

Q3 2012 Earnings Call

Company Participants

- Esteban Tejera, General Manager
- Jesus Amadori, Head of IR
- Luigi Lubelli, Finance Director

Other Participants

- Federico Salerno, Analyst
- Giulia Raffo, Analyst
- Maciej Wasilewicz, Analyst
- Marcus Rivaldi, Analyst
- Niccolo Dalla Palma, Analyst
- Rodrigo Vazquez, Analyst
- Vinit Malhotra, Analyst
- Will Hardcastle, Analyst

Presentation

Esteban Tejera {BIO 3910673 <GO>}

Good afternoon, ladies and gentlemen. Welcome to MAPFRE's results presentation for the Third Quarter of 2012. As usual, I will give an overview of results and the main business developments and later, Mr. Lubelli will explain the financials in greater detail. Finally we will take your questions.

Please let's move onto slide number 3. The figures for the first nine months of the year confirm that things are (inaudible) in the first half. MAPFRE enjoys a significant resilience to the (inaudible) environment thanks to its business of (loans) which has provided growth in volume and profits that is rapidly matching growth generated by our strong domestic business activities.

Premiums grew by 13%, driven once again by foreign business activities and primarily by Brazil. I must note that in September 2011, we have finally consolidated the new activities in that country during (form).

Revenues grew a little less than premiums but are significantly more than 10% and we should keep in mind how we got that the last year we recognized by laying out EUR122 million writing from the agreement with Banco do Brasil which was not repeated this year.

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Funds under management grew nearly 12% reflecting primarily the growth of the international business and again the combined ratio of funds have improved and is now nearly 1.5 percentage points less than it was a year ago. This reflects the comparatively low international (inaudible) capacity related claims on MAPFRE and MAPFRE International and improvement in Latin America in the ongoing strong (inaudible) in Spain.

The underlying profit growth was around 9% taking into account several nonrecurring items that I would start reanalyzing in greater detail.

Moving on to the next slide, here you have the main drivers of the year. The international business continues to deliver its potential and with (an internal value) growth of the international business that this year is enhanced by the appreciation of the euro. In non-Life, as I mentioned before, the excellent combined ratio in Spain and a strong improvement in the underwriting result at the international insurance and global businesses.

In Life, there is some improvement on the recurring results thanks to the growth of the international business especially. And as you can remember, we made some impairments of our shareholdings in Bankia and Cattolica during the first half of the year and we have a provision that was EUR20 million in the first half of the year and now it's EUR30 million for the challenging financial environment.

We are going to get also a positive impact on equity as a result of the recovery in the financial markets, which is partially offset by the depreciation of the Brazilian real.

On slide 5, we have the figures for both years that contain first of all, nonrecurring items that need to be taken into account. In 2012, we have the write-downs from the holdings of the Greek public debt which are neutralized by the release of the provisions appropriated in 2011, in the write downs of our shareholdings in Bankia and Cattolica, and as I mentioned before, the provisions for EUR30 million covering potential losses in financial and real estate (losses). And we have additional (realization) rates.

Taking into account these items, we see that their results on insurance operators and (inaudible) have grown over the first half that (is lifting) a strong profit growth (inaudible). The recovery attributable results grew a solid 9%.

Let's move on to the next slide. Here you can see the changes in the sector we're making in order to improve our efficiency and maximize synergies by the creation of the Spain and Portugal Insurance Division and the integration of MAPFRE Puerto Rico into MAPFRE International, which will be effective January 1, 2013.

In -- on the slide 7, there is a new organizational chart resulting from the changes I just referred to.

On page 8, you can see the agreement of the Board of Directors relating to interim dividend. In light of the volatility in the economic and financial environment, MAPFRE's

Board of Directors deems it appropriate to strengthen the Group's level of capitalization, liquidity, and financial flexibility in this sales environment. And the capability to pay an interim dividend against the 2012 results of EURO.04 per share fully in cash that according to this could be EURO.08 that we approved during the year. The total dividend paid in cash for the year amounts to EURO.12 per share.

In total, the outlay amounts to EUR370 million.

I will now hand the call to Mr. Lubelli for a more in-depth analysis of our results.

