

S1 2015 Earnings Call

Company Participants

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

Other Participants

- Andy Sinclair, Analyst
- Avinash Singh, Analyst
- Farquhar Murray, Analyst
- Federico Salerno, Analyst
- Guilhem Horvath, Analyst
- Juan Canovas, Analyst
- Maria Ojeda, Analyst
- Silvia Rigol, Analyst
- Unidentified Participant

Presentation

Esteban Tejera {BIO 3910673 <GO>}

Good morning, ladies and gentlemen, welcome to the presentation of MAPFRE's results for the first half of 2015. As usual, I'll give an overview of the results and the main business developments and later, Mr. Lubelli will explain the financials in greater detail. We will be happy to take your questions at the end of the presentation.

Please let's now turn to slide number three. MAPFRE continued growing sales primarily through [ph] a very satisfactory development of his non-life business in Spain and abroad as well as the reinsurance business. This year weather-related losses have been exceptionally large globally and this has caused the loss ratio to go up significantly in our net profit to fund . Excluding them the underlying performance is in line with for high frequency in Spain .

Gains from financial investments and favorable contribution of exchange rates, especially in the US dollar have helped make up for the decrease in the . The growth in assets under management was temporarily affected by the Greek crisis at the end of the semester.

Please move to -- to next slide. The main drivers of the results are the non-life business is contributing significantly to our top line especially in North America and strong dollar in Mexico, where we are growing organically and we have to reach a very, very important

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policy from tenants and in reinsurance, where the business is doing very well despite the tough conditions of the market.

This growth allowed MAPFRE to make up for the soft contraction in demand in the life business in Spain due to the low interest rate and to the consideration of revenues of CatalunyaCaixa. In Brazil, we suffered also a decline in price in non-life especially in agriculture insurance and a slight decline in life due to the economic slowdown of the country. As I already mentioned, financial income is helping thanks to again, we were able to realize the demand from the first half of the year and favorable exchange rate and high returns. Excluding the snowstorms in the United States is the main driver of the deterioration of the result. Our combined ratio would be 96.8 and overall level not too far away for our target of 96%.

As I mentioned before the last days of June were not good for our equity due to the impact of the Greek crisis market value on the investment portfolio, but most of this impact has been recovered as we speak now.

On the slide number five, we so far been, main diversion, our position in Solvency II. We know that our position in Solvency II and think that now things are mature enough to provide more information without it. As you know very well, MAPFRE because of our very good position under Solvency I due to the fact that we have the composition of the eligible capital that is good in terms of quantity and quality. And we have very highly diversified with a proven investment policy.

Furthermore within the goal of maintaining a capitalization level consisting with the requirement for a AA rating, which are more Solvency II in terms of capital requirements and levels of available resources.

Moving to the next slide and this. MAPFRE according to we have delivered to a supervisory in Spain. We have Solvency II ratio above 160%. This is achieving several hypothesis. And the third one is the current interpretation of the standard formula regulation. The application of the matching adjustment and transitional rules on technical reserves to the Life portfolio in Spain And the grandfathering of the Tier II subordinated debt issued in 2007 that amounts actually EUR600 million.

Moving to the next slide. We know also that the new Baremo is a matter of concern and we will deliver more information about how things are going in this issue. The new Baremo will likely come into force at the beginning of 2016 and will clearly cause our third-parties liability planes. But MAPFRE has been regularly updating it's pricing under certain levels based on our own estimate of the possible impact of this new Baremo.

We will continue to the floor now that the actual potential compensation are known and you look at the evolution of our new provisions -- new provisions and evolution of the premiums we earn. We'll see that we've a very prudent policy in these trading [ph].

(Technical Difficulty) In any case, as we have repeated many times, Baremo because it's update compensation to take into account short-hand changes and makes our

development more predictable.

Of giving price, we will have to recognize to account for the which we have seen that very soon in market and that MAPFRE is leading.

On slide number eight, we see the traditional chart of the diversification of MAPFRE, which continues to increase. We compared to the previous quarter, we see a fall in the rate of Iberia over the CatalunyaCaixa [ph] figures due to accumulation of the contraction of the overall business volumes in region and the consolidation of CatalunyaCaixa have growth in the consolidation of Direct Line in Italy and in Germany. In terms of the contribution to profit, the application of the new exchange rate in Venezuela and weather-related losses in the US are causing (inaudible) increase of the contribution of all other regions including Iberia . MAPFRE RE due also in this case to the related weather losses in the second quarter.

