

Q1 2015 Earnings Call

Company Participants

- Esteban Tejera Montalvo, First Vice-Chairman, Managing Director & Chief Executive Officer
- Luigi Lubelli, Deputy General Manager-Finance

Other Participants

- Avinash Singh, Analyst
- Federico Salerno, Analyst
- Javier Echanove, Analyst
- Juan Cánovas, Analyst
- Niccolo C. Dalla Palma, Analyst
- Rahul A. Parekh, Analyst
- Silvia Rigol Carneiro, Analyst

MANAGEMENT DISCUSSION SECTION

Esteban Tejera Montalvo {BIO 3910673 <GO>}

Good morning ladies and gentlemen. Welcome to the presentation of Mapfre's Results for the First Quarter of 2015. As usual, I'll give an overview of the results and the main business developments. And later, Mr. Lubelli will explain the financials in detail, represented in European (00:20) figures for 2014. We will be happy to take your questions at the end.

Please let us now turn to slide three. Mapfre continues to grow in the first quarter of 2015 in all business lines and countries. Funds under management also grew very well by nearly 13% (00:53) Spain. You must take into account that these results introduced the first time consolidation of ASEVAL and LAIETANA in the exit from CATALUNYACAIXA. As you know, we have reached an agreement with CATALUNYACAIXA in order to sell our shareholding in the (01:19) which previously. This (01:23) will be in place after the approval for the funding as opposed to these several months and the price was €636 million.

And the combined ratio was affected by the claims costs, by the (01:43), which have negative impact from the quarterly results. These was partly compensated by the good performance of the Life business and the investment results. Let's go to slide number four. Here we have the highlights of the results. As you can see with sales growth in the Spanish Non-Life business that contributed to (02:14), we already told you about in February. The low interest rate environment is gathers customer savings towards mutual and pension funds (02:27) very well. Although at the same time it is causing a decrease in

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life insurance. Of note, growth continues to be strong especially in Latin America. It is now boosted by exchange rates.

We took advantage of the favorable valuation of our asset portfolio, (02:51) of unrealized gains. Excluding the impact of the (02:58) in the U.S. the combined ratio was 96.2%. (03:05) in line with (03:11) was effected by the decision to book for the SIMADI exchange rate in Venezuela. Otherwise it would have been significant (03:27) value to exchange rates. Our leveraging liquidity positions remains very comfortable.

On slide five, you can see the breakdown of premiums and profit by region, which is a large variation compared to 2014. The combination of a strong (03:54) together with depreciation in the euro in the contraction of Life sales in Spain led our domestic market to make up only one-third of the total premium figure. All other regions in Mapfre still has very solid growth which was notable in North and South America.

On the contrary the impact of the snow storms in the U.S. and the realization gains meant that Iberia had an abnormally large share of profit, which is now around 50% again. And of note, that most regions experienced good profit growth (04:39) in Brazil, in LATAM SOUTH, in MAPFRE RE.

On slide six you can see, as a reminder, at the AGM celebrated on 13 of March our Chief Executive (05:03) strategic goals for the coming years that we reported then. Here is - here there is a summary of this. We remain with our key strategic objectives that have sustainable shareholder value creation, growing the business, diversification, multi-channel distribution, and the peaking (05:30) of improvement (05:36) our structures.

On the next slide you can see how Mapfre is reaching its targets in terms of the commitment with the payout, which is 50% of our profit and the rolling dividends paid in 2014. In fact as you can see on page eight, we will be paying €0.08 per share on the 18 of June according to the demand of the (6:27) investors. So the total dividend amount paid will sit at 7.7% and the figure distributed today is the result of 2015.

As usual, I now hand the call to Mr. Lubelli who will comment on our financial in more detail.

Luigi Lubelli {BIO 4108780 <GO>}

Thank you, Esteban. Good afternoon to all those following us on this conference call today. Please let's move to slide 11 where we see the consolidated income statement. As Mr. Tejera just said, business development was good except Life in Spain, which is suffering from the low interest rate environment and whose fall we are making up for with a strong rise in mutual and venture fund sales, premiums went up nearly 13% in Non-Life. While in the Life business if we exclude Spain we saw increases of around 8% in Latin America, 13% in MAPFRE RE, and 60%, six zero in (07:33).

Of the total policy in Life premiums, five percentage points came from the deconsolidation of the business coming from CATALUNYACAIXA. If we exclude the snow

storms, as already said, the combined ratio stood at 96.2%, which is broadly in line with the group's historical performance.

In the Life account we also had a good technical result, especially good technical result in Brazilian Life. Our financial income was strong and included, as Mr. Tejera also said, €73 million in realized pre-tax gains. Taxes went up slightly due to a comparatively greater wake of the profits in Brazil but the variation is minimal.

One slide 12 we have the Non-Life result. The first quarter (08:31) figures are always larger as the full-year business for lines such as commercial, health, and burial is issued in this quarter. This makes them not comparable with the figures for the fourth quarter of 2014. However, they are comparable to the figures for the same period of the previous year and we do see underlying, significant underlying growth. As I already mentioned and we will see in greater detail, the loss ratio was higher as were the realized capital gain.