Luigi Lubelli {BIO 4108780 <GO>}

Thank you. Good afternoon, everybody. Let's please move on to slide number 10. On this slide we have the usual breakdown of the business by geographical area. We continue to see the trend of those today and I would say over the last four or five years, the foreign business represents 67% of total premiums against 61% a year ago, so it's 6percentage points more and this reflects strong organic growth abroad, 24% in Latin America excluding Brazil, 11% in MAPFRE International excluding Malta, and 30% in global businesses against the 5% contraction in Spain.

In addition to this, we have the consolidation of the business with Banco de Brasil during the whole nine months of the year against only four months in 2011 plus the contribution of other EUR90 million from Malta. This was further enhanced by appreciation of the euro against all currencies except the real and the Turkish lira.

The contribution to total results is shown here according to unadjusted accounting figures. You have adjusted figures on slide 42 of the appendix and excluding nonrecurring items, the foreign business activities contributed 47% of total insurance profit, up from 38% a year ago. So we are talking about nearly 10percentage points more year on year.

Compared to the previous quarter, we see a higher rate of the Spanish business due to winning of a large corporate contract in the last Life business as well as to the comparative effects of the write-downs which were carried out in June. In my view, the developments provide evidence of the high degree of international diversification in MAPFRE's operations which now contribute (inaudible) of premiums and basically half of profits.

And as Esteban was highlighting, this enhances our resilience to the adverse developments in the Spanish markets.

On the next slide, we have different way of showing the contributions, premiums, and results. Once again we can see the foreign business activities drive the development of our financials. This is very similar once again to June. We have four main contributors to premiums and profits -- Spain, Brazil, the USA, and reinsurance business. There are no material differences compared to the previous quarter save for the impact of the June write-downs I just referred to, which rise slightly more -- raised slightly more than 1percentage points the contribution of Spain to profits.

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And of course, the (levering) weight on Brazil due to store consolidation. If we compare year on year with the material different profit contribution due to the full consolidation of Brazil and the absence of major weather-related and capacity-related claims at MAPFRE Re and MAPFRE USA. I would like to note that Brazil and the USA, to sum them up, already contribute nearly a quarter of total insurance results.

On the following slide, we have a more detailed breakdown of the nonlife business. Spain continues to experience a slowdown in sales, which is unsurprisingly a reflection of the economic situation. Nonetheless, it continues to win market share in motor insurance, for instance. The underwriting results remains extremely strong and it remains a major driver of our gross profits.

Year on year, we see an improvement in the combined ratio in multiline commercial insurance and a deterioration in the other lines which in 2011 benefited from especially the (inaudible) loss experience in specialty in households and burial.

America remains the main driver of nonlife premium growth, bringing in 75% of the total increase. The combined ratio below 100% for the Second Quarter in a row, reflecting an improved loss experience in general health and accident insurance that more than compensated for the higher acquisition cost of the business distributed to (inaudible) in the (inaudible) groups and led to a EUR30 million improvement in the underwriting results.

Overall, MAPFRE USA and MAPFRE Re are the main drivers of the improvement in the technical results at the consolidated level thanks as I said previously, to the low incidence of weather-related and capacity claims compared to 2011. There are also major contributors to premium growth thanks to the development of their business and also to the appreciation of the euro.

MAPFRE Global Risk continues to do record growth in its foreign business. It's combined ratio improved notably compared to June because in that -- on the first half it was negatively affected by two large claims in Europe. Year on year, you can still see an increase in its expense ratio, which is due to a rise in the cost of reinsurance protection.

Last but not least, MAPFRE Asistencia continues to experience an acceleration in its growth that's driven primarily by the extended warranty business in the US and the travel insurance business in the UK, France, and China.

The variation in the combined ratio against the first half is most driven by foreign exchange.

On slide 13, we have the non-Life account. I have already spoken in detail about premium growth and underwriting results and as you can imagine by now, trends and figures remain in line with the first half. If we compare to June, premiums growth declined and that is obviously because the full-year consolidation of Brazil gets diluted as the year advances.

Bloomberg Transcript

Financial income excluding nonrecurring items especially write-downs goes up by about 5% year on year driven by a higher yield in Spain and the development of the foreign business. The net provisions for write-downs amount to EUR137 million in this account.

