

Q2 2014 Earnings Call

Company Participants

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

Other Participants

- Atanasio Pantarrotas, Analyst
- Avinash Singh, Analyst
- Federico Salerno, Analyst
- Niccolo C. Dalla Palma, Analyst
- Rodrigo Vazquez, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Esteban Tejera Montalvo {BIO 3910673 <GO>}

Thank you. Good afternoon, ladies and gentlemen. Welcome to MAPFRE's Results Presentation for the First Half of 2014. As usual, I'll give an overview of the results and the main business developments and later, Mr. Lubelli will explain the financials in greater detail. Finally, we will take your questions.

Please move to slide number two. In the first half of 2014, MAPFRE recorded positive growth in local currency in its various markets. Premiums in euros remained stable. But at constant exchange rates, they continue to grow as we will see. Funds under management grew significantly, thanks to growth in life insurance in Spain and Latin America, the recovery in the market value of investments and the new mutual and pension funds business in the agents' channel in Spain.

The combined ratio went up 60 basis points, primarily because of increases in Spain investment and mainly due to weather conditions in the first quarter of the year. Financial income grew on the back of the recovery in market values, contributing to building profits back to the growth that began exactly a year ago in the first half of 2013. Equity per share grew strongly, thanks to profits, to the recovering market value of investments and foreign exchange rates.

Please move to the next slide. As I mentioned before, sustained growth of the international business along with a positive impact from the economic recovery on the

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domestic business is the key of the evolution of the figures. Especially, I would like to remark the change of the tendency in our domestic business.

For the first quarter, we have in the cumulative figures of the half year a situation where we are in the same position and the ratio (2:20) of the market in terms of declining of - in Motor insurance premiums. And in the overall market, we are making better in the market with 3-point-percent of advantage over the market in the growth of the U.S.-Spanish market, as is usual in these kinds of recovery figures after crisis.

The main driver of the evolution of the revenues is also in the premiums is the evolution of the exchange rates. At constant exchange rates, the premiums will grow 8% in the financial income.

The combined ratio remains at very good levels, 95.7%, even if this these figures are a slight deterioration in the combined ratio, which is due to the bad weather condition we suffered mainly in the first quarter, and a slight increase in the exchange ratio in Spain that is due to different accounting criteria as I imagine (3:49).

Attributable results resume their growth. And at constant exchange rates, the increase would have stood at 7%. And equity grew dramatically by nearly €820 million since year-end 2013, thanks to the result for the period, the falling spreads in Spain and the appreciation of the main exchange currencies that we have at present now, and especially the Brazilian real and the U.S. dollar and the Turkish lira.

In terms of the - on the next slide, you can see two indicators of how the Spanish economy is doing better now than in the previous quarters. There are plenty of signals about the recovery phase of the country, which are relating to falling unemployment. We had known today in the figures (5:14) for the first half of the year, we are better than expected.

And in terms of the consumer spending and new car registration growth that are very relevant from the time of the year of evolution of our business, you can see in the slide how the situation is improving quarter-by-quarter. And the car registrations during the first half of the year were up by nearly 18%, which is very remarkable. And gasoline consumption is going up also. So, these are signs - clear signs of a recovery that could improve our figures in the next quarters.

On slide number six, we show as usually during the last quarters how we are more efficient than our competitors in terms of the combined ratio of Motor insuring and explain that that provide us in terms of taking advantage of this new situation of the economic recovery, increase of the frequency in Motor insurance and possibilities of competition from our part in a market where the rest of the market has a combined ratio that is nearly 100% and we have that is great or more than two points.

Well, these are the main details of the figures in the first half of the year. And as usual, I will now hand the call to Mr. Lubelli, who will comment the results in greater detail.

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Luigi Lubelli {BIO 4108780 <GO>}

Thank you, Esteban, and good afternoon, everyone. We are - this is a message for the operator. We have been told over in the Internet that perhaps the audio signal from us is not as strong, if you could perhaps raise it somehow for the benefit of everyone. Thank you.

Let's move to slide eight. On slide eight, we have the consolidated accounts. I will first speak about the cumulative figures and then in the next - on the next pages, I will go deeper into the quarterly movements.

Year-on-year, we have Non-Life premiums basically in line with the figures that we had for June 2013, although as Mr. Tejera just said, at constant exchange rates we would have grown 8%. The main drivers of that were the good business development in Spain, Latin America, especially Brazil, which had an absolutely exceptional performance, I will refer to that later on, and also the Assistance business, which has a smaller contribution, but nonetheless positive to the overall growth.

We had a combined ratio of slightly higher due to larger exchange ratio in Spain and higher loss ratio in Brazil, as well as a contraction in net premiums earned, which was mainly due to issuance timing differences in the Reinsurance business. The financial income increased substantially in Spain and Latin America and it more than made up for the lower returns at MAPFRE USA, which simply has a smaller investment portfolio this year than it used to have a year ago.

Going to the Life account, we see premiums growth, which came mainly from this quarter, but also cumulative level. New business in Reinsurance, growth in Spain, we have a very good development in the bancassurance channel. And in the last quarter, we had a good performance by the agents and Brazil which did exceptionally well this quarter. If we look at figures at constant exchange rate, the premiums would have grown 8%.

