mean, do you have any figure regarding the duration in your non-Life business just to draw some conclusions for your future income? Thanks.

A - Luigi Lubelli {BIO 4108780 <GO>}

It's more or less five, the duration, modified duration on the non-Life account.

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Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

Atanasio, perhaps you have some background there. So if you can turn it off your microphone, please. We do not yet have frequency figures for the motor business in Spain in the third quarter as yet. As they -- an indirect guidance, see we have the fact that gasoline consumption is going up in the third quarter. So, people are using their cars more. It's a very rough proxy to frequency, it doesn't necessarily mean that one we actually get the final figures, it's going to be like that.

And finally, the tax rate. I afraid, it's very difficult to give you a guidance. Also we have to appreciate the fact that tax rate, there is something we repeat consistently really, that when we are capable of making a more accurate calculation is only with the year-end accounts would be on a quarterly basis, we make an estimate. I mean, it's relatively easy. We have most of our profit in Spain is about 30% and then we have a growing contribution in Brazil, which is at 40, but the expense is to be around 30%. We answered your questions Atanasio?

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Thank you. Very clear. Thanks.

Operator

Next question comes from Maciej Wasilewicz from Morgan Stanley. Please go ahead.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Hi, it is Maciej from Morgan Stanley. Thanks for taking my question. I have two, actually. The first question is, I know the acquisition you made today or announced today of the Indonesian business is actually very small, so it is not a big game-changer in and of itself. But I was wondering if you could articulate more broadly what your policy is towards M&A in the US and in Asia?

I think statements have been made over the last couple of years. I was wondering if you can bring them all together and tell us what is your attitude, what is your policy and appetite for growing through inorganically in those regions? The second question I have is, Luigi, you mentioned that the mutual fund shift was a bit of a surprise in the quarter. And certainly that to me is a little bit of a surprise. I am wondering, what has changed there?

What is driving the consumers into mutual funds away from insurance? I understand that there is not a lot of incentive to buy an insurance policy over a mutual fund policy in Spain, is my understanding. But perhaps if you could tell me, why is it that they have been more successful now than in the past? Thank you.

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

Sorry, sorry. Our investment in Indonesia. I say that the issues are -- small in this month and is not a dramatical change or that's not policy.

We have been, we continue to have the focus, Latin America, USA and Turkey, but we want to know the development in emerging markets, where the possibilities of growth in future are remarkable. And this is up, long-term approach and that's why we have create a minority stake and these allow us to know the market more in that.

And without representing in this markets through our subsidiaries of Mapfre Asistencia, Mapfre Re. And we have our presence in various insurance but these market, is that, the (inaudible) market and having the opportunity of having a small business there to look in the market and evolution of the market, implies knowing that this market in our long-term approach to these area. And this is also, if you look tomorrow, when -- I don't know if it's been delivered already in the organizational chart and that we include. Now we have reaches more even Asia and Pacific but includes mainly our activities of Mapfre Asistencia and Mapfre Re and other small developments in this area as to have a knowledge of the market. Any other questions.

In general, we haven't change our strategy of acquisition and we continue to make recovery in the organic growth. In any case in the market was, we will have a presence as you know very well. We always look into specific opportunities could be complementary our opportunities in this market, but this implies mainly organic growth.

Regarding to your other question, Maciej, finally the driver of mutual fund demand is agreed and in a sense that the stock market in Spain is up and now people feel more confident about putting their money into equity mutual fund specially there is a category of products, which is normally very demand in Spain which is guarantee mutual fund or in mutual funds somehow linked to the performance of the equity markets with the guaranteed flow and so that is what is moving the demand.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Thank you, very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

Next question comes from Vinit Malhotra from Goldman Sachs. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi, good afternoon. Just one thing. On the Brazilian combined ratio, I distinctly remember we were talking about low 90s kind of a sustainable level. And I just wanted to understand the kind of higher number that you have seen, maybe around 97 in third quarter. Is it due

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to the -- is it largely driven by the motor competition worsening, which you alluded to? Is that some -- and maybe there is also some reclassification effects, but I understand they are very small. And is it also something to do in the currencies? If you just clarify the Brazilian combined ratio that will be very good, very useful. And staying on the combined ratio, second question is on Spanish commercial, which had one of the slightly higher combined ratios in recent quarters. Is it just volatile claims or some large claim there that - or is that just growth that hasn't been there and now it is the effect of recession is catching up? So that's the second question.