On slide 13 we cover the premiums development in the quarter. We find the main drivers of premium growth in Spain where we had very good performance in Health Insurance in group business. We do show a contraction in Home Insurance. But that's actually due to the re-classification as a discontinued operation of the CATALUNYACAIXA business because otherwise Home Owners would have grown 2.5%.

Premiums growth was also good in terms of contribution in North America especially in Home Insurance in the United States, Health Insurance in Puerto Rico and Specialty Risk in MAPRFRE ASISTENCIA. We also had good performance in Mexico in several lines and in Global Risk in LATAM NORTH. And in LATAM SOUTH we had generalized growth in many countries, in Peru, Venezuela, Chile.

The growth, the organic growth in these lines in this quarter was compounded by the strength of the U.S. dollar, which was especially strongly felt in North America, MAPRFRE ASISTENCIA, MAPFRE RE and MAPFRA GLOBAL RISK.

On slide 14 we have the loss ratio. As Mr. Tejera said, basically the loss ratio went up because of the snowstorms in the U.S.A. If you exclude them, the figure is basically flat year-on-year because we had improvement in LATAM NORTH and LATAM SOUTH that offset the impact of higher severity and frequency elsewhere.

On slide 15, we find the expense ratio. Here we have an increase over the previous year. And in essence, this was due to larger acquisition costs. So that was the main reason. And that was found in several countries in LATAM SOUTH, LATAM NORTH and in Spain. That was offset by improvements in Brazil, Peru and MAPFRE RE, but the net was a positive increase of 0.7 percentage points.

Financial income shown on slide 16 for the Non-Life account increased. We had several elements of significant nature. Interest rates went up a lot in Brazil. And the increase in rate was also compounded by the depreciation of the euro, which makes the revenue in financial income from other countries higher. We had larger realization gains, we have about twice as much as the previous year. So compared to the first quarter of last year,

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we have about €30 million more, and of course we have growing business volumes. On slide 17, we have the Life Account in summary. It is clear by now that we had weaker issuance in Spain; however, that wasn't the case in other countries where we had growth as I already mentioned. We have, as I already mentioned as well, a significant improvement in the underwriting result in Brazil and strong financial income in Brazil and EMEA. Clearly these figures are affected by the reclassification of CATALUNYACAIXA as a discontinued activity.

As I said, the main driver of the variation in premiums was the contraction in Iberia. That basically explains everything in the consolidated movement why. The low interest rate environment, especially low interest rate environment, makes the traditional life products relatively unattractive to customers who are preferring to opt for mutual funds, pension funds linked business, which as a matter of fact is doing especially well. A year ago, we also had a one-off transaction with a corporate customer of €75 million which was not repeated this year. We also have the deconsolidation or reclassification of CATALUNYACAIXA VIDA's business, which a year ago contributed €103 million. As I said, if you adjust for this one, the actual contraction in the Life premiums is 5 percentage points lower. And then we have \$23 million for the business of ASEVAL and LAIETANA which (13:51) this year. The contraction in Spain was offset to some extent by the increases in Brazil, Mexico and Malta.

On slide 19 we have the technical financial results. This went up, mainly, thanks to the positive impact of the increase in interest rates and the better technical results in Brazil as well as positive mark-to-market in Malta. We also had €16 million of realized capital gains compared to €0 a year ago.

On slide 20 we find the other business activities whose variations are explained on slide 21. Last year we had gains from the cancellation of liabilities in Iberia and this year we have something which we already saw at the close of 2014, which is the replacement of service contracts which are accounted for here with insurance policies at MAPFRE ASISTENCIA. These are the two main reasons for the fall in operating revenues and expenses. Financial income and other items conversely go up. That's basically larger financial income, lower costs and lower amount of impairments.

On slide 22 we have the bottom line which should be clear by now. We've reviewed its main drivers so far but I will go over them again on slide 23. We have a pre-tax result, which include several elements: the decline in the underwriting result in Non-Life mainly driven by the United States, good performance of the Life business especially in Brazil and Malta, a larger impact of the inflation adjustments in Venezuela, the reclassification of CATALUNYACAIXA, which means that its profit is below this line, and larger investment realization gains. The minority interests grow faster and that's the main reason for which you see a growing pre-tax profit and a decreasing net profit, and (16:18) the results grow faster, comparatively faster, in those subsidiaries in which we have minority, especially Brazil, I would say.

Slide 24 we have the balance sheet. Several variation here. You will find two new lines here, which is assets held for sale and those related to CATALUNYACAIXA's insurance businesses. Aside from that we have an increase compared to last year and the same

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period of the previous year, and the explanation should be clear by now. We have growing business volumes. Clearly the market value of investment assets, especially in Spain, has gone up considerably, and the fact that the euro has depreciated against the main currency, especially the U.S. dollar, clearly flatters the comparison year-on-year and quarter-on-quarter.

We find on slide 25 the variation in equity, shareholders equity has grown €186 million since the end of 2014, while total equity including minorities is up around €100 million over the same period.