The technical financial result grew significantly and that was due primarily to higher interest rates and no negative mark-to-market in Brazil, as well as positive mark-to-market in Malta and in Spain.

The other business activities, basically there's nothing to report. The figure is the same. Unfortunately, we do have a much larger inflation adjustment in Venezuela, which is €30 million larger than it was in June 2013.

Notwithstanding this greater charge, we can see that profits resumed a growth trend. As Mr. Tejera pointed out, we have a slightly lower tax rate and we can see that the retained profit grows less than the gross profit because it has to be said that most of the profit growth came from the bancassurance activities in Brazil and Spain. If we look at constant exchange rates, profits would grow 7%.

We just made reference to the fact that the pre-tax profit is one, and we mentioned today earlier on, is the largest ever recorded by MAPFRE. It increased 45% since June

2007. The bottom line is relevant to report that as well. Compared to the beginning of the crisis in June 2007, we now have a bottom line which is 36% larger, and we've had consistent growth since June 2012. So we've had growth June 2012, June 2013 and June 2014. So it's a - considering the environment, we see it as a very good trend.

On the next slide number nine, we have the Non-Life account. Now, we move into the quarter. As you know, in Spain, we have some lines, which are Commercial, Burial and Health, which issue most of their yearly production in the first quarter of the year, actually on the first day of the quarter. So that basically makes it very difficult to compare the first quarter with the second quarter.

Notwithstanding that, it has to be said that we had very good growth in Brazilian Industrial Risks and GLOBAL RISKS, which was mainly due to seasonality, but also I would like to highlight the Motor and Industrial Risks in Mexico and third-party liability in Spain in MAPFRE EMPRESAS.

We had a loss ratio basically unchanged at the quarterly level. At company level, there was a strong improvement in MAPFRE EMPRESAS, which was affected by a series of larger claims in the first quarter and at MAPFRE FAMILIAR, which in the first quarter had to withstand bad weather and also had to recalculate the burial insurance liabilities with a lower discount rate.

This improvement at these companies, FAMILIAR and EMPRESAS, offset the impact of the Chilean earthquake, which was about €40 million before tax. The expense ratio was basically between the reading for the previous quarter and the same quarter of the previous year.

Compared to the first quarter of this year, we see a much better ratio at MAPFRE GLOBAL RISKS, which had larger net premiums earned and lower acquisition costs, as well as worse readings at MAPFRE EMPRESAS and MAPFRE FAMILIAR due, as we announced in the first quarter, to changes in the criteria for the recognition of commercial expenses.

There was a strong improvement in financial income, which came mainly from Brazil, which benefited from higher yields and no negative mark-to-market from Venezuela, which had better financial income, and from MAPFRE FAMILIAR, which had larger realization gains.

I think this covers most of the main variations quarter-on-quarter. So with your permission, I will skip the next slide and move directly to slide number 12, where we have the Life accounts. We have once again a negative comparison with the first quarter because - simply because the timing of sales campaigns this year is different from what it was a year ago. This year we had most of the sales of the agents' channel in the first quarter. Last year, we had it in the second quarter.

So, out of necessity, this year, on a quarterly basis, looks worse. Excluding that, it actually was a pretty good quarter. Brazil did very well with products coming - with sales of products linked to launch in the Banco do Brasil network. We had, as I said, new business at MAPFRE RE in significant amounts. We had larger retail sales in Colombia. And Spain did

not do that well on premiums, but it did quite well on funds and we had falling surrenders compared to the previous year, fewer maturities and quite a good development in mutual and pension funds.

As I already mentioned, the technical financial results improved significantly against both the first quarter of 2014 and the second quarter of 2013, thanks to higher interest rates and no negative mark-to-market in Brazil, and accompanied by, in this case, positive mark-to-market in Malta and in Spain.

Let us now move to the other business activities on slide 14. Really, there is not much to say. As you will see, we didn't even write comments this quarter because the figures are basically the same as they were in 2013. On a quarterly basis, we have some differences, but they mainly come from reclassification. So there's really not much to report.

On slide 15, we have the bottom line. As I already mentioned, inflation adjustment in Venezuela doubled compared to the previous quarter and tripled against the same period of 2013, and that clearly takes away from profit growth. But even with that, we had a strong profit growth, thanks primarily to the larger financial income in Latin America and Spain.

We can see a falling tax rate. In the tax rate, the average tax rate compared to the same period of 2013, which came primarily from Brazil, GLOBAL RISKS and RE and offset a slight increase in MAPFRE FAMILIAR in the second quarter of this year. As I already mentioned, minorities are up strongly and profits are growing comparatively faster in the Brazilian and Spanish bancassurance businesses.

Let's now move to slide 17, where we have the balance sheet. We have an increase compared to the close of 2013 in investment shareholders' equity and reserves due to larger business volume. Business is growing, as we said, in Spain and abroad, a strong decrease of spread in Spain.

And now, on the positive side, the appreciation of the Brazilian real, the U.S. dollar and the Turkish lira, at the end of this quarter, which had more than offset the impact of the depreciation of the Venezuelan bolivar. We had, as we saw in the first quarter, basically, the figures are the same, a modest increase in debt due to some usage of credit lines at subsidiaries and the accrual of interest of the - on the financial debt of the holding company.