We move on to the Life business on slide 14. Here too, extend our growth is a powerful driver of topline growth with a contribution of EUR851 from Brazil and EUR65 million from Malta. Organic growth is very strong in Brazil, Central America, Peru, and Uruguay.

MAPFRE Re is also recording a very nice increase in sales which is coming mainly from the European (inaudible) companies. If we compare the figures year on year, the size of the foreign Life business is up 70% in terms of premiums and 50% in terms of technical financial results. MAPFRE Vida saw a similar strong performance of the agents channel, which is largely making up for the contraction in sales to the bancassurance channel.

Premium growth improved notably compared to the first half due to the winning of a large contract worth EUR350 million with a corporate customer. The technical financial result continues to benefit from the growing rate of life protection insurance.

The accounts for the Life business is on slide 15. I already referred to the main drivers. Here what I would like to highlight is increasing the technical financial results excluding nonrecurring items, mainly agreement with Banco do Brasil in 2011 and EUR10 million of realization losses and write-downs this year. Once again, the main driver of this was the development in technical financial results is the Latin American business.

On slide 16, we have the other business activities. Here if you exclude the figures at the consolidated level, we have a falling relevance of this line, which is a direct reflection of our decision to exit most of these business lines. The most notable development here are the inclusion of some noninsurance activities in Brazil and Spain, the write-downs of the investment in Cattolica which will come in the first half, and provisions of EUR40.5 million for losses in real estate assets, EUR32 million of which were appropriated in this quarter.

The bottom line is on slide 17. Despite impairments and provisions which in total amounted to EUR270 million, the pretax profit is down only 1.8% and this reflects the strong improvement in the underwriting results in the non-Life businesses as well as larger financial income reflecting higher yields and a he larger volume of business as well as the exit from most noninsurance businesses.

When we go to the year-on-year contraction, that is due mostly to the growth in the tax payments due to the fact that last year the tax rate fell because of the periods of adjustment arising from the commencement of the joint business activities with Banco do Brasil. This year we have a fairly stable tax rate at around 29.5% and a larger share of minorities, which is driven by the full-year consolidation and significant growth of the new Brazilian operations.

Anyway, if we compare September against June we see a smaller impact because in September 2011, we had already booked four months of this business. In addition to that,

as you know we brought back the 10% stake that BofA held in MAPFRE America which means in the second and Third Quarter of this year, we retain that percentage of MAPFRE America's profits at a consolidated level.

On slide 18, we have the balance sheet. We had some variations in intangible assets coming from the final assignments to which assets of the valuations carried out in the alliance with Banco do Brasil. Cash has fallen compared to the previous year because it has been invested in financial assets. If you compare to June, you will see that demands in investment equity, technical reserves go up because -- mainly because the risk premiums on Spanish securities has fallen at the close of September compared to the close of June.

Then we have other variations which we think a lot on the slide, we see an increase in insurance and reinsurance operations coming from the growth of the volume ceded by the international business. We have the tax impact of the higher intangibles compared to the previous year on deferred taxes. And overall in the balance sheet, we have the impact of appreciation of the euro against the Brazilian real, which reduces balance sheet growth.

Finally, we have the statement of changes in equity. As I said, if you compare to June, you can see a recovery in the market value of the investments and I feel some may find surprising the shadow accounting figures but it's just a matter of comparisons with the figure for the close of 2011.

If you look at it on a quarterly basis, the investments available for sale recorded a net appreciation of EUR580 million. And of that, EUR230 million was absorbed by shadow accounting, which is about 40%. So the relation remains broadly in line with what we have seen to date.

I already mentioned the effect of the appreciation of the euro against the real. That is the main impact of any translation adjustments. We have the dividends that were approved and we have some changes in other items which in this quarter come primarily from the final valuation of the assets resulting from the alliance with Banco do Brasil.

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

Esteban Tejera {BIO 3910673 <GO>}

Thank you, Luigi. Well I feel that you have to now all the details and so now as usual we are now available for your questions.

Questions And Answers

Operator

Will Hardcastle, Bank of America.

Q - Will Hardcastle {BIO 16346311 <GO>}

Thanks for taking the question. You stated on the Q2 conference call that your capital position was broadly equivalent to a AA S&P rating. Now, do you still believe this to be the case and how does this link to your -- the action taken on the dividend?