What were the main drivers? We find them on slide 26. As I said, we have a strong increase in the value of the investment portfolio, which as usual was largely offset by shadow accounting. The U.S. dollar contributed a lot to the increase in equity, and it was capable of offsetting the impact of the Brazilian real and the SIMADI exchange rate in Venezuela. Just exchange rate in Venezuela accounted for an impact of €266 million.

The distribution of results is basically the dividend, and then the other changes in equity mainly includes the restatement of Venezuela's financial accounts for inflation.

As Mr. Tejera said before, we also are presenting you the embedded value figures. So I'll give everyone a few seconds to switch documents.

Okay. So I hope you have had time to change documents. I'm now on slide three of the embedded value presentations. Overall our embedded value in 2014 grew slightly over 15%. We had positive impact of a significant decrease in the yield curve downward shift really, in the yield curve used for discounting, lower tax rate in Spain, and also we had larger new business volumes, as you remember 2014 was a very good year. The market value of the portfolio also helped. And we added to the scope of consolidation the businesses coming from ASEVAL and LAIETANA. We also see that the present value of the new business grew significantly, and that reflected larger sales in bancassurance, once again helped with (19:49) new agreement with Bankia which also referred to those two companies, Bancaja and LAIETANA. And we also had a good performance of life protection in the bancassurance channel and in asset management sales. This has driven up the increase in the value added by these businesses which, again, was compounded by the reduction in the discount in tax rates.

On slide 4 we see the European embedded value components and their valuation. The ANAV went up because of the strong increase in our realized gains as well as inclusion of ASEVAL and LAIETANA. The present value of the in-force business grew reflecting, once again, these businesses, but also new business added to the book and lower discount and tax rates. The cost of capital also shows an increase given that it is equal to the present value of the annual capital costs which discounted as the lower rate go up, and they also reflect the fact that business volumes were larger.

And finally, the time value of financial options and guarantees went up, obviously driven by the fall in interest rates which makes them more variable. On the right side we have a breakdown of the EEV by lines and channels. We clearly have a positive impact on the Life

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business by the inclusion of ASEVAL and LAIETANA which contributed €81 million. If we exclude that they would have grown 8% reflecting larger new business volumes and lower discounts and tax rates. In the agents channel the Life business benefited from comparatively larger sales of protection products as well as the good performance of the banks channels which was boosted by the agreement with the banks.

The present value of the inflows of the mutual fund sales, reflecting larger acquisition expenses, while in the pension funds it decreased due to a reduction in management fees. These also explain the comparatively slower growth of the value in-force in the agents channel where a larger share of these funds are sold. The cost of capital grew faster than the value in-force in the funds business due to the significant increase in their business volume and the increase in their net asset value, thanks to the improvement of financial markets.

On slide six as usual, we show you what share of the value in-force is attributable to MAPFRE, MAPFRE VIDA (22:35) This grows 7% year-on-year compared to a 16% increase in the bancassurance channel. Of course, this is explained by the inclusion of ASEVAL and LAIETANA where we have minorities.

On slide seven, we have the usual roll forward. Compared to the previous year that is if we take the figures shown here and one-by-one we compare them to the figures that we gave you a year ago, we see a much smaller impact of changes in the model and assumptions. No meaningful differences in expected returns, meaning that the figure is basically the same this year and the previous one. Larger value-added by new business, a larger positive deviation of actual value from expectations, a larger (23:24) options and, of course, the addition of the ASEVAL and LAIETANA businesses.

All in all, this leads to an increase of 4.2 percentage points in the return on embedded value and net of slightly larger dividend payments explains the €428 million increase in the European embedded value.

By type of movement on slide eight, we begin to explain the main variations. I will not read through all of them. Net-net the main driver was the reduction in the discount rate. And the lower discount in tax rate had a significant impact which more than fully offset other negative movements.

On slide nine, we have other variations. Increase in the market value of financial investments was one of the two main drivers of the increase in embedded value before additions. The other one we can see on slide number 10, and it was the value added by new business. We a slight reduction in margin which was basically coming from the funds business, higher distribution expenses and lower margins in pension funds. Aside from that, we can see clearly that the new business value went up, thanks to larger margins in the agents' network with greater weight of life protection, strong increase in new business volume in pension plans and mutual funds, and, once again, lower discounts and tax rates.

Lastly, we find the sensitivity. Here we are very consistent, nothing aside from the size of the sensitivities, there are no changes in the structure of them. As usual, both the value in-force and the value of new added value business are especially sensitive to variations in interest rates and in the lapse rate. For the whole portfolio, we also give the sensitivity to default rate, which is basically very much close to the figure for the previous year and continues to be the single largest sensitivity item.

And this would conclude all of my slides, and I will hand the call back to Mr. Tejera for the Q&A.

Esteban Tejera Montalvo {BIO 3910673 <GO>}

Thank you, Luigi. Now we have some of your questions (25:47)

Q&A

Operator

First question comes from Federico Salerno from MainFirst. Go ahead.

Q - Federico Salerno {BIO 2565091 <GO>}

Good afternoon, everyone. A couple of questions from my side. The first one is on Brazil. I think growth in the top line is a bit below what you were hoping to achieve your guidance at the last quarter for a top-line growth still in the double digits, if I am right. Can you say what's going on in here, any particular with regards to agricultural insurance? That's the first question.

