

## Q1 2014 Earnings Call

### Company Participants

- Esteban Tejera Montalvo, First Deputy Chairman, Director General-Finance and Investment and Chief Executive Officer
- Luigi Lubelli, Deputy GM-Finance & Investor Relations Officer

### Other Participants

- Atanasio Pantarrotas, Analyst
- Federico Salerno, Analyst
- Niccolo C. Dalla Palma, Analyst
- Vinit Malhotra, Analyst

## MANAGEMENT DISCUSSION SECTION

### Esteban Tejera Montalvo {BIO 3910673 <GO>}

Thank you. Good morning, ladies and gentlemen. Welcome to MAPFRE'S Results Presentation for the First Quarter of 2014. This is the first time we present results under MAPFRE's new management structure and I apologize for the inconvenience that the first time (00:23) new structure of (0:23) information.

We have made the best of our efforts to facilitate your tax (00:36). And I hope that in the near future, we will continue to facilitate your tax smoothing (00:45) the way from the old structure to the new one. We have organized the information to help in the transition to fit (00:59) and we will explain the main difference with respect to the previous presentation format during the presentation.

As usual, I'll give an overview of the results and the main business developments. And later, Mr. Lubelli will explain the financial in greater detail and present the 2013 European embedded value figures. Finally, we will take your questions.

Please move to slide number 3. In the first quarter of 2014, MAPFRE has delivered once again premium growth despite a very strong negative impact from the appreciation of the euro. In fact, at constant exchange rate, premiums would have grown by 10%, a strong positive technical result despite a small deterioration driven primarily by weather-related claims and economic recovery in Spain. The weather conditions have been very tough, especially in Spain and in the U.S.A. And we registered also a significant growth in assets under management at 7.7% increase and the managed savings amount €35.614 billion.

Profit fell and this is due because of the large extraordinary gains that we recorded in the first quarter of the previous year.

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Please move to the next slide. Here, you have the highlights of the first quarter results. We have an increase in premiums driven by the business in Spain and Portugal, thanks to the strong growth in Life Assurance and the change in the trend in MAPFRE FAMILIAR. For the first time, we registered a change in the tendency and we can expect growth in the next month. This along with the business development at MAPFRE RE and MAPFRE ASISTENCIA offset the impact of depreciation of the euro and the intense competition in commercial insurance in Spain.

As I mentioned before, there is an absence of significant extraordinary gains in the result in this quarter. In the same period of the previous year, we recorded gains, extraordinary gains for the sale of our headquarters building in Istanbul, in Turkey. We reported also extraordinary gains for the depreciation of the currency in Venezuela and for the setup of Solunion. Excluding these, the attributable result would remain virtually unchanged. Even I must note that taking into account the extraordinary gains recorded in 2013, profit before tax would grow nearly 9%.

The equity has grown by €477 million since year end 2013, and this is due thanks to the result from the period for the decrease of the spreads in Spain and so the appreciation of our financial investments in Spain, and for the appreciation of the Brazilian real during the last quarter when we compare with the final figures of the last year.

On slide 5, you can see the impact of the euro's strength on results that remains very significant. In this quarter, we have the biggest impact when we compare figures in this year with the previous year due to the devaluation of the figures in the presumptive loss (05:47) account.

On the year-on-year comparison, we continue to suffer from the depreciation of our main reference currencies. And on a quarterly basis, as I mentioned before, we show the appreciation in exchange - in rates in the Brazilian real which explains the calculation gains in equity.

On slide number 6, we communicate the date of the payment of the final dividend that was approved in the last meeting of the board. This will be paid on the 20th of June and I remember you (06:38) that the payment is for €0.08 per share. And the total amount paid against the 2013 results amounts to €400 million, which represents an increase of over 15% (6:53) compared to the amount paid in the previous year. And this is broadly the main - the big picture results during the period.

I will now hand the call to Mr. Lubelli who will explain the financial results in detail. Luigi?

**Luigi Lubelli** {BIO 4108780 <GO>}

Thank you, Esteban. Good morning, everyone. We'll move to slide number 8 and we'll try to, as Mr. Tejera just said, we'll try to explain the results under the new structure in as much detail as we can, and we'll help you out also on the Q&A when we get to Q&A.

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The P&L, you see on slide number 8 is the P&L you've always seen. This is the consolidated figures for MAPFRE. And the important aspect I would like to highlight here is that this P&L does not change. So this is perfectly comparable to what you've been seeing to date, and the consolidated explanations apply the same way as they did in the past.

There's is one piece of news that we think will be helpful from this quarter on is that we will be releasing quarterly results and explanation. On this slide, you will always find the cumulative figures but on the next slide, the total one you'll be seeing (8:31) from slide 9 onwards are quarterly figures comparing the year-on-year quarter and this quarter with the previous quarter.

Going to the consolidated accounts, as you can see, in total, premiums went up. You see summing up Life and Non-Life, we have a total increase in premiums which is mainly driven, as Mr. Tejera just said, by the very strong development of Life in Spain as you - I wonder if you had the chance to see that, but premiums in Spain in the Life business were up over 30%, 3-0.

There's an important element that I'm sure you're bearing in mind. Last year, we have three extraordinary items in the first quarter of 2013, which do skew the comparison year-on-year. We had - I'm talking pre-tax figures here - €22.2 million from the sale of the Istanbul headquarters, €20 million from the gains we recognized on the devaluation of the bolivar because we have dollar-denominated assets, and €12.9 million gains from the creation of Solunion.

If you adjust for these, you will actually see as we will see on the later slide an increase of the Non-Life results and an increase in pre-tax profits of 8.6% despite the worse underwriting result in the Non-Life business.