A - Luigi Lubelli {BIO 4108780 <GO>}

Will. Good afternoon. We continue to believe so the decision on dividends which you refer to does not respond to the fact that the position is insufficient. What we think -- we have to take stock of the environment in which we operate and the reality in which we operate. We are based in Spain and the country is in an economic situation to become more difficult than it used to be in the past, but more importantly than that, there is a perception of Spain and Spanish companies which you will correct me -- that is of greater weakness compared to the past. And we think we are a company that has a tradition of high or extremely high financial strength and we think that the best way to go along the road in the future is to keep an even stronger capital and liquidity position just to respond to this environment.

So we continue to believe what we said in Q2 and we continue to consider our capital position to be in that range. Yes. That's the answer. I don't if Esteban wants to add anything.

A - Esteban Tejera {BIO 3910673 <GO>}

For us it's very important to have two or three months of the market that we have a resilience in this financial environment and the most important figure, financial flexibility for the future and in this sense as you know, our position of debt is very low but having (inaudible) of the liquidity and financial flexibility for the months to come as the most important consideration of the Board at the time of the (inaudible) dividends.

The dividend in any case is paid to fully in cash and the new condition essentially in Spain or so will help us to take (inaudible).

Q - Will Hardcastle {BIO 16346311 <GO>}

Okay. Great. Thanks. Can I just ask one separate question? Regarding the property provision, can I just check, is that provision not a specific impairment, is it?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well it's just a provision really in expectation of the potential I would say provision on the valuation of assets. As you know, we -- let's say it is our ongoing estimate of the valuation corrections. At the end of the year as we have said in previous conference calls, we get our properties revised by external surveyors and at that time, we find the valuations are checked by surveyors and the auditors and we then define the specific provisions which is usually in the last quarter of the year.

Q - Will Hardcastle {BIO 16346311 <GO>}

Sure, thank you.

Operator

Maciej Wasilewicz, Morgan Stanley.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Thanks for taking my question. I have got two, if I can. First question is I just wanted to confirm at the moment are you in any way looking at M&A in the Spanish region at all? Or in fact more broadly, is there any M&A on the agenda that you can see or can you rule out any kind of acquisitions of any material size at least over the next six months? Just because there's been a few market reports that I thought might be worth addressing.

The second thing is on the reinsurance business, I think with everyone saying that would be your most sensitive business to your rating, and if so, could you in any way describe what impact you expect on that business going into next year? I know that a lot of the business is sticky. You've had a lot of little clients for a while. Part of it is internal. How should we be thinking about this business going into 1/1 next year?

A - Esteban Tejera {BIO 3910673 <GO>}

Thank you. Good afternoon to you. I think (inaudible) in the latest M&A, we are not thinking about new offerings in Spain in this (third) term. The situation in Spain is very tough and our markets here is very high and we are thinking about this situation, but the market did play into gaining market share in multiple insurance and calling on consumer insurance in the branches where we operate in Spain. So no need for new merger and acquisition in Spain and frankly no opportunities in the horizon, so this is the situation.

A - Luigi Lubelli {BIO 4108780 <GO>}

And in terms of --- Luigi, thanks for asking the question because I imagine it can be in the minds of many. Actually as a matter of fact, we are quite pleased by the initial reactions of the market to the downgrades because there's an increasing perception and let's say acknowledgment by market participants that this is not due to an actual weakness in MAPFRE itself but rather to some kind of impact from being Spanish. The main brokers have reaffirmed their opinion of MAPFRE than acceptable security with no restrictions, so actually the response of the main broker is very favorable in that respect. And it's true that a portion, a significant portion of our business is with MAPFRE companies but it's true that most with non-MAPFRE companies. Two-thirds come from companies that do not belong to our Group. And as you say, you are absolutely right. We have no (inaudible) ongoing relationships. We are devoting a lot of time and effort in dealing with our ceiling companies and to giving them all the information they need to confirm their opinion about the financial strength of MAPFRE.