And finally, you will see a large movement, both in deferred tax assets and liabilities. And that is because of the increase in unrealized gains, which has a matching component in the deferred tax assets coming from shadow accounting. That is, from the crediting of those gains to the policyholders.

Let's move to slide 19. We have the breakdown of the investment portfolio. If you compare this investment portfolio with the one we showed you in the first half of 2013, we see a smaller weight of bonds issued by financial institutions, which was matched by an increase in public debt. We see a higher weight of European and especially Spanish

paper due to both the appreciation of the euro, which reduces the weight of bonds which actually are from Latin America, and the falling spreads which increased the value of the Spanish and Italian paper.

We have a slightly larger amount invested in equities due to basically price appreciation. Market prices have gone up and to a lesser extent, new money. And then, you will also see compared to the same period of last year, a decreasing amount invested in real estate. And that reflects primarily the depreciation of foreign currencies, some asset sales, we sold a few buildings, and we write-down - as you can remember, we did some write-downs at the end of 2013.

On slide 20, we find the statement of changes in equity. I will move to slide 21 for the explanations. I think by now, Mr. Tejera already explained what were the drivers of this. We had an increase in value of the Spanish portfolio because of falling spreads, most of which was taken away by shadow accounting, but still we have a net positive contribution of about €400 million.

We have a positive impact of translation adjustments from the real, the dollar and the Turkish lira, and they more than made up for the Venezuelan bolivar, and then, of course, we have the dividends paid.

On slide 23, we begin to look at the regions. And as usual, we begin with the breakdown of premiums and results according to the regional structure. If we compare it to the previous quarter, we see that Spain falls considerably. And in the first quarter, we had a contribution to premiums of 40% and now we have 34%. And that is due to the fact that in the first quarter, we had a very large issuance of Life premiums, which was not repeated in the second quarter. And this was matched by an acceleration of growth in Latin America, especially Brazil and LATAM North. So that reduced the weight of Spain.

It must be said that Spain weighs the same it did a year ago in June 2013. At that time, we also had, according to the new structure, a weight of 34%. In terms of contribution to profits, there was a minor increase in the weight of Iberia, which it has gone from 43% to 44%, thanks to a better combined ratio and larger financial income this quarter.

However, if you compare to a year ago, the contribution of Spain had fallen about 5 percentage points because of lower profits at MAPFRE EMPRESAS especially, and profit growth in other regions, especially MAPFRE RE.

On slide 24, we delve deeper into the premiums by regions. On a quarterly basis, we can see that Iberia is growing in Non-Life retail lines - sorry, Non-Life retail lines was on a full year basis. In the second quarter, we saw an improvement in Motor line and growth in third party liability insurance at MAPFRE EMPRESAS, as well as a seasonality impact in MAPFRE GLOBAL RISKS, which brought a contribution of about €45 million extra compared to the previous quarter.

As we already said, we had a different timing of life insurances campaigns in the agents' channel, which affects negatively the quarterly comparison. Now, within this, we have to

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highlight the fact that the bancassurance channel is doing very well. Year-on-year, we have a 15% increase. It was 10% in the first quarter. It's gone up to 15% this year. So we're quite pleased with that.

And if we compare to previous quarter in Spain, we also have the seasonality, I already referred to, in Burial, Health and Commercial insurance, which makes it appear as if the performance was worse in the second quarter, which was not the case.

Brazil deserves special attention this quarter. We had significant growth in Commercial, Life and Motor insurance. And also, we had some recovery of the real, but I have to say that the performance of our business there was nothing short of spectacular, given that MAPFRE - I have figures as of May from the supervisor at that time, which is probably similar to June.

MAPFRE was growing 20%, while the market was contracting 0.8%. And we had very strong performance in Motor. We had 8.4% compared to 5.4% for the market. Life and personal lines, which grew nearly 11%, while the market grew 2.4%, so basically four times faster. And property growing 61% compared to 11% for the market. This property includes the Industrial Risks I just referred to, plus Agricultural.

So, as I said, spectacular growth, very good development. As you know, we benefit from a relatively underpenetrated customer base in the country, and here you can see the results of that. And as an outcome of this, the market share has gone up from 7.4% to nearly 9%, which is a very remarkable increase.

LATAM South did well in the quarter. There was a pickup of sales in Life Assurance in Colombia, as well as notable growth in Motor insurance in Argentina, Peru and Venezuela. North America did well too in the quarter. We had good homeowners' growth in the U.S., Health and Accidents growth in Puerto Rico and Industrial Risks growth in both countries.

EMEA commercially suffered a contraction in the second quarter, primarily due to a slowdown in Turkey, caused by a fall in consumption and strong price competition across all lines.

There was an exceptionally strong increase in Mexico as well in Motor and Commercial insurance. It really turned around compared to the first quarter and moved the year into positive, as well as good business development in the Honduras and the Dominican Republic.

APAC is small and basically remained unvaried compared to the previous quarter. And as I already mentioned, MAPFRE RE benefited from new life business within the quarter.

On slide 25, we have profits. Iberia show a general decrease in the loss ratio in the quarter, especially Motor, General Insurance, and TPL line, as well as an increase in the expense ratio. As we already explained in the first quarter, we have a change. We're basically frontloading the recognition of commercial expenses for the year.