We also have an especially low tax rate in the same period of the previous year, which contributes to reducing year-on-year profit growth. This year, we have a tax rate, which is, as you would say, closer to what we say quote-unquote normal. So, that is something that does affect the comparison on year-on-year.

So, on slide number 9, we have the Non-Life results. Here is something you have seen in many years over. In the first quarter, we have the yearly renewals of the Commercial, Burial and Health insurance premiums. So really in terms of premiums volume, the first quarter and the last quarter are not really that comparable.

The underwriting result is comparable, and in the last quarter of 2013, as you remember, it was negatively affected by the year-end review in Spain, the increase in Motor insurance loss ratio and the reclassification of the Burial insurance business in Brazil, a slight deterioration across Latin America and a higher expense ratio at MAPFRE RE. So, you see a combined ratio of 98.7% at year-end quarter, which compares with 95.6% this quarter.

Financial income in the last quarter of 2013, as you can remember, benefited especially strongly from the gain that was recognized after the agreement with the Brazilian

government, the changes in the tax legislation in Brazil and that was €34.6 million. If you adjust for that, financial income was broadly in line quarter-on-quarter.

On slide 10, we have more details we hope - (11:56) description of the variations than we used previously. I would highlight two important features of the Non-Life business. Non-Life, wherever you look, if you look in local currency, we basically grew everywhere. There are only a few places where we had a reduction in growth. So, that was especially so in Brazil and the U.S.A. in Reinsurance and Assistance and in the retail business of MAPFRE FAMILIAR in Spain, MAPFRE EMPRESAS actually decreased.

But the - albeit very, very small, MAPFRE FAMILIAR showed a change in trend in the first quarter of this year. So, all of them was positive. The main reason for which the Non-Life premiums fall is the appreciation of the euro, and to a lesser extent is the competition in commercial insurance. You see that in both GLOBAL RISKS and MAPFRE EMPRESAS, especially MAPFRE EMPRESAS, but GLOBAL RISKS suffers from that as well.

We had a combined ratio that was virtually stable and that was because of very good results at GLOBAL RISKS and MAPFRE RE, which essentially offsets almost, you can say, fully the impact of weather-related losses in Spain and in the U.S.A. The impact of lower premiums earned at MAPFRE FAMILIAR, when we say that, that is something that is noticeable in the Motor business. The combined ratios of the Motor business of MAPFRE FAMILIAR suffers from a reduction in net premiums earned, but the Motor business being so large at MAPFRE FAMILIAR, it does have an impact on the consolidated figures of the group.

And we also saw something we already witnessed in the last quarter of last year, higher frequency at MAPFRE EMPRESAS and furthermore, we had some large losses in the first quarter in the Commercial business in Spain.

The expense ratio is basically due on the Spanish side to different recognition criteria for bonds (14:01) basically in commercial expenses in Spain, distribution expenses in Spain and the fact that we are expanding the distribution network in the United States.

That also had its absorption and so at the consolidated level, the variation was not too large because of, in percentage, lower distribution expenses in Brazil and higher net premiums earned at MAPFRE GLOBAL RISKS.

On slide 11, we have financial income. I already said the - mentioned the gains in the first quarter. If you actually adjust for those gains, the result of the Non-Life account will grow in excess of 5%. So, they do have a significant impact year-on-year.

In addition to that, we have what you can read here, so lower interest rate. MAPFRE USA last year paid a large dividend and repaid its bonds, (15:07) so it has a smaller investment portfolio because of that, and then we have exchange rate differences which do have an impact also.

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On slide number 12, we have the Life account. We have a - we already repeated the strong pick-up of sales in Spain. That's really the main difference. Comparing with the last quarter, you remember the write-downs which we had in Spain and Central America. And also in Brazil, we reclassified the Burial business and the whole year reclassification was performed in the fourth quarter of the year, so there was a significant impact. And we also recognized a €19 million gain in euros due to the changes in the tax regulations in Brazil I already referred to.

On slide 13, we have a more detailed explanation. In the Life business, basically Life Savings business grew across all channels. We saw an especially welcome development at the MAPFRE (16:23) channel, I should say MAPFRE BANKIA now, which also had a large corporate transaction of €75 million.

And then outside of Spain, of course, we have the euro which does have an impact. Furthermore, you will see in the Latin American South line, (16:40) we had a large corporate contract that was not renewed in Colombia. And as I said before, we have the reclassification of the Burial business in Brazil, which really year-on-year affects the comparison.

The underwriting and financial result was much better, especially in Brazil and MAPFRE RE for the reasons that you can read on the slide.

On slide 14, we have the other business activities accounts. Here, I'll make reference to the comparison with the previous quarter. As you can remember in the last quarter of 2014, (17:18) we had a net balance between revenues and expenses that went to a loss, (17:23) and that was because of personnel expenses in Non-Insurance operation and in operations (17:30) and expenses due to the start-up of new businesses in the in MAPFRE ASISTENCIA, the Assistance business. This really does not affect the first quarter. As you can see, the first quarter is almost bang on line with the previous year.

On slide 15, you have the reasons of the variations. We have positive results at MAPFRE INMUEBLES. We had the opportunity to prepay some loans with the gains, and that is the reason for some capital gains. And we had a better performance of the subsidiaries of MAPFRE FAMILIAR and good performance in terms of business development at MAPFRE ASISTENCIA.

If you compare the net financial expenses of this quarter with the previous one, you see they are roughly double and that's not due to anything special this quarter but rather the previous one in which we had capital gains on the equity swaps we have for the long-term compensation packages for management.

On slide 16, we have the bottom line. Here, you do see a big difference compared to the fourth quarter and that is fairly obvious given that in the fourth quarter, we had the write-downs and that, of course, explains why the pre-tax profit is so much smaller in that quarter compared to this one.