The second one is on Spain. I think trends in retail were also a bit disappointing, considering that (26:56) doing very well with the fall in the combined ratio. What's the outlook at MAPFRE FAMILIAR please?

And then lastly a request, I found a slide on adjusted results before and after Forex quite useful. If you could continue providing those? I didn't see it, maybe I'm wrong, but that would be good. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Federico. Good afternoon.

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

(27:35)

A - Luigi Lubelli {BIO 4108780 <GO>}

The variation, I think we are doing. Which Forex account are you referring to, Federico?

Q - Federico Salerno {BIO 2565091 <GO>}

I think you used that (27:47) slide in the beginning with the net income and revenue growth.

A - Luigi Lubelli {BIO 4108780 <GO>}

Oh, I see. I see.

Q - Federico Salerno {BIO 2565091 <GO>}

Maybe I didn't see it, but...

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah. It's not there. Well, basically we did not give it. In terms of premiums, the variation is really not material, adjusting for that. It would be more material in results, you're right, because in results the - one of the strongest impacting items is the loss in the United States, and that clearly inflated by the appreciation of the U.S. dollar. I suspect that I had the figure right here, but the variation in profit would be close to flat if we were to put it in constant exchange rates (28:39)

The second one, below expectations growth in Brazil. Now, let me see, in Brazil we have one element is that for the moment there is uncertainty over the soft year (28:56) last year where you saw, we saw a strong increase in agricultural insurance, and that was due to the fact that the government was subsidizing the purchase of that product. This year it is not yet clear what the government will do about that. And that's the reason for which the buyers were a bit uncertain.

If we exclude that, I think we have growth of around 5% in Motor and 5% in Life, which considering the market environment is okay and is also impacted by the depreciation (29:41) in the exchange rate of the real.

Sorry, yes, then the retail figure in FAMILIAR.

Q - Federico Salerno {BIO 2565091 <GO>}

Spain, yes.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah, sorry. Well, look, it depends. I think an important figure and thanks for bringing that up because people are seeing that Motor insurance in Spain in MAPFRE only grow 0.1%. That in reality is not the true underlying figure because that figure is affected by the reclassification of the business of CATALUNYACAIXA. If you adjust for that, if you take the business away in both years the underlying Motor business is growing 0.4%, which is broadly in line with Spain. Spain is growing 0.5%. So actually we are reasonably pleased with the performance in Motor insurance.

In Health we're doing very well. And in Health though once again if you adjust for CATALUNYACAIXA we would be growing 2.5%, which we also find a good result. So overall we think that the retail Non-Life is doing reasonably well and retail Life I already explained the reasons for which it contracted. Does this answer your question, Federico?

Q - Federico Salerno {BIO 2565091 <GO>}

Sorry, yes, just on this point, what's the main reason for the deterioration in the combined ratio, though?

A - Luigi Lubelli {BIO 4108780 <GO>}

Combined ratio in FAMILIAR a big one is the Burial business. The Burial business is classified as Non-Life but it does perform as a Life business as a term life business. And so it has to be - every year the Spanish supervisor requires us to update the discount rate of the liability. So this year the discount rate, for obvious reasons, fell a lot, which inflates the size of the liabilities and means that that increase in the liabilities has to go through as a greater loss this year (31:54)

That's really the single biggest item, devaluation of the loss ratio of MAPFRE FAMILIAR. And then there is frequency in Motor also. But, if you actually make a few numbers and you compare, in euro amounts, the losses by line, we have in the statistical appendix on slide - I will tell you - 43, the figures for Spain, if you look at the euro amounts you will see that by far the main driver was Burial.

Q - Federico Salerno {BIO 2565091 <GO>}

Okay. So it should be a one-off to some extent?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. Last year we had a very similar development in the first quarter. That's because, basically all that's related with this line of business happens in the first quarter of the year.

Q - Federico Salerno {BIO 2565091 <GO>}

Okay. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Welcome.

Operator

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

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

Hi. Good afternoon, everyone. My first question is on the CATALUNYACAIXA deal. Could you confirm whether it's correct to estimate P&L gain for Q2 of around €200 million

before tax? And, very importantly, will you include this in your base for the 50% payout, or will it be treated as exceptional? Then my second question is that is if we go back to Brazil again a second, in terms of especially the Life result is exceptionally strong and it seems to be coming also from the financial result, could you say there's anything at all that is non-recurring in here? Or is (33:45) the current level of financial result on a quarterly base is what we can extrapolate?

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And then thirdly, going back to the Motor in Spain. Sorry to ask this question, but given that the government did propose a draft law for the new baremo to go through, I would just be curious to know what your view on the probability that it actually gets approved in the Parliament before the closing of the Parliament for general elections? Because I think there's a timing issue here, there is just a two, three months to actually transform in actual law. And the press mentioned some upward revisions of the cost of claims of 35%, 50% for def (34:28) and heavy claims. Maybe you can comment around this?