And lastly, I think you did already comment, but I just wanted to clarify again. What was the national for not restoring the interim dividend back to original or last five year or four year run rate? Because the amount saved is not that material. So I was just wondering if you could just re-clarify that. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Good afternoon Vinit. So, first, Brazil, reasons are the transfer of the burial insurance business in the quarter, which was for the full year amount since the beginning of January. And this is a line with a higher expense ratio and the lower loss ratio. But overall, it was up of the average of the pre-existing business. So transferring the burial business into the non-life account has somehow structurally raised the combined ratio, although the combined ratio remains well below the 100%.

And secondly, indeed what we saw in the Brazilian market on a quarterly basis in the third quarter was an increased level of competition on prices and also an increase in the low 60 range. So that affected the movement on the quarterly basis. I wonder if this answers your question.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah, for just to clarify the 0.3 percentage points on slide. I think, slide 29. With that, for the year and for the nine months or for the third quarter only?

A - Luigi Lubelli {BIO 4108780 <GO>}

That the cumulative nine months for burial.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. So you don't know for the whole Brazil what the impact was from this reclassification. Is it one point or?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah -- that's it. right? Okay, well, we are -- we'll looking to this, we're not (inaudible) use this in details after call, we have some crunch bit of a few numbers. So we will slow down the conversation now.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Quite well, yes. Thank you, it's fine, I can, we can discuss it later. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

And on commercial, we have a few elements. Last year, in commercial insurance in Spain, we had a recovery from the insurers of a large amount over large claims. So that actually made the combined ratio in the same period of last year especially low. We have a year-on-year comparison, which is unflattering. And then we -- in this quarter, we've had a large claim in marine insurance. So it was the combination of a large claim in this quarter and especially low combined ratio in the same quarter of the previous year.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you. That's very clear.

A - Luigi Lubelli {BIO 4108780 <GO>}

And when it comes to the dividend I think Mr. Tejera only answered that. One thing I would like to add and we said a year ago, we work preciously a year ago, when we announced the fact that Mapfre due to basically market conditions and a need which comes from the sales side, from the commercial side of assuaging concerns, which buyers in commercial insurance, and the insurance we're having because of downgrading ratings and everything that came with that, which was precisely a year ago. The -- Board of Directors decided that it would retain comparatively more liquidity within the Group precisely in order to reassure the buyers of protection from Mapfre, or the buyers of cover in the case of commercial insurance.

So, that situation has not really materially changed. And what we have tried to do is precisely given these constraints to make an effort in order to increase the remuneration to shareholders within a framework of overall prudence which we continue to think as warranted by the present environment. Does it answer your questions?

Q - Vinit Malhotra {BIO 16184491 <GO>}

It does. Thank you very much. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

Next question comes from Andreas Fernando from JP Morgan. Please go ahead.

Q - Andreas Fernando

Hello. Good afternoon. I had a question on your Spanish motor business, actually two questions there. One on rates. I have quickly calculated the average premium per policy; they seem to be declining around 2% in the third quarter. Would this be a fair reflection of the rate declines across your motor book? Or is there a mix of effect in there as well? And

the second question on the Spanish motor is, could you comment on Verti, your direct marketing operation? How is it going? What is the premium growth in that operation? And could you comment on the combined ratio? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, the figure I imagine you calculated. Good afternoon, and the first question. The figure you calculated on the basis of the average figures. I mean, the falling rates, let's see, as of now, because of the economic conditions in the market, we only have an expectation of potential future improvement in the market. It is also true that on a quarterly basis, the performance of motor insurance in Spain was better than, what we saw in the previous two quarters. But it really is too early to claim victory, the reality is that we have people buying cheaper covers.