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Also, taxes are especially low in the fourth quarter, of course, because of the write-downs because they were tax deductible. And because of the changes in the tax regulations in Brazil, that does explain as well the big gap with the minority interest because part of the gain went to the minorities in Brazil. So you have a twin impact, one on taxes and another one on minorities.

As far as the quarterly figures are concerned on slide 17, we've already seen the reasons for that, the lower results in Non-Life, the impact of the inflation adjustments on the accounts of Venezuela. Last year, we had €2.6 million negative, and this year, it's basically €16 million negative, so it's nearly multiplied by seven and, of course, the strong improvement in Life.

We see a higher tax rate, the main reasons for that are the growing weight of the Brazilian business. As you know, in Brazil, the tax rate is 40%, 4-0, while in Spain it's 30%, 3-0. So, the more that business grows, the more the tax rate goes up. And also, we had realized capital gains in Turkey last year, which basically were tax free. The minorities grow much faster than profits because profits in Brazil are growing especially fast.

On slide 18, we have the balance sheet, the explanations of the movements in the balance sheet are found on slide 19. Essentially, we had three main variations, a larger business volume, that's obvious. As you can imagine, a very strong impact from the fall in spreads were seen in Spain in this quarter. And this might be confusing, the appreciation of the Brazilian real, in the P&L the Brazilian real has a negative impact because we use average exchange rates, but on the balance sheet, we use according to accounting principles the period-close exchange rates.

So, precisely at period close, the real appreciated against the euro, and that's why we recognized translation gains as we will see later. That doesn't really change that much. The comments on that refer to the year-end. And there's been a modest increase because of some debt at subsidiaries, temporary usage and the accrual of interest. Year-on-year, as you know, the main difference is the repayment of the bonds at MAPFRE USA.

Finally, we have the changes in equity. And here, the changes are obvious already by now, we had a big increase in the value of securities in Spain because of the falling spreads. It's almost €1 million (22:13). And you will see that it in Spain because the shadow accounting takes basically 70% of the valuation. When you see such high percentages, it's because the variations in the value of the investments are concentrated in Spain.

You will also see what I was referring to about the real, which is €100 million gain, and that's because of the appreciation of the currency at the very end of the quarter.

Distribution of results, we have the dividend approved by the AGM that Mr. Tejera just made reference to and also the dividends paid by subsidiaries with minority interest. But overall, a very nice increase in the quarter of nearly €300 million in shareholders' equity and nearly €500 million in total equity.

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Now, we can move to slide 25 and we will be explaining to you the information with the new regional breakdown. This slide looks very much familiar. This is very similar to what we had before, but the differences now it is presented in terms of regions.

Iberia is different from Spain because it includes Portugal and because it includes the business underwritten in Spain by MAPFRE GLOBAL RISKS and MAPFRE ASISTENCIA. As a rule of thumb, basically one-third, 30% of the total volume of business and results of MAPFRE GLOBAL RISKS and MAPFRE ASISTENCIA comes from Spain.

That added to Portugal and added to the development of the premiums in Spain we saw in the first quarter means that the total weight of Iberia is about 2 percentage points higher than the weight of Spain a year ago. So as you will see, we are not talking about material differences. So it's about 40/60 as you can see there.

In terms of profits, we have - Iberia experiences a fall compared to what Spain was a year ago and that is because what we saw. We had a decrease in the technical results of the Non-Life business, especially in Motor insurance. And the other regions more or less have the same profit contribution as we had a year ago. We had strong profit growth in EMEA and Brazil. And what we do see is a very significant growth in MAPFRE RE in its contribution to total profits, and that was due to much better underwriting results and larger financial income.

On slide 26, we have the premiums and these are now by regional area. And I repeat for clarity, regional area means whatever you can remember of the past in terms of direct insurance units plus the business written in those regions by MAPFRE GLOBAL RISKS and MAPFRE ASISTENCIA.

So as I explained on the previous slide, Iberia benefits from the strong jump in Life sales, which must be clear by now, and also by the trend change at MAPFRE FAMILIAR which had a very modest increase. I think it's more significant because it's positive rather than because of its size.

The GLOBAL RISKS business has an impact if you make a comparison between the Spanish business and the Iberia business, and that was because in GLOBAL RISKS, we had one-off operations in the first quarter of 2013 which was not repeated this year. Just for the sake of clarity, these were special transactions, one-off business, not recurring business from corporates.

Brazil in local currency continued to grow around 18%, so a very strong increase in reais but fell due to the appreciation of the euro. We had especially strong growth in term life insurance and in agricultural insurance. There are now some incentives that are being granted by the Brazilian government that are promoting the sales of agricultural insurance.

LatAm South fell only 1.5% despite the appreciation of the euro. We had very strong growth in Peru, Uruguay, Paraguay, and Ecuador. The Life business, as I said before, fell considerably due to the cancelation of a large corporate account in Columbia. You will see that on the Colombian figures when you look at the detail in the following slides.

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Fortunately (27:33) the GLOBAL RISKS business did very well because it won a large contract in this quarter.

If you look at EMEA, the premiums fell due to the depreciation of the Turkish lira. Otherwise, the business did pretty well. There was strong growth in Motor and Fire insurance in Turkey, where premiums are growing around 17%, 1-7, in local currency; and in Malta, both in Life Savings and Non-Life insurance.

In LatAm North, we have the appreciation of the euro and the cancelation of a large corporate account in commercial insurance. Excluding that, Mexico did quite well in Life, Health and Accident insurance.

APAC shows a very good development that's mainly driven by the Assistance business. And RE is growing 1.2%. It might be small but in this market environment, it's not that bad but mainly affected by the strength of the euro, and it reflects what we mentioned in the full year results is the good performance in the renewals campaign. At the time we told you that, we were expecting a growth of around 4% in third-party business at constant exchange rates, and that's basically what we continue to expect.