And that's all from my part and Luigi, you have the floor.

Luigi Lubelli {BIO 4108780 <GO>}

Thank you, Esteban and good morning or afternoon, everyone depending on the place. Can we move directly to slide 11, where we have the consolidated income statement. If we compare to what we saw in March, there are few changes. Basically as Mr. Tejera just explained, we had an exceptionally large impact from weather-related losses and that is the main driver of the fall in the pre-tax profit through the non-life account. We also saw an increase in the tax rate coming primarily from Latin America. And lastly, a continued growth of the stake of minorities in Brazil.

On slide number 12, as mandated by the IFRS, we have to restate our 2014 income statement to show the impact of the deconsolidation of the joint business with CatalunyaCaixa. If we compare the restated accounts with the non-restated accounts, we see that basically all main underlying trends remain broadly unchanged. There is a significant positive in the life account, which on a restated basis increases about 10% in its results and is pointing to a comparatively better underlying profit development in Spain.

On slide 13, we have the non-life account. We see basically the same robust underlying growth trend we saw in the first quarter and also a comparable combined ratio.

On the following slide, we begin to dig deeper into that. We see the premiums movement -- the cumulative premiums movement on slide number 14. On a yearly basis, we see a few main trends. We have as Mr. Tejera just mentioned a significant positive impact from the appreciation of the US dollar that is good for North America, but also for assistance for GLOBAL RISKS and RE. We had beyond the impact of the dollar there is good organic growth in North America as well, but also in Latin America, Iberia and Turkey. You know by now, as we announced in the previous quarter that the adoption of the SIMADI exchange rate in Venezuelan is having a negative impact on premium growth that's especially evidenced in LATAM SOUTH, where the subsidiaries located and the economic slowdown in Brazil is leading to a contraction in premiums.

On the following slide 15, you have an explanation of the quarterly second quarter trends. As usual, we had seasonality in Spain that's something that is well known and then as it was already mentioned, we won a PEMEX contract in Mexico very large amount. We consolidated for the first time the Direct Line businesses (inaudible). And we witnessed a recovery in insurance in Brazil both in life and in non-life, it was not enough to reverse the trend we saw in the first quarter, but certainly was a welcome development.

On slide 16, we have the loss experience. By now, I think it is clear that the main driver of the increase in the loss ratio are the snowstorms in the United States. Although it must be said that we had between the first quarter and the second quarter, weather-related claims in Turkey, in Chile in MAPFRE RE because of the Nicholas storm in Iberia in June due to strong waterfall. So it was clearly a first-half -- there was under the sign of the weather basically in terms of the impact.

In Iberia, we see an increase in the loss ratio, which is coming mainly for the fact that -- from the fact that the Burial technical reserves are discounted at lower rates and higher frequency in motor. The increase where you can see in EMEA comes basically solely from Turkey, which is once again weather and higher loss experience in motor and health. And all of this was partly offset by LATAM SOUTH, which had a very good performance of MAPFRE Global Risks and the Direct business compared to the previous year because as you remember, a year ago, we had the Iquique earthquake.

On slide 17, we have the expense ratio. We have an increase of 0.5 percentage points mainly -- basically it's higher acquisition costs as it was in the first quarter and also lower recoveries of ceded reinsurance commissions in the USA. Financial income is broadly in line with what we saw in the first quarter. We have higher interest rates in Brazil. We have, in this case, positive contribution of the depreciation of the Euro except three notable currencies, the Brazilian real; Venezuelan bolivar and Colombian peso and we have larger investment realization gains, we have 91 million this year compared to 60 million a year ago.

On slide 19, we have the life account; this is un-restated. If we restate for CatalunyaCaixa the actual underlying premium fall is 12.9% instead of 20 and the technical and financial reserves [ph] actually grow 10.4%, instead of falling 1.1.

On slide 20, we have the premiums. It is evident that this year, the contraction in the top line is overwhelmingly driven by Spain. If we leave aside the deconsolidation of CatalunyaCaixa that's basically due to a contraction in demand, which is motivated by the low interest rate environment; in addition to one-offs a year ago, but that basically is we have a fall in demand, which is compensated by the asset management business in terms of funds under management because that fund and the pension fund are doing remarkably well.

Living Spain aside, we see good business development in Malta, Mexico, Peru and RE, which are partly offset by falls in Brazil and Colombia. Although, as I said, on a quarterly basis issuance in Brazil was stronger and also reinsurance better.