Then very last topic, M&A, I know you generally don't comment on this, but RSA is considering a disposal of its unit in LatAm, maybe you can at least say whether this is not at all affecting your business because of the business mix? Or whether this will go on the list of assets that you would at least take a look at and then consider prices, et cetera? Thank you. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Niccolo. Thanks for asking this question, because I imagine it will be popular, and gives us an opportunity to discuss it. We only could give the amount, of the total amount of the sale, because what we will actually book as a gain will depend on the net asset value of the companies at the moment of closure of the transaction. So it is a bit difficult now for us to anticipate when this closing will take place. We somehow quote, estimate, hope that it will be third quarter, fourth quarter this year, but it's contingent on the administrative authorizations that are necessary to close a transaction. So - because otherwise we would have given this unrealized capital gain.

I mean you can certainly look at our accounts. In our accounts you have information, accounts at the closing of 2014, about the net asset values of the companies, about their realistic realization value. They are all in the footnote, and goodwills equity and loss. But please bear in mind that these companies are alive (36:27) So they are moving, and their equity will be moving until the moment of closure. As a matter of fact we have booked €21 million of profits from these companies in this quarter alone. So bear this in mind. I think you will be able to get a fair idea of what the net asset value was at the end of the year, but unfortunately this is as much as I can say on this one.

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

Okay. But just to be clear, so all the profit that accrues between here and the closing you actually take - you actually keep that, There's no adjustment in the final price for this.

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, it goes (37:10) calculation, the calculation is really complex. We take into account profits. We take into account also dividends that are paid to shareholders. So it's a combination of everything. It's difficult to tell you precisely everything that comes out. But as I say, unfortunately this is as much as we can say at this stage.

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

Okay. And in terms of including it in payout, whatever the gain will be will it be (37:37)

A - Luigi Lubelli {BIO 4108780 <GO>}

It will be a realized gain, yes. It would be a realized gain on sale, yes.

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

But will you then use that also to - when you decide your 50% payout of the dividend at the end of the year, will that be included? Or because of its exceptional form will it be kept aside?

A - Luigi Lubelli {BIO 4108780 <GO>}

It will form part of...

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

It will form part of the results of the year and it's how we take into account.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah. Yeah.

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

Okay. It's very clear.

A - Luigi Lubelli {BIO 4108780 <GO>}

So nothing non-recurring in Brazil Life. Interest rates have gone up - you have to bear in mind that interest rates have gone up a lot and this business grew a lot a year ago. And the underwriting result of the Life business was actually very, very good. So actually if you crunch a few numbers in the accounts you will see that the underlying technical result is going up very strongly. Just bear in mind that this is a term life business, so we don't do savings. So it actually went very well.

Your question on baremo, yes, there is a reasonable likelihood for baremo to be approved before the chambers are dissolved for the elections. So, yes, there is a chance that that will happen. Does that answer your question on baremo?

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

Yes. It does.

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A - Luigi Lubelli {BIO 4108780 <GO>}

And regarding M&A you know we don't normally comment. Not terribly interested would be the short answer to your question on M&A.

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

That's very clear.

A - Luigi Lubelli {BIO 4108780 <GO>}
(39:30)

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

Thank you.

Operator

Next question comes from Juan Cánovas from Fidentiis. Please go ahead.

Q - Juan Cánovas

Hello. Good afternoon. I have a couple of questions. The first one on CATALUNYACAIXA. Could you give us the embedded value without the impact of CATALUNYACAIXA or how much that accounted in the embedded value?

And then on the Spanish combined ratio in FAMILIAR, is there any element of baremo reserving there or not yet? And also I don't know whether you could comment on the performance of VERTI (40:07) and how it affects the Motor combined ratio?

And finally, in the U.S., I know there were some exceptional storms, but I mean are you going to change your policy in terms of reinsuring that business? Are you thinking about opting some excess (40:27) reinsurance to protect you against due to recurrence of such events? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Thanks Juan. So let's see, once again, we have not disclosed the EEV of CATALUNYACAIXA in the EV presentation. Once again, using the annual report, you will find in the footnotes information about the realizable value of the Life business of this company, which not strictly being the embedded value, is very much in the vicinity of. So it should help you get an idea of that.

Q - Juan Cánovas

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

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The Spanish Motor combined ratio you asked whether there was baremo, we already talked about this in the full year result for 2013 and 2014. I mean this is an art as much as a science. Every time we set the reserves, we clearly have been trying to anticipate, because we have life claims, and we have been trying to anticipate what the impact of the forthcoming baremo (41:45) would be if and when it were approved. So we have tried to reserve our claims bearing that in mind as close as possible. So the answer is to the extent possible, yes, we have factored baremo in the reserves for the combined ratio. But clearly it was our guess, it wasn't the actual figure coming out of the law once it's approved.

Also bear in mind that baremo will not be coming into force on the very day of the approval of the law. There's going to be a period, so I don't know exactly, but it should be at least at the beginning of 2016 at the earliest, I would think. So between that moment and 2016, what might happen is that the judges will try to stretch compensations awarded under the existing baremo to the extent possible closer to the future baremo, but they will not be able to apply baremo till it actually comes into force.