On slide 27, we have the bottom line. So, we see that the profits in Iberia fall. That's mainly driven by two elements. On one hand, we have the fact that the MAPFRE FAMILIAR and MAPFRE EMPRESAS businesses fall because – profits fall because of a higher combined ratio, affected to a significant extent by a smaller volume of net premiums earned in Motor and Commercial. And also, because this is the region, last year, in this region, we recognized the gain from the creation of Solunion and that was €13 million pre-tax, so it does have a significant bearing on the year-on-year change.

Brazil does very well despite the euro. We have, in addition to the strong business development, lower expenses and larger financial income. LatAm South, once again, we are talking regions, so here last year, we had the €20 million non-recurring foreign exchange gain in Venezuela. And this year, in commercial insurance, we had a large claim in Chile.

North America is affected in both years by the winter storms, this year it's about €10 million pre-tax, last year it was €9 million pre-tax, and also by a lower financial income due, as I said, to the decrease in the volume of the investment portfolio.

Puerto Rico does very well because it exited the Medicare business. So, that explains the falling premiums and increasing results.

The EMEA results contract due to the depreciation of the Turkish lira, the €22 million of realization gains because of the Istanbul building recorded in 2013, and the negative mark-to-market adjustments in the value of multi-use (31:21) financial assets. If we were to adjust for this, the results actually did well because the technical result in Turkey was much stronger year-on-year.



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In LatAm North, we have a decrease because of higher insurance losses in both Life and Non-Life insurance along with lower financial income in Mexico.

APAC, as I said, benefits from a very strong development in the Assistance business and that - which means also larger profit, and that makes up for the appreciation of the euro and the truing up of the claims from Typhoon Yolanda. As you remember, the typhoon was at the very end of last quarter, and as is obvious, we really have received the claims in the first quarter of this year because of timing.

The results of MAPFRE RE improved very significantly, especially in the Life business, and its financial income went up because of foreign exchange gains in the quarter.

This, on my side, concludes the discussion of the financials. I'll give you a few seconds to take the embedded value presentation, and the presentation will begin from slide number 3.

Okay. So if you have slide number 3 before you, we see a 7.2% increase in the embedded value figure year-on-year. The main driver of that was the growth in the market value of financial investments. We also see that the present value of the new business sold went up. That was because of a change in business mix. We had much larger sales of mutual funds and a slight increase in savings products, the main driver were the mutual funds.

However, we saw falling sales of new protection business, especially in the bancassurance channel. And this has several impacts on the figure that we see, one is the fall in the margin on the new business, and the other - so that it slowed. That's for the new business.

And on the stock, we see a decrease in the value of the business in-force. This is because of folding (34:03) in the new sales of protection but also some changes in the assumptions on lapsation and mortality, as well as an upward shift in the discount curve that was employed. So, this is a combination and we will see that in the following slides.

On slide number 4, we have the components. As I said before, the ANAV went up because of the strong exchange, the increase in unrealized gains in both parent and minorities. The present value of the in-force decreased because as I was introducing before, let's say that in plain English, the new sales in protection did not make up for the maturing business in the book of protection.

So, the combination of the two leads to a decrease in the value in-force and also because of the reducing business, higher mortality assumptions on the residual business. That's because of the aging of the portfolio. This was partly offset by the increase in the mutual fund sales but not fully. The cost of capital decreased slightly despite of the use of higher discount rate because of the fall in the volumes of the portfolio.

And finally, the time value of the financial options and guarantees fell due to higher interest rates and unrealized capital gains as well as the lower residual maturity of the

portfolio.

On slide number 5, we have the same but broken down by line and channel and so we get more color. As you see, the value of the in-force business fell because of the protection business in bancassurance, and here we see that both the present value in-force of this channel and the Life Assurance line fall, and that's clear on this slide because of that.

We also see that the sales of mutual funds were concentrated and of savings product were concentrated in the agents' channel. And so, that explains the strong increase in the present value of the in-force, of the mutual funds and of the agents' channel.

You will see a variation year-on-year and we have a private wealth management business. Last year, part of that business was classified as pension funds. This year, we decided to classify everything as mutual funds and that explains the majority of the increase in the present value of the in-force of the mutual funds and likewise explains significant proportion of the decrease in the pension funds.

The cost of capital fell although less than volumes because of the increase in yields I just mentioned (36:57).

On slide number 6, we have the VIF attributable to MAPFRE VIDA. If you compare it with the sales of the year ago, basically it's the same figure. Last year, it was €1,229 million, and this year it's €1,222 million. And that's because the falling value was concentrated in the bancassurance channel. So what we retained basically did not fall significantly.

Slide number 7, we have to go forward, (37:13) as usual compared to the previous year, we have a significantly larger negative impact of changes in the model, a lower value added by new business, a large positive change in the deviation of the actual value from expectations, and a significant positive contribution from the value - from a fall in the value of the time value of financial options and guarantees.

Put together, these variations explain an increase of 360 basis points in the return on embedded value, and together with smaller dividend payments, the €190 million increase in the EEV.

Let's move to slide number 8 for a more detailed description. The changes in the model which are so significant are the inclusion of business that previously was not modeled, which you have the detail there. We have the accidents portfolio of MAPFRE FAMILIAR and a new group annuities portfolio.

Changes in assumption are big and this is assumptions I highlight. So, claims and expenses, as I said, the mortality (38:33) breakdown of the expenses as well as the higher lapse rate. This was partly offset by the positive impact of higher financial margins because of the higher yields. There you have all the figures that explain the variations.

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The expected return is the usual unwind of the discount rates and the return on the ANAV at beginning of the year.