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On slide number 21, we have the underwriting and financial results. On a quarterly basis, we saw a fall in financial income due to the fact of the depreciation in the Brazilian real and the negative mark to market in Malta. Aside from that the main trends are in line with what we saw in the first quarter.

On slide 22, we have the other business activities. We have here also [ph] an impact of CatalunyaCaixa. The fall in results would have been 12 million instead of the 15 million that you see here. On slide 23, we have the explanation, which is basically last year, we had some non-recurring gains at MAPFRE INMUEBLES. And as we saw in the first quarter already there is an ongoing process in MAPFRE ASISTENCIA by which contracts, which formally were services contracts are being replaced by insurance policy. So they leave the other business activities accounts to moving to the non-life accounts. Financial income improves compared to the previous year that's because it is larger in itself. We're making -- we are having more financial income and we also have lower costs and impairments.

The bottom line is shown on slide 24, I think you by now, the main drivers are clear so let's briefly look at the description of them on slide 25. As I say we -- this was already said mention on the P&L accounts, what drives the contraction in profit exceptionally large weather-related losses. Clearly, most of them in North America; growing stake of minorities in Brazil because the profitability in Brazil is very, very good; it's doing very well and we have a new tax in Venezuela and also another tax has been activated in Colombia and the combination of the two makes the rates go up on a quarterly basis.

On slide 26, we have the balance sheet. If we compare to the end of the year, we see clearly once again CatalunyaCaixa it's a very powerful driver of all variations. In this quarter, we saw the consolidation of Direct Line and that in addition to the actual items coming from the accounts shows an increase in that because we drew on the syndicated line in an amount of 470 million, plus we use 90 million in cash for the total consideration of 560 that was paid.

We have growth in business volumes. We saw as Mr. Tejera explained, a decrease in market value, when we took the snapshot of the balance sheet at the 30th of June because of the Greek crisis. We had a significant fall in unrealized gains, most of which has been recovered by now. And the other driver is the depreciation of the euro. On the positive side, except as I say, three notable exceptions, Brazilian real; Turkish lira and Venezuelan bolivar on the balance sheet. On the P&L, we also have the Colombian peso.

On slide 27, we have the breakdown of the investment. Really there are no material changes compared to the year end 2014 portfolio. If anything there is 2 percentage points moving from corporate fixed income to property net. The breakdown of corporate fixed income thus change and it is impacted by a fall in market prices due to the Greek crisis. In Spain, the investment of maturing corporate bonds into higher yielding and basically more easily available public debt. So we have a growth in the asset portfolio in LatAm (inaudible) in Mexico and the Direct Line brings to MAPFRE a diversified corporate loan portfolio basically European, which changes (inaudible).

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On slide 28, we have the variation of equity. We had a change is big compared to the first quarter and then we saw an increase of 0.5 million [ph] here. We have a total negative change of 600 million, while this it should be clear by now, which is on slide 29 it's decrease in market value of the financial investment portfolio in Europe that's behind us now, but it wasn't behind us, when we closed the books. And then the adoption of the SIMADI exchange rate in Venezuela that's an impact of about 270 million and along with the depreciation of the Brazilian real and the Turkish lira clearly partially offset by the dollar, which is helping quite a bit as well.

And that's all on my side and back to Mr. Tejera.

Esteban Tejera {BIO 3910673 <GO>}

Thank you. Thank you, Luigi. Well, we're going to start now the Q&A session (inaudible) questions.

Questions And Answers

Operator

Good morning, ladies and gentlemen. The Q&A session starts now. (Operator Instructions) The first question comes from Farquhar Murray from Autonomous Research. Please go ahead, sir.

Q - Farquhar Murray {BIO 15345435 <GO>}

Good morning, gentlemen. Just three questions if I may, all related to the Solvency II indication of 160% for full year '14. Firstly, when you state the ratio could exceed 160%, what would be the upper end of the possible range just (inaudible) of where it might fit? And then could you give a sense of how Solvency II developed in the first half?

Then secondly, could you identify the impact of the transitional rules on the ratio overall? And then finally, what is the impact of the sale of CatalunyaCaixa and the acquisition of Direct Line on that Solvency II indication? Thanks.