We cannot give you figures about VERTI (42:54) because they are not disclosed. I mean, VERTI (42:55) is a business we are very happy about. But it's not a terribly large business. The premiums of VERTI (43:01) are €16 million, I think, now at the first quarter. All right. Yes, €17 million. So imagine whatever combined ratio on that, it doesn't impact very much the combined ratio of Mapfre at large. It's true that VERTI (43:22) does have an impact because it's an advertising intense company. So VERTI (43:28) spends a lot compared to the rest of Mapfre on advertising. But relative to the big scheme of things of Mapfre, it's not terribly large. Yes.

Regarding the U.S. (43:41)

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

Yes. Regarding the U.S. we have to - several measures (43:47) have been implemented. In terms of reinsurance, we have changed our policy in (43:58) but unfortunately we have an agreement for three years. (44:07) In any case the condition for the new agreement include the impact of the losses we have suffered during this quarter.

The losses of this quarter were (44:31) that more than having an (44:35) that works (44:38) we have suffered a continuity of the lowest terms (44:47) more than 15 days continuously, which involves difficulties in terms of the considering these as a catastrophic event in the insurance contract.

In any case, the insurance is one of the measures but the main measures should come, and they are coming from the side of the increasing tariff and increasing the deductibles. And we are (45:25)

A - Luigi Lubelli {BIO 4108780 <GO>}

(45:25)

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

(45:30) and as you know we are involved in a policy of diversificating our premium as possible to other parts on the country through commercial agreements with (45:51)

Q - Juan Cánovas

Thank you very much.

Operator

Next question comes from Silvia Rigol from BBVA. Please go ahead. Silvia Rigol from BBVA. Please go ahead.

Q - Silvia Rigol Carneiro {BIO 15126791 <GO>}

Hi. Good morning. I have two question, if I may. The first is regarding the Life business in Spain. What is the reason for the strong decrease in terms of margins, the technical and financial margins of the provisions? And the second question is regarding your investment portfolio. Could you give us a more color on that and what is your duration of the portfolio versus the last quarter 2015? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Sylvia. I have to say - good afternoon. I have to say that your line is a bit disturbed. If I understood well your first question is about the fall in Life margins. Is this correct, in Spain? Sylvia? Sylvia?

Q - Silvia Rigol Carneiro {BIO 15126791 <GO>}

Yes. Correct.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Because your line comes a bit disturbed. Your first question was about Life margins in Spain and why they are falling?

Q - Silvia Rigol Carneiro {BIO 15126791 <GO>}

Yeah. Yes.

A - Luigi Lubelli {BIO 4108780 <GO>}

Exactly what are you referring to? With what part of the accounts are you referring to?

Q - Silvia Rigol Carneiro {BIO 15126791 <GO>}

Yes, (47:19) can you help me?

A - Luigi Lubelli {BIO 4108780 <GO>}

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Yes. It was, well, how did you come to that conclusion? What part of the accounts are you referring to?

Q - Silvia Rigol Carneiro {BIO 15126791 <GO>}

Yeah. I am dividing the technical and financial results over technical provisions and 0.6% that compared with 1.3% in the first quarter of 2014.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're taking slides 45 and 46, right?

Q - Silvia Rigol Carneiro {BIO 15126791 <GO>}

Yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Well, there you have several elements. A big one there is the fact that you have to take - CATALUNYACAIXA has been discontinued. So its profit, which was in that technical and financial result is out. So that does have an impact in terms of the result. You also have a change, which we just talked about in embedded value figure of the acquisition expenses especially through the (48:23) channel. So that also has an impact on the technical and financial result. Anything else? I think these are the main reasons which brought that action. Does that answer your question? Does that explain the variation to you? Because those are the two big elements in the technical and financial results year-on-year.

Q - Silvia Rigol Carneiro {BIO 15126791 <GO>}

Yes. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

And then, okay, and then your next question was the duration of the portfolio, correct?

Q - Silvia Rigol Carneiro {BIO 15126791 <GO>}

Yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah. In Life?

Q - Silvia Rigol Carneiro {BIO 15126791 <GO>}

Yes, please. (49:10).

A - Luigi Lubelli {BIO 4108780 <GO>}

I think we have the exact figure but it doesn't change that much in the quarter. It was around seven years in the Life business so it must have remained around that level. That

wouldn't change much in the quarter. Silvia?

Q - Silvia Rigol Carneiro {BIO 15126791 <GO>}

Okay. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Welcome.

Operator

Next question comes from Rahul Parekh from JPMorgan. Please go ahead.

Q - Rahul A. Parekh {BIO 18787842 <GO>}

Hi everyone. Good afternoon. My first question is in MAPFRE FAMILIAR, are we due to the worsening loss ratios, are we looking at more reinsurance there? And secondly Brazil, MAPFRE Brazil is down on premiums, especially in mix, so is it due to pricing? Or is it some other trend? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi. So let me just - if you could just please repeat the first question on FAMILIAR, your question is what?

Q - Rahul A. Parekh {BIO 18787842 <GO>}

Sir, my question was that on MAPFRE FAMILIAR, especially in motor and home the loss ratios are increasing. So are we looking at more reinsurance there to - as a safety measure?