On slide number 9, we have the deviation of the actual value from expectations. We have the higher market value of the investments. And in addition to that, we also had the fact that in last year's projection, we anticipated because of the higher default assumptions, some credit losses which eventually did not materialize. And so, that is the main explanation. And the time value of financial option and guarantees, I already explained, higher yields, higher unrealized gains and lower residual duration of the with-profit portfolio.

On slide number 10, we have the value added by new business and the margin. We have a decrease that's significant year-on-year. I imagine by now this should not come as a surprise given the lower volume of new protection sales which, as you know, carry a higher margin. We had much larger sale of mutual funds but they did not make up in its entirety for the fall because they carry a lower - a comparatively smaller margin. And in addition to that, we have higher lapsation assumption.

Lastly, on slide number 11, we have the main sensitivities here. Every year, it is the same. Our business continues to be most sensitive to the same reasons which are - or factors, I should say, which are variation in interest rates and in lapse rates.

Clearly, there is one that is larger than the others. The very largest one is the sensitivity to default rate; the amount of that sensitivity is basically unchanged year-on-year. Last year, it was €170 million and this year it's €165 million, so there's not a major change.

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

**Esteban Tejera Montalvo** {BIO 3910673 <GO>}

Thank you, Luigi. Well, in this occasion, the presentation was larger than usual due to the embedded value presentation, but we are now available for you for questions.

## Q&A

### Operator

Good morning, ladies and gentlemen. The Q&A session starts now. Our first question comes from the line of Niccolo Dalla Palma from Exane BNP Paribas. Please go ahead.

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

Good morning, everyone. I have a couple of questions. Before that, however, just a follow-up on the disclosure because it's great to see you are gradually moving to align the structure of the disclosure to the new management structure. I just had a couple of questions to make sure that we are doing things in the right way. Just to make sure, in the future though, (41:46) you'll be giving the information that we had in the past in the

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appendix on a new basis. So we'll have all the detailed investments, investment yield and combined ratios for Iberia, LatAm North, LatAm South, et cetera. Would that be the case just to know how we can - will have to model going forward? And if so, when do you expect that to be available?

And moving so to the real question, on the outlook, Mr. Huertas in the press release mentioned that you see some green shoots in the insurance sector in the retail level. During the call, you just mentioned again that you're seeing MAPFRE FAMILIAR moving to growth. Just maybe you could follow-up with expanding on this, whether you see that just related to Health and Life, or whether you see also the Motor and other P&C lines moving back to growth at all?

And secondly, on more accounting wise, on slide 10, you mentioned that there's some changes to the recognition for commission expenses - for commercial expenses in Spain. Is this big or small? Could you quantify this at all?

And on instead on (43:04) Venezuela and impact of devaluation on your accounts, which exchange rate are you using at the moment? I would guess it is the official exchange rate and not yet the auction rate which is also official but it's a different one. Just it's a bit where different companies in different sectors are you using different approaches here? So if you could clarify how your - which exchange rate exactly you're using in the case of Venezuela. Thank you.

### **A - Luigi Lubelli {BIO 4108780 <GO>}**

Hi, Niccolo. On the question on the green shoots, I'll leave Esteban to answer your question. Thank you for the first question because it's, I think, very important and very relevant for everyone listening.

Here, there are - firstly, we no longer have MAPFRE INTERNACIONAL and MAPFRE AMERICA. These entities continue to exist legally. So when you will see our full year accounts, you will see that these entities show up. But the reality is that these entities are basically staying on as books. I mean they are companies, but the management is now organized along the lines of the regional areas that we are reporting.

So we are reporting according to the way, as it should be by the way, according to the way our business is actually run. So let's say that MAPFRE INTERNACIONAL and MAPFRE AMERICA continue to exist for legal and administrative purposes, but they no longer are run as companies and that is the reason for which we no longer give you figures.

What are we giving you to help you make the transition, the figures that you find in the appendix, you will find figures from MAPFRE FAMILIAR, MAPFRE VIDA, MAPFRE EMPRESAS, MAPFRE USA, BRAZIL, RE, et cetera. They are the same that you had in the previous accounts. So those are exactly identical to those you had.

And of course, the consolidated figures are the same as well. So if you look at those accounts, you will find no difference. Those figures are exactly the same you've been

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having quarter-after-quarter in the past.

Whenever you see differences, they are really in a few instances. You will see that mostly, if my memory doesn't fail me, in LatAm North and APAC and perhaps Iberia. It's because in those regions, either GLOBAL RISKS or ASISTENCIA have some gains or issuance variations which are relevant.

And also to help you smooth the transition also because of a matter of scale, mostly when you see differences between the region and the companies is because of GLOBAL RISKS, because GLOBAL RISKS has the biggest swings in both premiums and profit. So just to give you an idea.

I wonder if this clarifies your question - answers your question, Niccolo...

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

Yeah. Yeah.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

...otherwise, please ask because I think it's for the benefit of everyone.

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

Yeah, it does. And just also one more part. So for the future, if I look at for example €535 million, which is the complete P&L for - on the new structure, are you going to give granularity in the same way today you gave for MAPFRE FAMILIAR, i.e. we have expense ratio, combined loss ratio, the pool of investments for the financial investments, et cetera?

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Possibly yes. I mean, these are quarterly accounts also. I mean these are not half year or full accounts so it's likely that we will be giving more details on half yearly and full year basis. These are quarterly figures and also they are initial (47:05). But yes, of course, going forward, you will get more information on the regions as the business progresses.

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

Okay, very good. Thank you.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

So I'll finish with the technical questions let's say, quote unquote, and then I'll leave it to Mr. Tejera your second question. On GLOBAL RISKS, your question was the expense ratio, do I remember it well?