A - Esteban Tejera {BIO 3910673 <GO>}

Hi, Farquhar the first question, I mean is that a little bit all of guidance we -- there is a -- let's say a small margin above that, we wanted to give a comfortable figure. What we say 160 is a solid figure we're comfortable with. There is a margin above, but for the moment we decided more than anything it's not a matter of not wanting to disclose anything, but still we're subject to some fine tuning of the standard formula calculations. And so, we rather prefer to guide the markets to a figure, which we're strongly comfortable with going forward. As you know, we normally are quite strict on not mentioning and disclosing and so I cannot mention the impact of the transitional rules alone.

CX, CatalunyaCaixa and Direct Line because the two have to be seen together qualitatively are an improvement in the sense that the balance sheet that -- the size of the

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balance sheet with CatalunyaCaixa it's about twice the size of the balance sheet that's coming from Direct Line. And obviously the type of risks that you have in the Life business are more demanding than those that you have in short-tail Motor business. So qualitatively speaking, broadly positive. I wonder if I'm answering your questions.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Just a follow-up then I mean just to clarify over 160% obviously -- probably don't interpret that as being something like a 175%? And then in terms of where MAPFRE will manage itself going forward. And I think the points on slide five are suggesting you're probably going to try and manage yourself on Solvency II around about 160% to 165%. Would that be right?

A - Esteban Tejera {BIO 3910673 <GO>}

Let's say, figures vary, I think MAPFRE is known to be a prudent company consistently when it comes to capitalization. Also I think the measure and the way, we have calculated the Solvency II standard formula especially when -- when and for those who know, especially compared to perhaps internal models approach it point to a certain strength. MAPFRE traditionally and we say that on the previous page, it's a company that manages itself or clearly we keep a close eye now on Solvency II, but traditionally the company has managed itself on the rating basis aiming at AA. AA is -- why it's more demanding than the Solvency II standard formula at least as far as MAPFRE is concerned.

So, I wouldn't point to a percentage that's derived from that. I think that calculation you can estimate yourselves, but clearly it does provide the safe margin above 100% of SCR.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thanks very much indeed.

A - Esteban Tejera {BIO 3910673 <GO>}

Thank you.

Operator

The next question comes from Guilhem Horvath from Exane BNP Paribas. Please go ahead, sir.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes, good morning all. Two questions from my side. The first one is a follow-up from the last questions. What are the main outstanding questions you have on your Solvency II model? Do you still have many points of uncertainties and which ones? And the second one is related to Spanish Malta. So, the combined ratio here is 98.4, do you expect with the implementation of the Baremo to fully be impacted by this Baremo by 4 to 6 points. So, we have the full impact when it's implemented or does it already take into account some small parts of the Baremo? Thanks.

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A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. I'd say the uncertainty is relatively contained, but there is I mean, there is especially some details on the matching adjustment that are still pending. And then for the moment, the Group has not yet applied for equivalent of any country. So, this is based on a fully consolidated approach. But that's what I was trying to say before, we've decided to disclose a figure, we're comfortable with in terms of MAPFRE guidance. So that takes into account those possible uncertainties as well.

The indication we give on the combined -- on the loss ratio is not MAPFRE [ph] specific indication. It's an indication that specific to the market at large that 4% to 6% is the increase and we stress, if I'm not wrong in the text that -- that does not consider price reductions. So certain (inaudible) if you don't do anything with your tariffs that is the impact that the market will have -- the estimated impact that the market will have based on unqualified market estimates of the Baremo. Clearly the I don't know, if you want to expand on the--

A - Esteban Tejera {BIO 3910673 <GO>}

In terms of how we're preparing to the new Baremo. As you know, we had a very prudent approach to this issue. And if you look at page 46 of the presentation, you can see how even the gross written and accepted premiums on motor insurance in Spain are roughly the same that last year, we have a [ph] decrease in the net premiums earned that is the consequences of the increase in provisions. The most important thing is that if we make the calculations of -- even if the loss ratio is high value 18.2%, 17.6%. In reality, the total losses of this year are practically the same. It had been absolute figure in losses of the first six months of 2014 716.4 million; for this year it's 720.8.

In term -- and this is referring in terms of non-life expense ratio. We have an increase, but the figures are roughly the same more or less in the -- since first months of 2014 were 153.2 and now are 163.6. So we're collecting premiums, increasing provisions and increasing tariffs.

And I think that the generally strict management have delivered the evolution of the market and the evolution of the impact of the -- in this new Baremo that we've to really specifically analyze for each company.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Thanks very much.

A - Esteban Tejera {BIO 3910673 <GO>}

You're welcome.

Operator

The next question comes from Federico Salerno from MainFirst. Please go ahead, sir.