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We had larger financial income in Spain, primarily due to valuation gains. And remember, this is a region we had a reduction of the profits of MAPFRE GLOBAL RISKS in this region not because it was especially bad, but rather because it was exceptionally good in the second quarter of 2013. So when I compare it, it basically did worse.

Brazil had a better technical result in the Life business and large financial income, which more than offset a slight upturn in the loss ratio in Motor, I'm talking quarterly. LATAM South show a very considerable improvement in the underwriting result in MAPFRE Peru. In Peru, there was a regulatory change, and larger financial income in MAPFRE Venezuela and MAPFRE Colombia.

The Chilean earthquake, of course, weighed negatively on the results of this region because you had this region reflects the loss of both MAPFRE Chile and MAPFRE GLOBAL RISKS, so both are recognized here.

North America improved significantly against the first quarter. But nonetheless – I mean, we had fewer weather-related claims, but more than it did in the same period of 2013 because of the heavy rainfalls that we had this year. Puerto Rico saw a better technical results and larger financial income.

In EMEA, we saw a contraction in profits, primarily once again due to GLOBAL RISKS and to the fact that there wasn't anything special simply that the loss experienced this quarter was normal and in the first quarter of this year, it was exceptionally good. Results of EMEA are also negatively affected by weather-related claims in Turkey. And finally, EMEA on a positive note, recorded larger positive mark-to-market adjustments in Motor.

LATAM North benefited from a very significant improvement in the Non-Life and the revenue growth in Mexico, which drives its growth. And APAC wasn't very well in terms of results in the quarter.

Finally, as we look at MAPFRE RE, MAPFRE RE had a significant growth – contraction in profits in the quarter because of catastrophic claims. You will see that the contraction in the profit is quite material. That was partly offset by realization gain of about €5 million.

And now, that's all on my side and we are handing back the call to Mr. Tejera for the Q&A session.

Esteban Tejera Montalvo {BIO 3910673 <GO>}

Thank you, Luigi. Well, happy (28:46) comments about the results and now we are available for a question session. Go ahead, please.

Q&A

Operator

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Good afternoon. Ladies and gentlemen, the Q&A session starts now. Our first question comes from the line of Niccolous Dalla Palma from Exane BNP Paribas. Please go ahead, sir.

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

Hello. Good afternoon, everyone. I have questions on my side, the first one is related to the BBVA takeover of Catalunya Banc. If you could explain what the implications are on your side and perhaps also comment on the numbers they gave in their conference call, where they mentioned €320 million (29:37) that they thought (29:37) could potentially pay to you. Could you clarify what this is exactly is? Is it just is the pure penalty or is it the potential buyout of their side of the embedded value? So this is question number one. And in the second question for Luigi, if you could may be help us understand for the coming quarters, how we should think of the mechanics of the impact of the - in Venezuela from inflation and devaluations? If you just could help us around the mechanics here? Thank you.

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

Okay. (30:17) Thank you. In terms of the BBVA takeover, well, it's very early to know exactly what will happen. We have congratulated our management at BBVA for such an extreme process. And we have to wait to know exactly the - what we think about the development of the bank itself. And according to that what I can say is that our - the contract still we have allow us to continue the business. It is their purpose how to (31:07) is in your opinion.

In any case, MAPFRE have been happy about this figures that I suppose that are figures that generally had that in the six months of the Catalunya Banc, but we have to wait until - I suppose, several months until the people in BBVA express their opinion on this. So (31:45) information.

A - Luigi Lubelli {BIO 4108780 <GO>}

And as far as Venezuela is concerned, Niccolo, well, you know, we gave the figure. We've moved to an exchange rate that is now variable and it is called CICAD, C-I-C-A-D, CICAD 1 (sic) [SICAD 1] (31:59), and the detail of that you find on slide 30. As of the close of this period, we used an exchange rate of 10.6 Venezuelan dollar to - Venezuelan bolivars to the dollar, which if I am not wrong, it was 60 Venezuelan bolivars previously, so that's kind of the evaluation.

And here you have two different impacts. As you know, we have an average exchange rate for the P&L and close of period exchange rate for equity. So in equity, we recognized in this quarter, as is described in the half yearly report, a loss of €173 million.

As a matter of fact, if you move to slide 20, you will see that in the shareholders' equity side, we had a translation adjustment. You will see that the total translation adjustment is positive, but it has a shareholders' equity side which is negative and that's because the €173 million are recorded there. So that is in.

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The rest, it's difficult for me to guide you, but basically the next quarter will all come in at the new exchange rate, and it will be averaged out with the first six months, which have been done. I think we only had one month at this rate in the first half. So at the close of September, you have five months exchange at say 6%-ish and four months exchange at 11%-ish. That's kind of the guidance that I can give you.

It all depends unfortunately how much premiums and profits are recognized in this coming quarter, in the third quarter, because if we have little premiums and little profits, it will vary the situation less. But if say the issuance of profits in Venezuela were to accelerate in the third quarter, it would drive down faster the average exchange rate for the year.

Have I confused you or have I clarified your doubts?