Actually I have to say that we are very pleased with the reaction today. So far so good I have to say. Clearly we have a renewal session coming up in February. We will let you know what the final verdict of that, but let's say that initial reaction is positive and I think it is especially positive that the main brokers are absolutely compact on considering -- on continuing to consider MAPFRE as an acceptable security.

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Q - Maciej Wasilewicz {BIO 16462204 <GO>}

That's really good. Thanks for telling us that. Just a little follow-up, I know that there was a little bit of the news flow about the global aerospace pool. That must be a tiny part of your business. Is that just why -- I guess if you could explain what the reaction was there and why that would be different to the general reaction to your reinsurance business?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. Actually thanks once again also for bringing this up. Global aerospace was not in the reinsurance business. Global aerospace was in the global commercial business and simply the rules of global aerospace are that the members of the pool must be rated single-A or better, so that is basically takes you -- an automatic consequence that is we maintain an excellent relationship with the members of the pool and they absolutely have no doubt about MAPFRE. It's just the fact that it's kind of an (inaudible) ticket. You either have the ticket or you don't.

Broadly the commercial business is in a -- clearly in commercial business is the newer business than the reinsurance business but basically they are going about this issue the same way that the reinsurance business is doing, which is speaking to their customers and providing them with all the reinsurance that they need.

Obviously there is some degree of automated cancellations which are not available. Some simply clients simply have a policy of wanting a certain rating and not setting below certain rating and this was the case of this (goal).

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Thank you very much.

Operator

Giulia Raffo, Autonomous.

Q - Giulia Raffo {BIO 7573856 <GO>}

Good afternoon. Thank you very much. Just a quick question. One, the first one would be on your dividend choice and I was wondering whether you can comment how much of the Board choice was attributable to the fact that SMPs now got the Spanish sovereign rated only one notch higher than what would be considered as junk?

Then a question on that further, would be if I look at your -- that I see that you have EUR500 million of credit facility which are expiring in 2013. What is your thinking on that? Can we link the decision on cutting the dividend payment to that and thinking of the refinancing needs and how difficult it would be or how costly it could be given the rating?

Then one quick question on land. Should we interpret that the EUR40 million charge that you took in the nine months, EUR32 million of which were in Q3, were mainly in relation to

the EUR700 million land or is it just a general charge? And should we expect something similar to come for Q4?

A - Luigi Lubelli {BIO 4108780 <GO>}

Good afternoon, Giulia. Now there is absolutely no link whatsoever between the decision of the Board and the S&P rating. It's divisions that I -- that's Esteban and I mentioned before are the reasons for which, but I think it's important and I appreciate the fact that it's a piece of news that is catching your attention.

But really, it's plain and simple. This is a management decision. It does not have anything to do with anyone else. It comes from MAPFRE. We have a certain track record as a Group. We have a certain reputation and we have a certain image in the market which we think it is a valuable asset from a commercial standpoint.

We cannot ignore the fact or pretend that it does not exist. The fact that Spain is no longer perceived to be as safe as it was perceived to be, say, two years ago. And that clearly has an impact on all Spanish companies including us.

Other companies will respond to this in different ways. Our decision has been to respond the way we usually have in the past, which is by keeping very strong solvency and very strong liquidity, even higher than what we have kept today and that is the reason for that.

Clearly money is fungible, meaning if we keep more money, the money can be used for the syndicated loan maturing in 2013 or can be employed for any other purpose. The dividend or really the syndicated loan, you're right, matures in 2013 at the end of the first half. We have not yet taken a decision about the loan. We may decide to either refinance it or to pay it down. It is something that we are -- it's the possibilities we -- this has not yet been decided. But it surely is coming up and it's something we will handle in the coming months.

But clearly of course if we have more cash at the holding company, it's cash that can be deployed for that reason or for any other reason.

Q - Giulia Raffo {BIO 7573856 <GO>}

Excuse me, but it strikes me that paying EURO.07 -- sorry, EURO.04 instead of EURO.07 at the end only saves EUR90 million, so I'm trying to understand what the thinking because if you are worried about Spain, then EUR90 million against Spanish asset of (EUR90 million) and EUR10 billion is not going to do you much of a favor. So I'm trying to understand what -- your capital is strong. Your cash flow is strong. I don't really see what the delta here.