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Q - Federico Salerno {BIO 2565091 <GO>}

Good morning. Three questions from me, please. The first one on MAPFRE VIDA, we saw a pretty steep decline in premiums in the first half, what's the outlook for the second half, are you hoping to recover say towards the level of revenues of last year or it's impossible at this point?

The second one ASISTENCIA, which is doing quite badly this year. Can explain what's going on especially in the other business activities line perhaps? And then again last question on Solvency II, do you feel like providing some more numbers behind -- behind constituents of the 160 ratio? Thank you.

A - Esteban Tejera {BIO 3910673 <GO>}

Hi, Federico. In terms of the evolution of MAPFRE VIDA, well the environment low interest rate that will help the recovery of the -- of the top line figures of MAPFRE VIDA. But in terms of the quality of the business, we are reacting as you can see on page 48; we are increasing the regular premiums even if the single premiums are declining very, very fast. So, with this environment of very low interest rate, it makes to issue products of single premiums and we are launching new products of regular premiums and that to -- that's in amount in the same quantities, but provide more margins.

And there is very, very important thing that part of the premiums, although are single premiums before are now go into our business of pensions and mutual funds that are not included in the figure for MAPFRE VIDA, where in mutual funds and pension funds, we'll register an increase of roughly 12% in the first and 13% in the second in the figures .

So, I think that even if you -- we don't -- we won't see an increase in the top line of MAPFRE VIDA that compensates the decline that we'll suffer now. We'll see an increase in the kind of revenue that qualitatively is more profitable.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. On your other questions on ASISTENCIA Federico, the loss ratio is going up in countries such as Brazil or Venezuela due to the high inflation and the impact of the exchange rates. In Colombia and we also have in the United States once again because of the snowstorms and their impact on Roadside Assistance. As we mentioned before on the consolidated account, what is going on in ASISTENCIA is that contractors -- because the assistance business can be either provided through service contracts or through insurance contracts. So in the case of MAPFRE ASISTENCIA this has been going on for many years; now they are undergoing a process of conversion of those service contracts into insurance contracts and that is happening primarily in the United Kingdom and in the United States. The -- as far as Solvency II for the moment, no additional disclosure is foreseen.

Q - Federico Salerno {BIO 2565091 <GO>}

Okay. Thank you.

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A - Esteban Tejera {BIO 3910673 <GO>}

You're welcome.

Operator

The next question comes from (inaudible) from JPMorgan. Please go ahead, sir.

Q - Unidentified Participant

Yes, thank you so much. I had three questions and I'm new to this so forgive me if it's been asked or that you've answered them before. And I'm a bit surprised by the level of earnings I thought to almost in Q1 and I wonder if you can give an idea of what the sustainable number is 100 million or 100 odd million seems better?

And the second thing is, the gain on CASA [ph] where is it and roughly how much is it, I couldn't, it's obviously not in earnings?

And then the third question is in terms of Solvency II, what is the next step or the next metrics that we're likely to see? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Look it -- clearly there are -- I think the clearest exceptional amounts we've there in the United States are the storms and those basically the rough number you can work it back from the figures in the in the presentation, it amounts roughly 100 million of claims in the first quarter and 60 million of claims in the second quarter, so it's a total of 160, which that can help you work back to an estimate of a sustainable pre-tax profit in this case.

The CX, the CatalunyaCaixa gain is our CEO today in a call -- press conference has basically given an indication of a figure that it should be in the region of 140 million net of tax. And in terms of -- you asked whether we're going to give any further metric on Solvency II ratio.

Q - Unidentified Participant

Yes, please.

A - Luigi Lubelli {BIO 4108780 <GO>}

It's basically same percentage [ph] with regard to before not for the moment. For the moment, which is the disclosure until the entry into parts of Solvency II that would be the disclosure, we would be giving.

Q - Unidentified Participant

Thank you.

A - Esteban Tejera {BIO 3910673 <GO>}

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You're welcome.

Q - Unidentified Participant

And just -- the gain when will it come, when -- is it in Q3 then?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, it depends because we are pending regulatory authorization. So the conservative estimate is by year end then hopefully that can come in earlier, but--

A - Esteban Tejera {BIO 3910673 <GO>}

Well, now when [ph] we signed the operation, we have to see conditions have -- should be compliant before closing the operations two of them have expired. Now we're at the end of the third period of the approvals. And when this approvals that finish at the end of this month will be accomplished in the closing of the operation could come very soon I think. But what -- what is sure is that the operation will be included in the next semester.