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

No, that's very clear on the exchange rate side. But for the inflation side, is there further adjustments to be expected in the coming quarters if inflation remains -

A - Luigi Lubelli {BIO 4108780 <GO>}

I am afraid. I am afraid. So, yes, because we have an inflation of 73%, make it 75%. So, yes, I am afraid so.

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

Okay. That's all very clear. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

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

Q - Federico Salerno {BIO 2565091 <GO>}

Good day. A couple of questions please. On financial income, I notice that return on asset seem to grow from 5% to 9% in MAPFRE AMERICA while financial income was down 16% at MAPFRE INTERNACIONAL. Can you say what's going on in here please?

And then, do you have a number for the cost of Chilean earthquakes before the retrocession? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Good afternoon, Federico. And let me see, before retrocession, no. I am starting from the last question. I'm afraid we can only give you the figures that were published. So

all we can give you is the figures on slide 10 for the Chilean earthquake. As far as the Europe, I'm not sure I understood your first question. Can you repeat it again please?

Q - Federico Salerno {BIO 2565091 <GO>}

Sure. At MAPFRE AMERICA, if I did the numbers correctly, the financial income was 5% of the investments in the first half of last year, while it was 9% this year. So there has been a major improvement, which is well above what you would think is consistent with the increase in interest rates in Brazil. I was just wondering here what's going on. Then the other thing I know is that MAPFRE INTERNACIONAL financial income is down 16%, and I was wondering why?

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Let's see how we can reconstruct that. As we told you, we have higher interest rates in Brazil. So let's look firstly at the MAPFRE BRASIL figures, which are on slide 49. And you see that financial income is much, much larger. There you have clearly the impact of higher interest rates. I'm looking at realization gains, but there's really nothing to say.

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

I can - if you are comparing the figures of this year with the previous year, in the previous year in the financial income we have the impact in profit and loss of the mark-to-market trends in the financial value.

A - Luigi Lubelli {BIO 4108780 <GO>}

Which was about €50 million. Thank you.

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

Yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah. So basically you would have to compare in Brazil a figure of €100 million with the figure of €143 million.

Q - Federico Salerno {BIO 2565091 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

And that's what drives most of the change. Venezuela had a significant improvement in financial income this quarter to the extent that it's accounted as high - you have to take so-called the exchange rate impact, but because it's averaged, it still does have an impact on the full figures. And Colombia also had some realization gains in the quarter.

But, really, Brazil is what moves the numbers for MAPFRE AMERICA in large. And in case of MAPFRE INTERNACIONAL, you can say MAPFRE USA, if you look at slide 51, you can see

that the volume of investments, it's about €200 million lower this year than it was a year ago. In between, this company has repaid loan of which it had \$170 million outstanding and it paid dividends to MAPFRE, an extraordinary dividend of about the same amount.

So they actually sold investments in order to raise about \$350 million, which, of course, has led to a fall in their investment portfolio. That's the main driver because otherwise in the INTERNACIONAL - in what used to be MAPFRE INTERNACIONAL, you have the positive mark-to-market in Malta, which is actually good from this perspective. And on the negative side, you have the devaluation in Turkey, which reduces the contribution of financial income from Turkey.

Q - Federico Salerno {BIO 2565091 <GO>}

Okay. Can you say on - sorry to go back on the retrocession, can you say at least if it was a large number or not?

A - Luigi Lubelli {BIO 4108780 <GO>}

Honestly, Federico, I do not have the figure for you. I - the figures I have is what is published here. Surely there was. It was - I mean, surely, it was a larger amount. But to tell you how much larger, I cannot. Even when we have the largest earthquake, the one in 2011, we always gave the net figure of that.

I don't - I mean, somehow you can see that - only to some extent from - you can guess it, but - from the movements in the balance sheet, but it wouldn't be an accurate estimate. You have some - just bear with me.

Q - Federico Salerno {BIO 2565091 <GO>}

Okay, don't worry. I mean I can come back to you.

A - Luigi Lubelli {BIO 4108780 <GO>}

You have €200 million increase in asset from insurance and reinsurance operations in the balance sheet. That does include the amount hold by reinsures, but, of course, it includes also amounts hold on transactions which do not have anything to do with the Chilean earthquake.

Q - Federico Salerno {BIO 2565091 <GO>}

Okay. Okay. I'll try to work it out.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay.

Operator

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

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Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Yes. Good evening to everybody. Thank you for taking my question. I have some questions. The first one is on the Motor Spanish business. I saw by the market data there was a pickup in claim frequency in the first quarter of the year. And I wonder what are the trends that you are seeing more recently and what are your expectation regarding the trend, if some economy recovery is driving also some increase in the claim frequency, and what could be the amount? And also, if you have any update on the Baremo on the Motor business?

Second question is on financial income. I just wondered, if I look at page 55 of your presentation, if the financial income due to the realization and mark-to-market is - in the Non-Life business at least, is included in this slide. So just to be sure, what is your - what is the impact on the financial income driven by the movement of interest rates and what is the ordinary income in your P&L?

Third question is on the Brazilian Life results, which is particularly brilliant. I saw in the slide number 49, it was a strong result, and the rise in financial results in the Life business in Brazil was in excess of €200 million despite an unfavorable ForEx, up more than 50% year-on-year. Given that also in the past there was some volatility in these results, I just wonder if you can provide us sort of guidance what could be the margin of this business going forward?