We continue to have even though, if the car sales are improving, we continue to have the lingering effects of the crisis. And that clearly is, if -- so you have smaller sales and people saving on the cost of their insurance investments play it into another lower average premium on the portfolio.

We hope that this with that seems to be an seems to be market where economic recovery will improve next year, before this conversation, we have a presentation to journalists, to the press and Mr. Tejera pointed out the fact that normally, when we have an economic recovery, we also witness a recovery in insurance, demand and insurance premiums and so. It's in the first quarter of 2013, the economy recovers, we hope, we would see that, but for the moment, the underlying trends remain the same.

Verti in terms of premiums, it is up around 20% year-on-year. But the combined ratio figures are not -- are not disclosing our account. So I cannot give you.

Q - Andreas Fernando

Okay. What is the total premium volume number on Verti? Could you disclose that? The euro million.

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

It's about 32 million -- 31.8 to be precise.

Q - Andreas Fernando

Okay. Do you have any target for where you want to grow that business towards? Because you have been rolling it out for I think a number of years now. Are you satisfied with the rollout? And what is your target in terms of premium volume, say on a three-year horizon?

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

We gave out some targets, when we launched a business, I mean, this is a business that's growing clearly very fast compared to the markets. So in that respect, we are -- will have

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to (inaudible). No, but we have to consider that, when we said that the economic conditions in Spain were totally different. So when it will have targets, we further reduce little bit. We have to review this target according to evolution of the economic environment. In many case these reasons, which is growing faster than the traditional channels, and it was the best (inaudible) that we wanted to have operations in these market, and the presence is growing and according to pattern [ph] that is convenient. Obviously the figures that we have done in 2007 and 2008 were higher than the real figures. But in any case, we remain (inaudible) we're totally different, but in the -- of the strategic with have growth of more than 20% is very good and we are doing seem to be very well even if we have focused with (inaudible) even bigger sales. As I answered your question.

Q - Andreas Fernando

Yeah. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Just now taking -- answering the next question before the next we impact of burial insurance in America on community with nine-months basis is 0.5% -- in Brazil sorry 0.5%.

Operator

Next question comes from Edward Williams from Capital Returns Management. Please go ahead.

Q - Edward Williams {BIO 15179280 <GO>}

Yes, good afternoon and thanks for taking my call. I am interested in any insights you may be able to offer regarding the current speak of the Spanish surety market. If I understand the matter the Spanish supreme court recently ruled against safer effectively expanding coverage under certain residential housing months beyond that originally intended.

So, I just wondering how big an industry loss you estimate good result from the residential housing bond issued before the housing crises and more than -- as of 2008 and 2009 Mapfre had a roughly 7% to 8% market share of the entire Spanish surety bond market not absolutely the residential as per type market share, but that sure had been much larger around 2003 and so I was just wondering if you had any material exposure from either a primary or Mapfre Re perspective and your general thoughts on what is occurring on the ground. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, good afternoon Edward. Actually, we were not exposed to that line of business so we have no insight. If that is a sentence impact other companies that does not have anything to do with Mapfre. We do operate in surety, but this is a niche cooperative business which we are not involved into. So it does not have any impact on us.

Q - Edward Williams {BIO 15179280 <GO>}

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Okay, excellent. Thank you very much. And then Mapfre Re was not a reinsurer of any of the primary companies that were involved?

A - Luigi Lubelli {BIO 4108780 <GO>}

No, no, really we do not have any impact on this.

Q - Edward Williams {BIO 15179280 <GO>}

All right. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

You are welcome.

Operator

Next question comes from Michael Klien from Nomura. Please go ahead.