A - Esteban Tejera {BIO 3910673 <GO>}

It would be in that situation where we are reporting the (technical difficulty) benefit value last year. And this is an interim dividend, so the situation is that keeping the same EURO.07 when the situation in Spain is so complex was not an alternative really from -- for the Board.

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In any case, this is only two (inaudible) one counterpoint from the point of view of liquidity and financial flexibility. The situation seen from Spain could be different than seen from London. Here, we have suffered in during the last months situation where one day you have to downgrade of the (inaudible) of Spain for the rating agencies although we expect with the euro is righting suddenly the markets are opened or closed. And in this environment, to equal -- to have buffers and to send a signal to the markets that we can keep resilient due to our current policy is our way of (inaudible) as usual.

In other times we have had dividends, in other times we've had debt. We have done this reduction at these things but during the year, it will help cut -- fully in cash with the entire dividend and this dividend and this is (inaudible) and the tax conditions in the same also helped change. There is now a higher rate of taxes for dividends than before so the more I have to weighted these different factors and have decided to reduce the interim dividend more than the deduction of the earnings at this time of day of the year because we don't know what could happen in the next future depending on the situation of the country, not the company.

Q - Giulia Raffo {BIO 7573856 <GO>}

I was trying to understand what we should expect for the final and also for 2013 and 2014. Because the macro situation is unlikely going to change in the next six months, so if you don't guide us on where you claim to be a decent cash buffer, very difficult for us to see whether this is temporary or whether this is going to stay for 18 months, 24 months up until the macro situation comes down.

A - Esteban Tejera {BIO 3910673 <GO>}

Unfortunately we have not the solution for the next future environment, but what we thought as a member of the Board was that in addition to the dividends in paying in cash, this was more prudent than paying the same dividends when the situation is so troublesome. And this is not of the condition or in regards of the situation this year, but just in case the situation continues to be bad during the next month, would happen until the end of the year, we know exactly how the situation evolves and according to that, the final dividend could be one or another depending on the situation?

You had another question, Giulia, land. And the answer is yes, those for reasons are on land.

Q - Giulia Raffo {BIO 7573856 <GO>}

Okay, should we expect something similar to come through in Q4 similar to Q3? So another EUR30 million?

A - Luigi Lubelli {BIO 4108780 <GO>}

I cannot tell you that because as I believe I was answering William's question before, that depends on the final valuations at the end of the year. In other years, it has not necessarily borne that relationship. These are estimates and then we have the final review performed by third parties. No, you should not necessarily extrapolate from this one to year-end.

Q - Giulia Raffo {BIO 7573856 <GO>}

Is it fair to say though on a cumulative basis so far you've taken about 20% to 25% hit?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes, more or less.

Operator

Niccolo Dalla Palma, Exane BNP Paribas.

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

Good afternoon. So firstly a follow-up to the previous questions and then a couple of other ones. Just to be clear, on the syndicated loans you mentioned at Q2 that there were some rating-related covenants. My understanding is that they have not been reached even with the recent downgrades. Can you just confirm that that's the case?

Then secondly, you mentioned a large corporate contract on the life insurance side. If you could just give us more detail clearly not about the counterparty but about the type of contract here?

And last, we recently saw a presentation from the regulator pointing again out that (inaudible) review seems to be on track for the end of the year as the commission has been enlarged, which caused some delays. But they speak about some news to come there by December 31. So surprisingly, they seem to be very explicit about the increase of cost of claims it would drive to. Maybe you could give us an update of your view of the situation on this specific topic.

A - Luigi Lubelli {BIO 4108780 <GO>}

Good afternoon, Niccolo. I will answer the first question and Jesus Amadori, Head of Investor Relations, will take the second one. There is no covenants per se on the syndicated loans. We have -- no, we have no issues with the ratings with the loans at present. So there is nothing on that front and on the (inaudible), I will (inaudible).

A - Jesus Amadori

Hi Niccolo. We are cognizant of the debt mandate you were mentioning before. However, the second bit, which is that that might come into force next year, I think -- we think there is a large degree of judgment in that. The same way that the deadline has been extended several times, it could be extended further, so you should not assume that it's going to be effective this year or the next one. We check obviously with our guys. And you would expect that MAPFRE being 20% of the market if something was coming that soon, we would know about it.