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

On slide 10, you mentioned that you have changed the recognition criteria for the commercial expenses in Spain?

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Yeah, yeah. It's not commercial insurance, it's distribution expenses. It's just that...

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

Okay.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

...we have decided to anticipate the recognition of some commercial expenses in full in the first quarter. So what you will be seeing, it's a gradual dilution of this impact as the year progresses.

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

Is it very big in terms of what kind of numbers are we talking about?

**A - Luigi Lubelli** {BIO 4108780 <GO>}

I mean as we've not given precisely the figure, I cannot tell you, but it's most, let's say, most of the increase in the expense ratio in the Spanish Non-Life operations comes from that. It's the main component. And as far as Venezuela is concerned, you're absolutely right. We continue to use the same exchange rate as we did before, so for those in the business, (48:51) we are discussing this with our auditors, and we anticipate that we will be reaching some sort of decision soon. But as we are yet discussing this with them, we decided not to make any recognition in these accounts, the first quarter accounts.

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

Okay. And if there was a recognition, there would be some one-off gains, although that would be partly eaten up by the inflation later in the year, right.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

One-off gains and one-off losses, I mean it's a combination of the two.

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

Okay.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Yes. But, I mean, you understood the mechanics, but it's good that you asked and I repeat for the benefit of everyone. As you know, in Venezuela, we have a significant proportion of the portfolio that is dollar-denominated. And that is the reason why a year ago, when the same happened basically, we had one-off gains that we recognized. It's basically

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some sort of hedge, which flows through the P&L and compensates for the losses in equity.

So if that's all on the technical side, Niccolo, I would pass the questions to Esteban.

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

Yes, Thank you.

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

Hi, Niccolo. Well, the situation in the Spain, the economic situation in Spain is clearly improving. And I think that this will impact in the business growth (50:27) of our business in Spain. It's true that usually there is a delay of several months before this occurs, but this is happening. In terms of Motor insurance, even if the gross written (50:31) premium continued to decrease in the sector as a whole, but the figures now are smaller than before.

So, there is a change of tendency, and we can see how another branches like health insurance is growing. We have grown more than 6%. Home (51:05) is starting to grow. So I think that in Spain, the situation is improving in terms of the growth. It's true that when this happens, usually the frequency especially in Motor insurance will grow also. But I think that our policy of being very prudent in terms of technical results will work in this environment.

In the other countries in Latin America, especially in Brazil and in Turkey where there are worries about the evolution of these countries, I think that our position there is very strong and the demand for insurance products for particulars (52:04) will continue to grow and our figures show that we have grown in Brazil roughly 18% in local currency and more or less the same in Turkey.

The growth of the middle class there and the high demand for insurance is continuing and we have very good position there. So I think that we are witnessing (52:40) some kind of recovery in general and the main concern now is if the appreciation of the euro will continue or not. And to what I said, I think that this (53:22) movement of the currency changes will improve our figures in the next quarters dramatically.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Have we answered your question, Niccolo?

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

Yes. Thanks very much. Thank you.

**Operator**

Our next question comes from the line of Atanasio Pantarrotas from Kepler Cheuvreux. Please go ahead.

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## Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Yes. Good morning to everybody. I have a few questions. First one on the Motor business in Spain, I saw that you reported still a decrease of 4% in both premiums and vehicles insured in your Motor insurance in Spain. And I wonder if you can give us some more color because I expected to see some pick-up in the number of vehicles insured and maybe also in the premium income. And also if there is any impact of claim frequency driven by some increase in the economic activity in Spain.

Second question regards the Non-Life investment income in the slide number 22. If you can give us also the figure for both the first quarter of 2014 and 2013 of the impact of mark-to-market securities. So what is the impact due to the variation of interest rates in your financial income, as you provide us in the previous quarter?

And finally one question, expense ratio in the Life business because I saw a good trend in the first quarter compared to the previous quarter, if you can - I guessed it is mainly driven by the business in LatAm, maybe driven also by forex, but also if there is any other impact on this improvement? Thank you.

## A - Luigi Lubelli {BIO 4108780 <GO>}

Hey. Good morning, Atanasio. Let's see, one important element which does have a certain impact on the Motor business although it seems weird, but at least here in Spain and also in Latin America, it does matter, is the fact that Easter this year was in April and last year it was in March. So, it does have an impact on both issuance and of claims. So in the Easter week, there is less issuance but also less claims. So, this year, when you compare the two, you have more issuance and more claims, let's say, in the first quarter of this year compared to the first quarter of last year. It may seem irrelevant but it actually does have an impact.

Let's say, in terms of - and Mr. Tejera can elaborate on this in terms of the trends. What we are seeing basically is that as the year progresses, we are seeing, let's say, what you would expect from an economic recovery. So, we are seeing some pickup in sales and we are also seeing a pickup in frequency. The fact is on the Motor side, we had that more towards the end of the quarter rather than the beginning of the quarter. So let's say the quarter in Motor insurance maintains the trend we saw in previous quarter, but empirically, we are seeing an improvement that we understand quote hope, quote trust (57:08) will be stronger in the second quarter of this year compared to the first one.

It is true that vehicles fell, but it's also true that vehicles fell half what they fell on average in the previous year. So last year, we were about 80,000 vehicles and this year, we have 40,000 vehicles. So I'm wondering if I am conveying to you what we see. So, let's say, it's not yet in the figures but the figures are less bad than they used to be because of this change in trend we are seemingly experiencing in the market.

Does that answer your question?

## Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

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Yes. Thanks.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

The question on the financial income was not clear to me. I've got slide 22 in front of me, and exactly what is your question?