Q - Unidentified Participant

Fair enough. Thank you.

Operator

The next question comes from Juan Canovas from Fidentiis. Please go ahead, sir.

Q - Juan Canovas {BIO 15915647 <GO>}

Hello, good afternoon. I have four questions. The first one on your targeted capital structure of AA. I would like to know whether you're already there or whether it will imply some changes, whether it might affect either dividend policy or anything else in that sense?

Second, I would like to know, if you could give us a figure for the impact of reserving in non-Life this they won't [ph] coming from lower discount rates?

Third, I'd like to know, if you could give us also an indication of the levels of profitability of the newly acquired businesses from Direct Line or combined ratio some sort of metric? And then I'd like to know whether you believe you can pass on the impact of these larger -- large weather-related losses on to tariffs? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Juan good afternoon to you. Let's see, we already are in AA range in terms of capitalization. So at present, there is nothing we need to do on our capital in order to stay at AA and the dividends we're paying are consistent with the maintenance of that level of capitalization. So there is nothing that needs to be done in order to get there. Does that clarify your -- answer your question?

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Q - Juan Canovas {BIO 15915647 <GO>}

Yes.

A - Luigi Lubelli {BIO 4108780 <GO>}

The lower discount rate, let's see, I mean that you can roughly estimate because basically that's the only element that you have on because otherwise the Burial Insurance business is not doing normally let's say there is nothing, which is (inaudible) on it. So if you bear with you for a moment on slide 46, you -- if you calculate the -- you apply the loss ratio to the net premiums earned, you see that basically, you had 91 million in claims a year ago and 113 this year. So let's say it's in a ballpark figure of about 20 million.

Q - Juan Canovas {BIO 15915647 <GO>}

Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Then the figures for Direct Line are disclosed in our half yearly report, which has been filed I believe this morning with the CNNB [ph] so you will find it there; you can find it on our webpage. If I'm not wrong, a 58 million in premiums is about 1.5 million in profit; this is what we've recognized in the accounts. The proper cumulative figures of the company are 400 and something million on let's say just wait [ph] for a moment is 416 million of premiums and a small loss of 4 million in net contract attributable results that's all found in the half yearly report.

Q - Juan Canovas {BIO 15915647 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

And tariff, yes we've passed an increase of 9% in those public information on -- of owners in North America, which is on top of another increase of similar amount that was carried out previously. So it's 1.29 times, 1.29.

Q - Juan Canovas {BIO 15915647 <GO>}

Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

The next question comes from Andy Sinclair from Bank of America Merrill Lynch. Please go ahead sir.

Q - Andy Sinclair {BIO 17749036 <GO>}

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Good morning, everyone. Three questions if I may. Firstly, sorry to go back to Baremo, I got couple of questions on that actually. So firstly, the 4% to 6% impact that you mentioned on the motor car from the changes in bodily injury claims, is that covering all the factors on Baremo or so does that include things like rules. Or is there anything more that we should be factoring in? And really what is the overall impact of the Baremo changes?

Secondly just come back to pricing again on Baremo. So how quickly do you think the market will be able to adjust its pricing earlier, I missed an element to that. How quickly do you think the market will adjust its pricing to offset the higher cost from Baremo? And how much do you think is actually exactly already in the prices anticipation nothing you mentioned that you can updating your pricing for Baremo expectations?

And third and just finally, just on acquisition costs on Iberia non-life, I think they were a bit higher so I want to know, what's driving this and could you expect this to just to be a new way of life? Thanks.

A - Luigi Lubelli {BIO 4108780 <GO>}

I like the new of life thing. Look thanks for asking these questions. I mean, I wish to say [ph] something. I mean, we appreciate all the interest, concern about Baremo, but please all of you take this as an estimate. We don't know how many people are going to get injured. We don't know if they get injured or damaged and what kind of people and in what kind of categories of the new Baremo they will fall. And so this is a very rough estimate based on the best available market intelligence on the increase in tariffs and the kind of structure of the third-party liability claims that the Spanish motor insurance industry has.

So the answer to your question is it does factor in all the increases in Baremo, but it does factor in an estimate of the likely, of possible rather than likely of the possible impact of the update of Baremo on the cost of claims. So taking as a ballpark, but nothing it's not precise science; it's rather an idea of what could be the impact on the market. And once again and you correctly pointed out in the second part of your question is -- that is contingent of what companies are doing with their tariffs. We can speak for MAPFRE and MAPFRE, where in the press conference as CEO said, MAPFRE is the permanent tackling [ph] for the writers so we are adjusting our tariffs, so what we foresee and to what we experience. And so if certain rise is warranted, then you will have to take place.