So we are still quite prudent and as we have said repeatedly, you should not assume that that is going to bring a structural pickup in claims inflation. In the past, that has produced a one-off increase and then the market has structurally adjusted through price increases.

Your third question, which was regarding the corporate transactions, obviously you would not expect us to comment on what clients are having a business but you know as we detailed in the presentation, that has benefited to let's say to a large extent the agency channel, which is the way that to which usually corporate transactions are sourced.

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

Okay, but just to understand where there was more kind of pension products to incorporate or whether these were more investment type products for a corporate?

A - Jesus Amadori

These are the what we call in Spain the externalization. It's the transfer under the management of a third party of the corporate pension plans.

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

Okay, that was the question. Thanks very much.

Operator

Vinit Malhotra, Goldman Sachs.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry, I think most of my questions have been answered. Just one thing if I can ask, there a lot of things going right in the underwriting in most of the markets that you mentioned, two quarters where the Latin America is the low hunter now. But the reckoning insurance profit on page five of your presentation, on a quarterly basis it's again going down in 3Q. So I can calculate 256 plus 281 into 268 in 1Q. Is that just some seasonality here that we should watch out for? Sorry, a very simple question in this context, but I thought I might as well ask. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

I'm not sure I'm following you on this one because I actually think that the underwriting, the results on the insurance operation is actually -- my main goal (inaudible) I thought it was actually -- it's actually doing better than it was as of June. In June, it was running 0.6% and now it's growing 5.4%. Are we talking about the same figure?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. We are talking about the 5.4% but if I did just a quarterly progression, I just wanted to check if -- I was a little surprised when I saw it going down. Maybe just seasonality as simple as that because everything is going right.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. But you have to bear in mind also the impact of Brazil, which is quite strong in the sense that we -- the more the year goes on, the more there is of Brazil in 2011 and

therefore it has to on a quarterly basis relate to some slowdown in the profit earned in the quarter.

Secondly, also last year we have most of the impact of catastrophes in the third half, so clearly in the second half the profits earned were larger than those that were on the quarterly basis in the first half, so they are also possibly -- depresses the comparison year-on-year in (maintenance).

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Yes, because it's not -- it's just that I am not making comparisons. I'm just looking at quarterly trends. So one Q2 281, 2Q, 268, 3Q 256, I'm just wondering if something -- if everything, is it just --?

A - Esteban Tejera {BIO 3910673 <GO>}

Are you talking about the quarters of this year or are you comparing (multiple speakers)

Q - Vinit Malhotra {BIO 16184491 <GO>}

I'm just talking about this year, this year. I am not worried about the growth rate at all. No. Just there seems to be a progression down where if everything else is firing on the right cylinders or the combined ratio line growing, is there something that -- it just could be nothing major going on but just thought if had would also noticed that. If you haven't, then it's fine.

A - Luigi Lubelli {BIO 4108780 <GO>}

There are so many elements. I think the life account is making some slightly less money this quarter than the previous one. There are variations which happen. The non-Life was doing very strongly for sure this quarter on a stand-alone basis.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, fair enough. Thanks.

Operator

Marcus Rivaldi, Morgan Stanley.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Good afternoon, everybody. Sorry, a couple of quick questions about the debt situation again, I'm afraid. First of all, I think I noticed that your financial subdebt has crept up slightly in the quarter and I was wondering if you could just explain what's driving that?

Secondly, about the refi or whatever you're going to do with the syndicated facilities, is it truly a function of liquidity required at the hold co to pay that down or are there any capital considerations in terms of how you may have (unlet) proceeds into local subsidiary operations that could have implications there?

Then final one is just about the timing or how you are thinking about this. If you're looking at other names like (Generale's) senior debt currently yielding below 5%, Unipol which I would say is a much weaker company than yourselves trading at around 5%, what are you looking for in terms of yields before making a decision maybe to go for a bond issue as a means to sort of removing this issue from you?

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Good afternoon, Marcus. Let's go one by one. The subordinated debt is recorded in the books at market value so the market value was the -- sorry, it's market value and the recognition of interest rate variations, the accrual of the interest payments, the accrual of the coupons on the bonds and that may cause differences.