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Look, reinsurance, we don't really buy to a large extent in the FAMILIAR business. The FAMILIAR business is a very large MAPFRE portfolio. You're talking about in excess of 6 million cars and about 2.5 million homes insured by MAPFRE FAMILIAR. So the very diversification of the portfolio takes care of itself. We do have reinsurance, but for very extreme events on both cases. And in the case of household insurance, we also have a public scheme thing called Consortium, which covers several natural and manmade disasters.

The increases in the loss ratio, I would say in the this case more than the combined are coming from frequency, especially in motor, and we will go about them by tariff increases, by adjusting tariff supports in order to make up for that. But reinsurance is not really a meaningful means of correcting that in the Retail business in Spain. Does that answer your question?

Q - Rahul A. Parekh {BIO 18787842 <GO>}

Yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. And your next question was?

Q - Rahul A. Parekh {BIO 18787842 <GO>}

My next question was that MAPFRE Brazil is down in premiums. So is it due to pricing issues there?

A - Luigi Lubelli {BIO 4108780 <GO>}

Pricing issues, there is some pricing pressure in motor. There is let's say, a contracting business volume in the market in large because of price pressure. That would be the only one. The other lines were more or less okay. As we say in agricultural insurance, the fall in demand is mainly due to uncertainty other than pricing. And in Life, it was a weaker quarter. However, Life is a business, term Life, the one we sell, is a business with still a reasonably good outlook, especially in the bank channel.

Q - Rahul A. Parekh {BIO 18787842 <GO>}

Okay. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay.

Operator

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

Q - Avinash Singh {BIO 20134511 <GO>}

Hi. Good afternoon. Two questions. The first one is on your U.S. snowstorm losses. Would not it have been better if you had communicated to the market about the rough estimate of these losses given how big the losses were? And related to this, when you say your expense ratio had gone up mainly due to increasing equities and costs in LATAM, is this increasing cost an ongoing trend or just a one-off issue? And the second question would be on Venezuela. Is that inflation-related adjustment, and what is your expectations are like? How long this is going to continue? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Fine. So the first one, we might have given that. But the fact is, as you appreciate, we take some lead time for claims to be communicated to the company. So having given an indication to the market, earlier on, it could have been an estimate. But really you have to, and I'm sure you know, during the entire quarter, people report claims to the company. So we rather prefer to report what we actually accounted for during the quarter rather than an early estimate in order to guide the market. I mean it's open to debate which one you would like. We prefer to go in a more accounting way.

Acquisition expenses, I wouldn't write home about that. It's just mainly driven by the business mix. We had a different business mix with different acquisition expenses which were on the higher side. It does fluctuate, and in this quarter, it was comparatively higher just because of the products we sold. Your last question was in Venezuela the inflation adjustment. The inflation adjustment with as long as we're there will continue to reflect in the accounts. Clearly as you will appreciate, the exposure now is greatly diminished to Venezuela because of the exchange rate that we have decided to apply. But of course...

Q - Avinash Singh {BIO 20134511 <GO>}

Yes. A follow-up on that Venezuela as you said as long as you are there. So my question was partly related to that, considering this kind of the size of inflation related adjustments and comparing it with the portfolio size in your entire group. Is it attractive to be in Venezuela? Because this inflation related adjustment had eroded quite a bit of profit for last couple of years.

A - Luigi Lubelli {BIO 4108780 <GO>}

I mean, let's see, if I understood you well, you're asking assets why Spain, Venezuela? That's your question, basically?

Q - Avinash Singh {BIO 20134511 <GO>}

Yes. I mean Venezuela has a rather profit-eroding market, especially in this high inflation. So that is my question, yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, it - I suppose everybody has their point of view on this. MAPFRE is a company whose trademark is being the leading player in Venezuela. And we've gone through several bad instances in the past in Venezuela and other countries for a variety of reasons. I mean fluctuations and volatility is a fact of life if you decide to operate in Venezuela. Our company - this is a translation element. Our company continues to be one of the leading players in that country. It continues to be a very well working business, very well managed with a strong franchise and for the moment that's our reason for staying there. We continue to be committed to Venezuela as the country itself. It's only the fact that it is now the value in euros of that presently in Venezuela is very greatly diminished compared to us.

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

I will add that the decision we have to make about applying in this exchange rates of SIMADI (57:54) is due to the fact that we consider that it is more close to the reality than (58:03). But in any case, the reality is changing every day, and we are in a position now where in reducing this change up to 193 instead of 12 (58:25) is more transparent and reduces definitely for the future. But we continue working in Venezuela. We are there for more than nearly 30 years and the kind of business we do in insurance for particular is doing well in terms of the core business. It's not the case in terms of the exchange rate and this - it was reflected in the decision.

But I think that the movements in the exchange rate are very volatile when the market is operating. It was not the case in the last months. So we will continue working in Venezuela and reflecting this exchange rate in our accounting here. It is a way to reflect in the volatile environment that (59:36).

A - Luigi Lubelli {BIO 4108780 <GO>}

Have we answered your question, Avinash?

Q - Avinash Singh {BIO 20134511 <GO>}

Yeah. Very much. Thank you.

Operator

Next question comes from (59:57) from Bank of America Merrill Lynch. Please go ahead.