Q - Michael Klien {BIO 4262408 <GO>}

Yes, good afternoon. I had two questions, if I may. Firstly, on the bancassurance agreements you have in Spain, could you maybe provide us with an update in terms of where we are with renegotiating those agreements? Should we maybe expect some news flow here very soon?

And the second question would be on Mapfre Re. I understand that the premium drop was mostly due to one-off corporate transactions that you had in the same period last year. I guess, could you just -- quite a lumpy business; can we expect maybe some similar business again in future quarters? And on an underlying basis, how is the domestic life market doing? What are you expecting in terms of growth, if any at all, in the Spanish market for this year and also for the next year? Thank you.

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

Hi, Michael. On negotiations, we have bancassurance partners, well, re-negotiation is with Bankia, as you know very well. We have to agree with relation with -- relationship with Bankia. Our agreement continues to work in part of the network branches in that -- we had in our old agreement and this is working. Well, according to the circumstances of the market, that totally have 50 percentage of the market several years ago. And in these sense, we are talking about the possibility of improving our presence, sustaining our presence to their whole network of Bankia.

Obviously, the conditions of the bancassurance in Spain are not in the condition that we used to be. In this we'll continue in the near future, especially, due to the fact that part of the (inaudible) was showed as a complimentary savings to mortgage, and there is no market for mortgages now. In general, in the bank assurance continue to continuation of variable bases between the non-life. In the third quarter we have in non-life and in the negotiation also we continue with Verti and I think that's in each and every month in the near future to response our presence in the various of the network, but only if economic

conditions are according to the new reality of the country and the reality of the bank assurance business in Spain that this totally dependent that used to be.

A - Luigi Lubelli {BIO 4108780 <GO>}

Nothing to add on this one. With regard to the question on Mapfre that whether it is lumpy or to began with the figures from the insurance the visible association however life assurance in Spain, as of September were minus 5.1% market wide. So the whole Spanish market. And the technical reserves grew are growing 2.1% in January, but that there is significant component of the appreciation of the value of fixed income assets. If you adjust for that actually that should mean a contraction.

As we said before people demanding mutual fund rather than insurance policies. As this is always a lumpy business, this is a business which does not unlike non-life insurance which does have a very strong correlation with economic growth. Life moves very much of its own course and it is especially driven by the marketing policies of the banking sectors. So depending on what the banking sector pushes in terms of saving instruments at a given moment. Life will perform accordingly.

So I'm afraid this is not -- I can make as far as Mapfer is concerned usually the first quarter, the last quarter, the fourth quarter is the most significant one because there is when we collect most of the pension saving for the year. That's a traditional development in the Spanish market. So most of our sales are significant portion of them anyway. It tends to be in the last quarter of the year. For the market itself is lumpy and very difficult to forecast.

Q - Michael Klien {BIO 4262408 <GO>}

In terms of your last point that most of this come through in Q4, are you seeing any trends, that it was mentioning so far?

A - Luigi Lubelli {BIO 4108780 <GO>}

I did not understand the first part of your question.

Q - Michael Klien {BIO 4262408 <GO>}

Have you mentioned that, on the life side, there is a certain amount of seasonality, and particularly Q4 for pension products is quite important, so do you see any trends here?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, the fourth quarter has just begun. That's really not many trends I can speak about, that is what normally happens, but you know the quarter has just begun, and it wouldn't be public figures anyway.

Q - Michael Klien {BIO 4262408 <GO>}

Fair enough. Thank you very much.

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A - Luigi Lubelli {BIO 4108780 <GO>}

Welcome.

Operator

Next question comes from Niccolo Dalla Palma from Exane BNP Paribas. Please go ahead.

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

Yes, good evening. Thanks for taking the question. So, the first question is on the new structure. Adjusted you could explain us whether there is any implications in terms of legal structure, as well and therefore capital fungibility at all. Or will the legal structure stay exactly as it is.