**Q - Atanasio Pantarrotas** {BIO 5933123 <GO>}

Now, because I remember that in the past quarter, you provided the impact of the rising interest rates, particularly in LatAm, on your security classify in the fair value to profit and loss. I remember that there was a particularly tough impact in the full year 2013 of minus €49 million due to this. And I wonder what was the impact in the first quarter 2014, if any?

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Right. I am comparing to (58:47) the fact is that this is a quarterly comparison, we did not give that figure in the first quarter of last year, so that's possibly the reason why we have. Qualitatively, there is - let's say, the main impact last year was in Brazil on the negative mark-to-market.

**Q - Atanasio Pantarrotas** {BIO 5933123 <GO>}

Yes.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

What has happened from then on is that the portfolio - as it matured, the portfolio that we first - previously had at fair value through P&L now is increasingly at fair value through equity.

**Q - Atanasio Pantarrotas** {BIO 5933123 <GO>}

Okay.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

So if you look at the year-on-year variations, the mark-to-market has less of an impact because basically, we no longer have investments at fair value and listed in same proportion, let's say then (59:40) straight answer to your question is that the proportion of the portfolio at fair value through P&L has fallen dramatically in Brazil. That is one. And also in Malta, the variation was comparatively smaller, if my memory does not fail me, in the fair value through P&L.

**Q - Atanasio Pantarrotas** {BIO 5933123 <GO>}

Okay.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Okay, and let me see because I had somewhere your question. It was expenses in Life.

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**Q - Atanasio Pantarrotas** {BIO 5933123 <GO>}

Yes, I mean I saw that there was an improvement in the total expense in your Life business.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

The expenses? Where do you see the expenses of the Life business?

**Q - Atanasio Pantarrotas** {BIO 5933123 <GO>}

I mean in the Euro (1:00:37) classification of your accounting, i.e., the net operating expenses were 245 (1:00:42)

**A - Luigi Lubelli** {BIO 4108780 <GO>}

I see. I see. I see

**Q - Atanasio Pantarrotas** {BIO 5933123 <GO>}

Some €20 million less compared to the past years despite that the volumes are larger.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Oh, yes, of course. Yes. Yes, yes, yes. This is Brazil. (01:01:19)

**Q - Atanasio Pantarrotas** {BIO 5933123 <GO>}

So the impact of the forex?

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Yes - no, no, no, it's not forex. Last year, in the Life account, we had the Burial business. If you remember, when in the last quarter of 2013, we reclassified the Burial from Life to Non-Life, you saw a big increase in the combined ratio in Brazil on a quarterly basis, and that is because the Burial business in Brazil has comparatively larger expenses. So last year, you had the Burial in Life, and that is the reason for the difference in expenses year-on-year.

**Q - Atanasio Pantarrotas** {BIO 5933123 <GO>}

Okay. Very clear. Thank you.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Yes.

**Operator**

Our next question comes from the line Federico Salerno from MainFirst. Please go ahead, sir.

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Our next question comes from the line Federico Salerno from MainFirst. Please go ahead.

**Q - Federico Salerno** {BIO 2565091 <GO>}

Good morning, everyone. Just a few things. The first question is on MAPFRE EMPRESAS. I think you mentioned some large claims in the first quarter. Could you quantify that in terms of impact on the loss ratio maybe? That's the first question.

The second is on embedded value. You mentioned higher assumptions for lapses because of the economic environment. Could you expand a little on that, say which products were affected most maybe?

And then the last one is on MAPFRE US, the loss ratio stayed quite high, could you explain why, what's going on and what's the outlook for the remainder of the year? Thank you.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Okay. Hi, Federico. We cannot quantify the losses that - because we actually have not discovered (1:03:06). What I can tell you is that - let's see, let's get to slide 39, where we have the figures of MAPFRE EMPRESAS. Here, there is some impact from the net premiums earned, that is something that you have to bear in mind in the loss ratio.

So, in terms of the actual losses, you had basically €27.6 million of losses a year ago and €31.5 million losses this year. So, the difference doesn't get (1:03:59) to €4 million year-on-year. I've arrived to these figures by multiplying the - actually, I made a mistake, sorry. I got confused. Forget what I just said. I multiplied the expense ratio, let me - just wait for a while. I'll make the calculations again, my mistake. Sorry for that.

**Q - Federico Salerno** {BIO 2565091 <GO>}

Okay.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

So we had €69 million in terms of cash of losses last year and we have €79 million. So, it's €10 million more. This I arrived by multiplying the loss ratio times the net premiums earned. So the increase is about €10 million. What has happened is basically we have a frequency impact. We have a higher frequency in EMPRESAS, cannot tell you exactly. And then we had a few claims in fisheries. We had some boats that sunk.

**Q - Federico Salerno** {BIO 2565091 <GO>}

Thank you.

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

Now, I think that there is a major claim in special operation. I think that - unfortunately, I can't give you details now, but I think that tomorrow we (01:05:20) will be having the details of the, if you want, (01:05:26) special operation enterprise (01:05:30).

**Q - Federico Salerno** {BIO 2565091 <GO>}

Okay.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Okay. But also, I mean, this is for sure that (01:05:43) in terms of the both – it may sound strange, but if you can remember, both Spain and the UK has had very bad weather and very bad sea and that led to some losses in marine which affected this line.

Lapsation in embedded value was – the impact was primarily on protection business, that was the business that was most affected, but these are assumptions, change in lapsation assumptions.

And your third question, I'm sorry, could you repeat your third question?

**Q - Federico Salerno** {BIO 2565091 <GO>}

Sure. It's on the loss ratio in the U.S. basically stayed flat, if I'm correct. I was expecting some improvement. Can you say what's going on and what the outlook is for the rest of the year?