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

Yeah. Hi. Good afternoon. Its (01:00:03) Bank of America Merrill Lynch. Two questions, first of all coming back on the technical result for the Life business in Spain, taking into account the deconsolidation of CATALUNYACAIXA, it seems that the impact from the acquisition cost and the lower fees that you flagged is the main reason, for the quarter is around €50 million to €60 million. That to me, if that is the only reason for the difference in the technical result apart from the deconsolidation of CATALUNYACAIXA, seems very high if I look at the impact on a full-year basis that you flag in the embedded value disclosure.

Is that impact correct or €50 million, €60 million purely on a quarter for the acquisition cost? And what are other factors potentially affecting that? Second question is the expense ratio in Motor in Spain. It's up almost a full percentage point. What's behind that and to what extent is that sustainable? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Thank you for your questions, Mike. I think there is a common answer to both, and surprisingly might be, but we do have an issue in this industry that it's very difficult to extrapolate from a quarter a trend. In any given quarter you have several items that are not necessarily an indication of what the rest of the year, and in the first quarter it's still a poor indicator of what the rest of the year will be like.

In the Life side, it might be surprising. If you deconsolidate a company, basically, there are all sorts of accounting items that move, and that does have an impact. Really this is an unusual quarter, let's say. So they - once you take a company out of your accounts there's many movements that go through there, and that can have an impact which may have it diverge a bit more than in another quarter. Then the other one, as we said, is the distribution expenses. And, frankly, I - big tickets of the Life account that I can think of with information I have, there's nothing more of a significant nature. So I'm afraid that's what I or what we can tell you about the technical results of the Life account.

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Non-Life, I know that's a variation. The only thing I can think of, that certainly we do have an element, as I said, of the countries in which we had a larger acquisition expenses, we had Spain as well. And there was - our faults were due to the fact - to the business mix. And also do not forget that we also in the Non-Life account we have the impact of the CATALUNYACAIXA, the consolidation. It wasn't as large a business but it was large enough to make a difference in the growth of the household business which, for instance, would be growing 2.5% instead of contracting because of that one. So it does also have an impact in this quarter on the expense ratio. So as I say, 1% variation in expense ratio in Non-Life. We regularly have one. On a quarter by quarter basis it's something that happens.

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

Okay. Thank you. Maybe one quick follow-up if I may on the Life technical result. The €50 million to €60 million impact from the acquisition cost, by the sound of your answer, you might not fully recognize that number. What would you think is the impact on a quarterly basis on the Spanish Life technical result from the higher commissions and the lower fee income on mutual funds and pension plans? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

I'm afraid I don't have the figure. I mean that's not part of the disclosure. I wouldn't have the figure for you on the exact impact of the mutual funds. I mean it's clearly - it clearly was an impact on the embedded value, but we did not actually disclose the specific amount. From our perspective, clearly what matters is that they are selling very well. But that precise figure, I don't have on public disclosure to give you.

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

Okay. Thank you.

In any case, I would like to add that there is - we have a decrease of this size in the savings Life products. And mainly it is in the single premiums. And this changes the moves and the composition of those synergies. And that leads the way.

A - Luigi Lubelli {BIO 4108780 <GO>}

Was that clear, Mike (01:05:53)?

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

Yes. Thank you.

Operator

The next question comes from Javier Echanove from Santander. Please go ahead.

Q - Javier Echanove {BIO 1541989 <GO>}

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Yes. Hello, good afternoon. Thanks very much for taking question. I just have one and it's related to the Motor business in Spain. You've mentioned talking about the tribulation in the loss ratio that you are planning to offset that or counteract that with increase in tariffs. This is something you also said when commenting on the fourth quarter results of 2014. I was wondering if you could give us a little bit more details on that, whether you're really doing it, when do you plan to do it, whether you think the competitive environment in the industry in Spain right now would really allow for that, and whether other companies are doing it or not doing it? A general idea of how feasible increase in tariffs is or not. Thank you.

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

Hi, Javier. Well, the situation in the (01:07:07) Motor insurance in Spain is now that the (01:07:11) is growing as expected. The average cost in differentiation is not growing. And the sector as a whole have been in a more proven way in terms of calculate not (01:07:32). And MAPFRE has an approach to underwrite this (01:07:41) that includes increasing tariffs when necessary.

Now we are in the process of increasing types in some parts of our portfolio. (01:07:55). This is mostly in (01:08:04) as Mapfre usually did. In any case, the figures for this quarter and the other quarters have had seasonality volatility, that is very important in my opinion from the final view of the frequency. The weather conditions have been bad, but there is also the impact of the holiday season, Christmas and New Year, we're busier, we're especially affected with the - for the increase of frequency. Due to the number of days the people (01:08:51) holidays. I think that this (01:08:56) frequency would be more stable in these quarters and in any case we will see the increase in income, the fee income coming from these adjustments of tariffs we are making.

Q - Javier Echanove {BIO 1541989 <GO>}

Okay. Thanks very much.

Operator

There are no more questions. Thank you.

Q - Javier Echanove {BIO 1541989 <GO>}

Okay. Thank you all of you for being with us (01:09:34) and our presentational results. And I hope to see you again in the next quarter presentation. Thank you. Bye.

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