And finally, the taxation on the - the corporate taxation in Brazil, I don't know if we can assume this lower tax rate introduced this year could be a level which is likely to remain also in the next future. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay, Atanasio, many question. Let's see. The first one did I get it right that you asked us what's the trend in Motor insurance in Spain? Is that -

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Yes.

A - Luigi Lubelli {BIO 4108780 <GO>}

We have figures that have been released today by the Insurance Association and I have to say, it's a pity that we could not include them in the presentation. But you can find them from the Insurance - the related (44:21) Association in Spain, which is called ICEA, I-C-E-A. And there's a - I mean, graphically, you can see very clearly that Non-Life sales are picking up. And what is interesting in Motor insurance is that there's a very clear trend in the recovery.

For instance, we had - in June 2013 Motor premiums were falling 6.6%, while in June 2014, they're falling 2.3%. And this 2.3% in June compares with 5.5% in December. These are monthly percentages, which means that come 2014 there's clearly been a very rapid acceleration in the recovery in Motor insurance, which is consistent to what Mr. Tejera

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pointed out during his part of the speech. That trend can be seen in many lines. For instance, Multi-peril began the year negative and it turned positive in June.

Health grows 3% in June 2014 and was growing 1.8% in June 2013. The other Non-Life (45:39) lines were - a year ago were falling 2% and this year they're flat. So it's generalized all the Non-Life business. Non-life overall was basically flat as of June 2014 and it was falling 2% in June 2013. So we clearly have a very pronounced favorable trend in the insurance of Non-Life. As I said, these figures have hit the screen this morning. Does it answer your question, Atanasio?

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Yes. And also, in the claim frequency?

A - Luigi Lubelli {BIO 4108780 <GO>}

We don't have figures for the market at large. I would say that, generally speaking, we maintain what we were telling you in the first quarter year-end that clearly we are seeing more frequency because of the greater economic activity in the country.

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

But in case, Atanasio, during the second quarter in our company, we have registered an improvement in the loss ratio. This is due to the seasonality also because the Easter this year was in the first quarter. But it is true that the forecasts have increased in the frequency, but it is not so important at this moment.

A - Luigi Lubelli {BIO 4108780 <GO>}

Your second question was on Baremo. On Baremo, we do not have more news compared to what we already told you in the first quarter. So we know that it's basically finalized. We know that it will be known by year end. We anticipate that it will actually come into force as law in 2016. However, being known by the end of 2014, we expect that the judges will try to stretch as much as possible their - the compensations they award under the present Baremo to the levels that would be allowed under the new Baremo. So you can take it that the first impact on the claims ratio of Baremo will begin to be seen next year in 2015. That is what we told you in the first quarter and we have no more things to report on this.

The fourth question was on the financial income, and I think it was slide 55. Let's go there. Slide 55 basically tells you what's there in net realization gains. Bear in mind that we showed you realization gains and really what - the way that counts from a bottom line perspective, which is net of write downs. So we show you the figures. I was wondering, you did ask about Life, do I remember well?

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

No, no, I just wondered if this figures include also the mark-to-market on the Spanish govies?

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A - Luigi Lubelli {BIO 4108780 <GO>}

No, no, no. This is actual sales of bonds. The mark-to-market on Spanish govies mostly goes through equity.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

We had some impact, but it was rather on swaps through the P&L. Our account, we have fair value through equity mostly for the Spanish bonds.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

And the swap - sorry, the part of the swap affect mainly the Life business?

A - Luigi Lubelli {BIO 4108780 <GO>}

Correct.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

There's another slide which helps your interpretation, which is the slide right before, which is slide 54, which tells on - but on the Non-Life side. Actually, on the Non-Life side you see that net realization gains are actually smaller this year than they were a year ago on a net basis, net of impairment.

So it's actual underlying financial income. Bear in mind that there you have a big swing in Brazil for the lack of negative mark-to-market and the higher interest rate. And that is the main reason that gives the answer to your last question, because, of course, the account where you have - MAPFRE BRASIL is on slide 49, the account in which you have most mark-to-market adjustments is the Life account. So in the swing there, you have the impact of that in the technical financial result.

In addition to that, they had a better underwriting result. Bear in mind that MAPFRE BRASIL is mostly the term life. And to a good - so basically it kind of has a combined ratio because its kind of business is closer to a Non-Life business than it is to a Life business. It's just protection. So it actually has an underwriting result and it did better this year than a year ago.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay.

Operator

Our next question comes from the line of Avinash Singh from Nomura. Please go ahead.

Q - Avinash Singh {BIO 20134511 <GO>}

Hi. It's Avinash Singh from Nomura. I have two questions. First, you used to provide earlier the growth in underlying earnings, I mean, after adjusting for one-offs. Could you please provide the same figure for first half 2014 versus first half 2013? And my second question would be, in terms of Brazilian market can you just provide some figure in that what the combined ratio for the market and what is - I mean the difference between your combined ratio and market, if not for the entire P&C, for Motor at least? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi. Good afternoon. I must say, Avinash, that your sound comes across very, very poorly. So we almost could not understand what you said. I understood that your second question was on Brazil, but the first one I almost missed out on entirely. Can you do something with your mic so that we can understand you more clearly and please repeat the question?