**A - Luigi Lubelli** {BIO 4108780 <GO>}

The first quarter, as you know, it's winter. So, then you're right. They are somewhat larger this year, they are not much larger. So one of the reasons is that the winter storms are a bit larger. Let me just get the figures in front of me so that I can – so that is the – I mean, the loss ratio in the U.S. is not that different really from a year ago, we have 0.2 percentage point difference. So, it's – I mean, we have €1 million more roughly of losses.

What that affects, as I said before, is that we are expanding our distribution network in the United States and that, of course, is leading to larger expenses. What really drives the increase in the combined ratio is that, as you can see on slide 45.

**Q - Federico Salerno** {BIO 2565091 <GO>}

Do you still think you will get to 100% at some point in the next few quarters or it's out of reach?

**A - Luigi Lubelli** {BIO 4108780 <GO>}

That's certainly what we always strive for. Let me just see, I'm just trying to recall because I cannot keep all the figures in my head. But a year ago, we ended the year at 100.5%. We began the year last year pretty well (1:08:15) a bit better than this. So, hopefully, we do have these expenses, but certainly what we are aiming for and we always do, we are aiming for a technical profit and underwriting profit.

**Q - Federico Salerno** {BIO 2565091 <GO>}

Okay. Thank you.

## Operator

Our next question comes from the line of Vinit Malhotra from Goldman Sachs. Please go ahead.

### Q - Vinit Malhotra {BIO 16184491 <GO>}

Hello? Hello? Can you hear me? Hello? This is Vinit here from Goldman. Just on the Spanish commercial insurance, if you just focus on that please. The first thing I want to understand is, is the frequency uptake, is it in line with what you were mentioning in the last quarters conference call? In other words, you've already indicated that the frequency is up-ticking in commercial lines. Is it just the same trend in line with your expectations or is it much worse than what you were indicating?

Secondly, you also mentioned competition. Is that a major portion of the reason for this slight miss in earnings or is it more driven by this frequency and large loss phenomena? Thank you for two questions, please.

### A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Vinit. Okay, I would say that the answer to the first question is yes, very much so, I would say also. Let's see, the loss ratio in commercial in Spain, most of the increase is claims, not frequency. It's the corporate claim that Mr. Tejera was referring to, and the claims in marine I was referring to. There is an uptick in frequency, but let's say that that was not the main element in this quarter frequency-wise.

In commercial, let's say, it's a trend that we've seen a bit everywhere because we've seen that in or let's say, (1:10:30) in Spain, we had two main variations because one is seen in MAPFRE EMPRESAS and the other one is seen in GLOBAL RISKS. In MAPFRE EMPRESAS, we actually have less competition. We have these corporate contracts are often contracts which are €10 million or €20 million figures. So if you have a contract which is not renewed, it's €10 million or €20 million that goes, and so that is something that creates a swing in your premiums figure year-on-year. And we had instances like that in Spain but also in Mexico, also in LatAm South. It's been, let's say, generalized trend which is just that the market is soft and very competitive.

In GLOBAL RISKS in Spain, which is reflected in the Iberia figures, it's simply that last year we had one-off operations. I mean just to give you an idea, one of them was the launch of a satellite. Clearly, you don't launch a satellite every year in the first quarter. So we insured that a year ago and we did not insure that any longer this year. So this is the kind of variations that we have. Am I answering your questions?

### Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. If I can just ask one thing quickly on Brazil. The 93% (1:11:53) combined ratio – sorry, this is just a third point just to clarify. Yes, the first two are clear enough. Thanks. Just a third question, if I can squeeze in. In Brazil, 93% combined ratio, is there something we should note in that and you probably mentioned it and probably the line wasn't clear, so I apologize if I'm asking something you've mentioned.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

No, it's all right. Brazil, there is two elements. Non-Life, you're talking right.

**Q - Vinit Malhotra** {BIO 16184491 <GO>}

Yes. The 93.1% combined ratio (1:12:26).

**A - Luigi Lubelli** {BIO 4108780 <GO>}

So here we have two drivers, one is a negative one, which is the Burial business, which last year wasn't in Non-Life and this year it is in the Non-Life. That has a negative impact on the - had a negative impact last year. So that explains to you the fall in expense ratio, because this year you don't have the Burial income, Burial business (1:13:01). This year, you have a higher loss ratio because the Burial business had a lower loss ratio and also because especially in Motor insurance, we are seeing an uptick. What compensates for the two is the fact that the business mix was geared towards business with cheaper acquisition expenses. So on average, the acquisition expenses have fallen.

**Q - Vinit Malhotra** {BIO 16184491 <GO>}

Yes, but (01:13:33) Sorry.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Yes. So the expenses, you have two reasons for the decrease. One is that you no longer have the Burial business, which is more expensive; and two, that what you have sold has had on average a lower acquisition cost, a lower commission paid on it. On the loss side, you no longer have the Burial business, which is a business which has a lower loss ratio, and the claims have gone up in Motor insurance.

**Q - Vinit Malhotra** {BIO 16184491 <GO>}

(01:14:11)

**A - Luigi Lubelli** {BIO 4108780 <GO>}

And also in agricultural insurance, we have drought. Sorry, now, I've recalled it. We also had a drought, which had an impact on agricultural insurance.

**Q - Vinit Malhotra** {BIO 16184491 <GO>}

Okay. Thanks. So the 93% combined is strong because of expenses. Thank you.

**A - Luigi Lubelli** {BIO 4108780 <GO>}

Yes.

**Q - Vinit Malhotra** {BIO 16184491 <GO>}

Thank you.

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## Operator

There are no further questions.

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

Okay. If there is no more questions, thank you as always for attending our conference call. And I hope to see all of you tomorrow in London and I hope to take the opportunity to deliver the figures of the next quarter as always. Thank you.

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