On the industry, there is a question mark, what we can tell you is that the industry as of March, which is the latest available figure for the industries technical account, it has broken 100% in combined; it was already a combined ratio of 100.8%, which one would think especially in the current interest rate environment, plus the Baremo coming on top of it, you would expect companies to just that. To what extent and how will they do so, I'm afraid, we cannot say.

In terms of acquisition costs on the non-life is basically business mix. I wouldn't say that makes me smile the new way of life, I don't think its new way of life; it's just a; it comes out that way because that's the mix of products we're selling this year.

I mean it's not anything terribly dramatically and dramatic either we're talking about 50 basis points on the expense ratio. So it's -- variations will happen based on the profile of sales in a given year. Did we answer your questions?

Q - Andy Sinclair {BIO 17749036 <GO>}

Yeah. Very helpful. I appreciate it. Thank you.

Operator

The next question comes from Silvia Rigol from BBVA. Please go ahead, madam.

Q - Silvia Rigol {BIO 15126791 <GO>}

Hi, good morning. I have three questions. The first is regarding motor insurance premiums; my question is why your premiums have declined in the second quarter by 1.3%, while the sector as a whole has increased the premiums by 1.2%?

The second question is regarding financial results in your international units because in the second quarter the financial results have accounted for only 7 million and I can say that this is not an issue and I would like to know what happened there?

And my third question is regarding Direct Line, because looking at Direct Line Group and all accounts, I can see the business in Italy and in Germany on a separate basis and I'm really -- I see really a strength that the -- the insurance rate that the company has is very high it's around 41% in 2015? And I would like -- why and I'd like to know, if all good data in the insurance policy that you will maintain in Direct Line? Thank you.

A - Esteban Tejera {BIO 3910673 <GO>}

Hi, Silvia in terms of why MAPFRE is not growing so fast that -- than the rest on the market. Well, I think that the -- the main reason that we have to establish a very, very split category of underwriting especially in the underwriting of and this could be the difference. We have cancelled several quality policies that were . But I think that in the -- the main trend of the market is that the market will continue to grow; it will continue to grow with the market, but without reduction our underwriting criteria. This is the reason.

A - Luigi Lubelli {BIO 4108780 <GO>}

Regarding your other questions in international the fall comes from Malta it's because Malta has all its investment portfolio at fair value with changes to P&L. So in the first quarter, it had a big increase because of the asset appreciation [ph] as we sell, we also had it on our equity and for the same reasons which we've seen fall -- fall in the mark to market in our equity, they saw it in their P&L. It's the same reason and likely in the Group at large, it also has been lastly reverted by now.

With regards to Direct Line, you have to appreciate the fact that we basically only being managing this company for less than two months. We need to say that when we acquired a company that reinsurance was one of the areas, where MAPFRE saw that it could add

more value that MAPFRE has a reinsurance company in its fold and Direct Line Group does not. So clearly that contributes to a -- the possibility of a different approach in reinsurance in Direct Line. But for the moment really, there is not much more than we can say because basically we've just begun. It forms part of the overall review process that is going on in the management takeover.

Q - Silvia Rigol {BIO 15126791 <GO>}

Okay. Thank you.

Operator

The next question comes from Avinash Singh from Nomura. Please go ahead.

Q - Avinash Singh {BIO 17348287 <GO>}

Hi. Two questions, one is regarding your US business, where I mean there have been large losses continued in Q2. Can you just elaborate around that? And what's your kind of ongoing normalized expectation of cat losses?

And secondly, regarding I'm just struggling to understand your ROE calculations for the segments. I mean if I look for example slide 50, where you have MAPFRE America ROE, your net results have increased, but ROEs less than half. Similarly in certain segments, your net earning has gone down; equity had increase still ROE is up. So can you just help me understanding that calculation? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Look, obviously we cannot foresee and hope not to have to mention future cat losses in the United States. The -- those related to the snowstorms to our -- in our understanding are mostly true. The -- what is going -- what is being done with that? As we said, tariff increases; portfolio diversification; changes in underwriting criteria for household policies and reinsurance that this basically (inaudible) and also an revision of the articles on the accounts, those are the measures that we're taking.