Q - Avinash Singh {BIO 20134511 <GO>}

Sure. My first question was on underlying earning development, which - the data you used to provide the underlying earning changes after adjusting for one-offs. Can you please provide the same development in underlying earnings during first half 2014 versus first half 2013? And second question was - yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. Okay, if I understood correctly, you are asking us about the reconciliation table that we used to give with non-recurring.

Q - Avinash Singh {BIO 20134511 <GO>}

Yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

Look, we have not put it this month because we had items, but it was a matter of debate. Some would consider them as non-recurring, some others would not. So we preferred to give them to you where you will find them, for instance, on slide 10, you will find the Chilean earthquake. On slide 11, you have the realization gains on the Non-Life accounts. On - nothing here.

And then, when you go to the regions in every country - well, in every region I should say, we give you all the items which are there which may be considered non-recurring or not.

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So, basically, you have a menu of items and you can choose how to recognize them in the profits.

Q - Avinash Singh {BIO 20134511 <GO>}

Okay. Okay, I'll get – you had your selections anyway. Second question was on Brazilian market, as you are gaining market share there, so I would be interested in knowing if you can provide that combined ratio for the market and your combined ratio, I mean the difference between these two numbers?

A - Luigi Lubelli {BIO 4108780 <GO>}

I understood that we're gaining market share and your question is – I'm sorry, it's very – the line is very poor. You said, we are gaining market share, so what would you like us to compare?

Q - Avinash Singh {BIO 20134511 <GO>}

No, no. Like in Spain you have advantage in term of combined ratio in Motor. Similar – can you provide a similar difference between the market combined ratio and your combined ratio in Brazil?

A - Luigi Lubelli {BIO 4108780 <GO>}

If you're – maybe I can give you a very positive – (54:27) you're asking us how our market share did in Motor compared to the other market. Are you asking me that?

Q - Avinash Singh {BIO 20134511 <GO>}

I am asking the combined ratio, your combined ratio versus market's combined ratio in Brazil.

A - Luigi Lubelli {BIO 4108780 <GO>}

The combined ratio compared to the market, I don't have that figure.

Q - Avinash Singh {BIO 20134511 <GO>}

In Brazil.

A - Luigi Lubelli {BIO 4108780 <GO>}

No, I don't have that. I have the combined ratio figure for Brazil, but I don't have it for the Motor line and I don't have a comparison with the market, I'm afraid.

Q - Avinash Singh {BIO 20134511 <GO>}

Okay, no worries. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay.

Operator

Our next question comes from the line of Rodrigo Vazquez from N+1. Please go ahead.

Q - Rodrigo Vazquez {BIO 17490418 <GO>}

Hi. Good afternoon. Thanks for taking my questions. First one, I would like to – if you could provide us a little bit more color on the evolution of MAPFRE US with the combined ratio is still above 100%? And what's the rationale to expand operations over there when the business is not stabilized on a standalone basis?

And then a second question, if you could remind me the average deal and duration of a Spanish Non-Life portfolio? And I didn't get very well the answer related to the CatalunyaCaixa -BBVA agreement. If you could repeat it for me please? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay, Rodrigo, let's see that we'll approach your questions. The first one, in terms of plainly the numbers, MAPFRE USA, as I already said before, improved quite considerably in the second quarter compared to the first one, simply because the storms had a much smaller impact in the second quarter than in the same – in the first quarter.

Except that, it was not an easy quarter because it did have some significant claims coming from heavy rainfall. There were rainstorms in the north-east, which affected the claims ratio. That will become apparent if you compare the result for the second quarter of this year with the result for the second quarter of the previous year. So it varies on the loss side.

In terms of sales development, it actually did pretty well. It had good growth in Motor and especially good growth in homeowners' insurance, plus the expansion into other states, states other than Massachusetts. So from a sales standpoint, the company is doing quite well. I wonder if Esteban wants to elaborate on this.

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

Yes, we got – from the point of view of the losses, we have suffered a lot in the first quarter and more than normal in the second quarter due to the rainfalls. But as Luigi said, from the point of view of the sales in Motor we grew by 2.3% and in homeowners 9.6%.

We have a tough retail (58:00) operations in Pennsylvania now. And the poor evolution of the commerce during the last year is tied up mainly to the weather conditions in Massachusetts. So growing out of Massachusetts and open new channels for distribution is our main target (58:28) now in order to compensate this weather condition, if possible.

We have improved also the terms of the reinsurance protection in order to avoid the impact of the snowy storms also. And in terms of the BBVA agreement, I – BBVA acquisition of Catalunya Banc, I said that we congratulated our friends from BBVA yesterday. And now, we must wait and they have to think what they would need to do with

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the bank in terms of the integration or not and in terms of how to operate the insurance with the branches that we will share in the future. And this - in our agreement and in the contract we have, we have specifications (59:47) for both in continuing the business of (59:54). But it's very early to talk about this because we have very good relations, commercial relations in several countries with BBVA, including Spain.