And secondly, just to clarify on the duration, you mentioned around five years. I had in mind something short especially because the Spanish reserves, I expect them to be quite far duration, because of the speed of settlement you have.

So I thought Spain was around two to three years duration. So I guess to get to five years, it means that rest is very long. Just if you could clarify asset and liability duration and also on Mapfre Familiar, we actually saw on a quarterly basis, a lot of volatility in the recurring results -- recurring financial income. So excluding the realized gains with 17 million in Q1, seven in Q2 and 35 in Q3. Just trying to get your views on how to extrapolate what the normal run rate is here for financial income Mapfre Familiar.

Third question is just, a quickly technical one on Mapfre America. If you could explain us -- the roughly 20 million of non-technical result is there? Thank you.

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

Okay. Good afternoon, Niccolo. First part, let say, (inaudible) in the near structure well, there the situation is mainly on improving our operation. It should deliver better service and to gain synergies from the point of view, of the initial and operational restoration [ph] mainly. It may imply in the future, in the near future -- there are changes in the structure of the subsidiaries. And this happens, this will be in order to improve our fungibility of capital and improve our approach to the business. But in the short term, we are doing these restructuration in order to facilitate our operations to have a more (inaudible) interaction among the business and clarifying the competences and the approach to the different market for our direct insurance companies and our global business like assistance on global basis. This is a main driver of the new restructuration. And Luigi, do you want to --?

A - Luigi Lubelli {BIO 4108780 <GO>}

I mean there is very little to add once again. But I would only -- in terms of capital fungibility, clearly capital fungibility may impact at the level of subsidiary or grouping of subsidiaries where capital is located. But regarding the Group itself, the capital position on the Group itself does not change on a consolidated basis. Obviously, the legal structure disappears. It may mean that money moves from one floor to another floor, but the actual

money at Group level does not change. And at the margin we can improve the capitalization, let's say if we were to Group companies into one single company, of course, the company will benefit from greater diversification, but that will be most of the changes. I wouldn't think they matter from your stand point.

I will take it that you are surprised by the valuation of the non-life business investment book, and your right and your leaving about this Spanish business, but not -- it doesn't only have a Spanish business, and actually in this Spanish business itself there is a commercial business, and as you know you have liability in commercial insurance which has a longer tails, we have reinsurance which is a very significant book which also has the longer tails and accordingly it's backed by longer bumps.

So when we look at the group enlarge, you're intuitive understanding is actually diluted by the fact that we have also a longer-tail business in the Group. In terms of the volatility of financial question is may be third question is actually thank you for asking that one, because it's, I think it helps clarifying the view for everyone. We had in the previous quarter, that we actually had the losses on equity accounted subsidiaries and that actually depressed the financial income on a quarterly basis. By and large you can take this one to be a normal quarter or a normalized quarter.

Clearly we have some churn impact. The investment maturing in this quarter will be reinvested at the present rates which could be a much lower than they were when those bonds were acquired.

So, at the margin it will reduced further the financial income in the fourth quarter that hits at the margin. This quarter is a reasonable guidance for Mapfre Familiar in terms of financial income.

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

Okay. That's very clear. On the Mapfre America non-technical results, can you just remind me what that is?

A - Luigi Lubelli {BIO 4108780 <GO>}

On the non-technical results of Mapfre America, well we've got a few things, that we had essentially realization gains in Venezuela, those were -- it's about 14 million, which are into non-technical results of Mapfre America.

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

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

A - Luigi Lubelli {BIO 4108780 <GO>}

It was great and well we are finishing now. I don't know you have further questions, nothing you have to another questions -- we will ask one, because we have to fly to London. We will speak to you again.

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

Speak to you again, speak to you, tomorrow via --. If you have more question, please --.

Operator

There are no more questions. Thank you.

A - Esteban Tejera Montalvo {BIO 3910673 <GO>}

Thank you for being so conservative. Meet you again -- see you again in three months in (inaudible) Thank you.

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