In terms of the ROE, we acknowledge the fact that it might be confusing; it's the fact that we try to estimate an annual ROE. So it takes this quarter and the previous three quarters. So the profit that used is the sum of the previous three quarters and is divided by the average of the equity during this four quarters. So that is why if you see an ROE that goes down when a profit goes up, it means that in one of the previous or more of the previous three quarters, the profit fell more than it has increased in this quarter. And comparable changes happen with respect to equity it's because of the way it's calculated. Does my answer clarify your question?

Q - Avinash Singh {BIO 17348287 <GO>}

Partly, not fully because I mean like MAPFRE America still remains confusing from 13% to 5% I mean there has not been such massive fall in profitability in the past, I mean, so it is still, I mean looks a bit confusing. I mean from 13% to 5% it looks massive change, so few

of the changes we have -- I can understand given by your explanation, but is MAPFRE America seems simply--

A - Esteban Tejera {BIO 3910673 <GO>}

I'm sure. What I suggest is we might take that offline because I'm sure if we look at the quarter-by-quarter profits and the quarter-by-quarter equity we can get to an easy explanation on that. It is just a number--

Q - Avinash Singh {BIO 17348287 <GO>}

Yeah. We'll take that offline. Okay. Thank you.

Operator

The next question comes from Maria Ojeda from JB Capital Markets. Please go ahead, madam.

Q - Maria Ojeda {BIO 3927662 <GO>}

Hello, good morning all. I have some questions regarding the United States because on your speaking it seems that you're going through competitive situation of the portfolio of the company will start to increase portfolio diversification, underwriting criteria review et cetera. So I don't think it's the net losses we've seen in the first half of the year should be attributable only to the net weather-related charges or are there more to come, I'm thinking in maybe reserve increases or reserve reviews? That's the first one.

And the second one relates to the goodwill in the United States because you have a new auditor this year. I don't know if you have discussed so far with them the potential impairment in the goodwill coming from the United States or if you could elaborate on that?

And the third one, in regards also the investment portfolio in the US. I want to know, you have any kind of exposure to Puerto Rico government?

A - Esteban Tejera {BIO 3910673 <GO>}

(inaudible). Well, in terms of the explanation about the evolution of the results coming from the weather conditions. As you said, these losses are especially not only in the quantity, but also in the quality. When we have suffered was in the traditional is now strong that has a very high impact in as of business total. Those are giving more than one month that was on top of the roofs of the housing and provisions, mainly items that cause damages that worsen later mainly through liquids part water, as and the ice was melting. This includes two characteristics of the losses. First of all, continues more than a month. But the recognition of the losses in the presentation of the claims, claims later and was not at the beginning. So part of the claims during March and April but we continue to visit until mid May, part of the losses in the -- and the quality of the losses were initially totally different than the losses that occur in very short event with high, very intensity.

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So it was significant [ph] to first of all have on the claims in a reasonable periods of time because we announced and not presented and second the kind of losses were different in terms of not improving mainly through cut downs of the roads, but liquids of the water that cause a lot of loss of claims.

So these climatological event has been totally different and higher than in the region for the historical data collected was impossible to foresee and to provide the traditional calculation of the provisions.

Second from the point of view of the revision of the new in terms of these losses and evolution of the -- in the profit and loss in USA, they had revised the -- of these -- what is happening, but they have stated that if the evolution in medium and long-term what guides their opinion about the evolution of the company not expecting a loss.

And in terms of its position to Puerto Rico, where we've a very, very a small timeline especially (inaudible) that I don't remember now that was more than [ph] \$15 million.

A - Luigi Lubelli {BIO 4108780 <GO>}

In dollar terms, which is compared is very small relative to the Group portfolio; it's very, very small.

Q - Maria Ojeda {BIO 3927662 <GO>}

But in terms of the investment portfolio we're talking?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes.

A - Esteban Tejera {BIO 3910673 <GO>}

No, in absolute terms is for sure less than the \$20 million.

Q - Maria Ojeda {BIO 3927662 <GO>}

Okay. Okay. Perfect. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

And the goodwill, where you asked about the accounts have been revised by the auditors just now and there were no observations of goodwill.

Q - Maria Ojeda {BIO 3927662 <GO>}

Okay. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

(inaudible).

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Operator

There are no more questions. Thank you.

A - Esteban Tejera {BIO 3910673 <GO>}

Well, thank you for attending our conference call. I hope that we'll meet again in three months and the news we'll deliver will be by far better than the news we've delivered now. And I wish you very good holidays. Thank you.

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