Your question is whether we have made any purchases or sales of the bond in the quarter. We have done none. So the start EUR1.5 million is basically nothing.

The question on the syndicated loan really is what I answered to Giulia. We are -- we have no decision. We will see further on how we -- what we think is best in our interests. If you looked on the last years, our policy has been to reduce the level of indebtedness. So unless there is any need that we are not aware of now, possibly our intention would be to go down. The debt we have and the cash comes where it comes from, we have to use available cash in the Group in order to pay that down. We will see in our -- if it were more appropriate, this is a revolving line, it is something we like because we don't need to have it drawn. We can keep it at zero if we have the available cash balances.

It's very convenient for corporate treasury management, so we will see. Honestly, there's no decision on that and if we were to decide to pay it down, we would be doing so using available cash. I wonder if I'm answering your question or not.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

No. I think you did. I guess it is just more thinking if you were really thinking that you needed to do bond issue. You've got to be so flexible at the moment with markets open and close, very, very quickly. But it seems as though your base case would be one more of maybe pay it down would be the base case.

A - Esteban Tejera {BIO 3910673 <GO>}

We want to come in. There's something we are -- honestly I cannot give you an answer because we have not yet taken a decision on this facility. So there's nothing I can tell you. It surely is coming up for maturity and we will have to do something about that but we are let's say considering alternatives. And I take stock of what you say about year levels of our seniors issues are there. We will see. We clearly keep an eye on the market, see if there are -- what the conditions are and that's an input in our financing decisions and if we were to decide on a bond issue, we know where others are pricing their bonds, so that there would be -- of course this is -- we keep an eye on market yields like all finance areas and insurance companies do.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Okay. Thank you very much.

Operator

Federico Salerno.

Q - Federico Salerno {BIO 2565091 <GO>}

Good afternoon, everyone. Just a quick question for Esteban. When you mentioned that if the situation remains difficult you will take a hard look at the dividend in the spring next year, I was just wondering could it go through zero or (you ruled that out)?

A - Esteban Tejera {BIO 3910673 <GO>}

No, no. I wasn't thinking of this kind of question, no, no. I think that you know very well us and we tend to move in a more valid way now how the situation is what it is and we feel more comfortable if this situation were a typical doing a straight dividend like in other times we have made this decision of a reduction in paying fully in cash. I hope that the situation of the business at the end of the year will (technical difficulty) growing and how it results in the other that we are now and then a decision I hope will be accordingly to the financial results for the year. But I wasn't thinking about a total reduction of the dividend.

Q - Federico Salerno {BIO 2565091 <GO>}

Okay. Thank you.

Operator

Rodrigo Vasquez, N+1.

Q - Rodrigo Vazquez {BIO 17490418 <GO>}

Good afternoon. I have a good question regarding the holding adjustments in the MAPFRE Americas in regards I saw that there is a EUR26 million negative holding adjustment in Q3 when compared to a positive 2 in Q2, so if you could further explain on that? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Good afternoon, Rodrigo. Let me just say that as I mentioned for you, we did have if my memory does not fail me, a positive item in the first half. Let me just grab the figure for you. Just bear with me for a moment, please.

Q - Rodrigo Vazquez {BIO 17490418 <GO>}

There is a positive EUR18 million in the first half but the variation between Q2 and Q3 is a negative EUR26 million?

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A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. We have EUR18 million for the puts on the Panamanian operations that we were recognized then. The items in MAPFRE at the holding company vary. Expenses are not recognized in a piecemeal fashion in a regular way throughout the year. We are basically at the same level if I'm not wrong as the previous year. If that is okay with you, we gave a very tiny detail on this one. If you don't mind, we can come back to -- come back to you on with the detail on that one. But broadly, the figures are more or less in line with what they were on a cumulative basis, the figure is more or less in line with what it was a year ago.

Q - Rodrigo Vazquez {BIO 17490418 <GO>}

Okay, I will do that. Thank you.

Operator

(Operator Instructions) We have no further questions at this time, sir. Please continue.

A - Esteban Tejera {BIO 3910673 <GO>}

Okay. Thank you. If you haven't any more questions, we will finish our conference call. Thank you, again for the conference call and I hope to meet you again at the final year results. Thank you. Bye.

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