And I think that they will communicate with us what they are thinking about in the development of the business. In both cases, the impact from MAPFRE will be - we will continue with them. The possibilities of (60:32) very interesting in this new environment of growth in Spain. And finally, if they decide to go along, I suppose that we will see again that it will be a wining (60:50) combination for both parties. But it's very early to speak about this.

A - Luigi Lubelli {BIO 4108780 <GO>}

And regarding your other question, Rodrigo, is I'm afraid I don't have public figures to answer your question because we do not provide durations in the half yearly accounts. And even in the full year accounts, we only give them for the entire portfolio. We do not break them up between Life and Non-Life. Perhaps you can try to get a hold of the MAPFRE FAMILIAR, MAPFRE EMPRESAS annual reports, all the information which is in there which perhaps can give you some information.

But bear in mind that our company's duration in the Non-Life business has a relatively limited relevance. We are mostly a short tail company and we use bonds rather for their liquidity than - of course, for the yield, but let's say that we sell those bonds fairly rapidly because most of our claims are paid - are property claims, which are paid within a year.

So we normally invest them in bonds which are short-term and can be sold safely without a great liquidity risk. So, clearly, there is a sensibility to duration also in the Non-Life business, but I wouldn't say it matters that much.

Q - Rodrigo Vazquez {BIO 17490418 <GO>}

Okay. Another question, if I may. I heard that you mentioned the increase in profits in MAPFRE Group since 2007. Would you have a similar figure for the comparison of Spain or the additions (62:45) within Spain? What's the drop in net profit 2007 versus 2014 or 2013?

A - Luigi Lubelli {BIO 4108780 <GO>}

I don't have that figure for you, but I think it's a matter of grabbing the presentations which are available on the webpage and making those calculations. That's basically how we do the calculations for Group levels. So I think anyone can do them by just simply taking our presentation for the previous years and comparing them with different years.

Of course, I would say - I mean, intuitively, it has to be a smaller increase because MAPFRE had most of its development over this last seven years has been outside of Spain, because of the investment we've made there and because of the fact that the economies abroad have performed much stronger than Spain in this while.

So I would imagine that just speaking logically the increase in profit in Spain has been smaller.

Q - Rodrigo Vazquez {BIO 17490418 <GO>}

Okay. Thank you.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hello. Hi. Can you hear me?

Operator

Yes. Please go ahead, sir.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hello. Yes. Hi. This is Vinit from Goldman Sachs. Just three questions, very quick ones I promise. In the Motor Spain, just to clarify, the better combined ratio in 2Q versus 1Q, as Mr. Tejera was saying, is purely seasonality or is something offsetting the higher frequency? So that's the first question.

The second question is, staying in Spain, the EMPRESAS, one of the things mentioned in 1Q was increasing competition besides the large claims. But has it just gone away, because everywhere we hear a lot of the industrial risks being growing. I know it's not in Spain you mentioned, but generally has the EMPRESAS facing lesser competition or is that not a topic at all?

Lastly, is there anything on discussion with the Banco do Brasil particularly regarding the - what I understand from my limited knowledge of banking deals, the rules in the new Basel III in Brazil regarding non-banking operations? If there's no conversation, that's fine. I just want to clarify quickly. All right. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Vinit. Let me just say the first question on the combined ratio in Motor. So my understanding, the combined ratio in Motor should have improved in the second quarter compared to the first one, where only because of the, let's say - I don't exactly have now. Let me just see the page - the figure for the quarter. Let's say - I mean you had two impacts in the quarter. You had the losses per se, which were better. I mean, we spent less money in the second quarter than we did in the first one. We had better weather. And generally speaking, it was a better loss experience.

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On the other hand, because the business is resuming growth, we had - it might be the case that we have smaller net premiums than in the second quarter than we do have in the first quarter and that would amplify the loss ratio. But from my recollection, the underwriting results in Motor in the second quarter should be better than in the previous one. Do you have a different view?

Q - Vinit Malhotra {BIO 16184491 <GO>}

No, no, it is better. It is better. But I was just wondering if frequency is supposed to have increased?

A - Luigi Lubelli {BIO 4108780 <GO>}

I think more than frequency in this case it was weather, because the weather was very bad in the first quarter and it was much better in the second one.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. That's fair. That's fair.

A - Luigi Lubelli {BIO 4108780 <GO>}

EMPRESAS, you're asking whether competition has gone away. Competition, unfortunately, never goes away, but what has come is economic growth. So what we saw is simply a pickup in demand for the products of MAPFRE EMPRESAS in the second quarter, which was especially noticeable in third-party liability products. So - yeah, go ahead.

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

You must take into account that economic growth propels (68:01) the growth of premiums even having the same portfolio due to the fact that the (68:12) or the capital insurance (68:11) is related to the activity.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Thank you. All right. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

So can you repeat your third question, Vinit, because I'm not sure I understood it well?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. And then I was just hearing - and this is - pardon me, you can tell me that it's not the right question. But I was hearing that in Brazil there is - the regulators recently came up with banking regulations, some version of Basel III, which would penalize banks, and Banco do Brasil might stand out as - I mean in current situation might not have enough. And then, the insurance JVs would be the next topic. Has this come up in your conversations with Banco do Brasil at all or is this just nothing to do - there's no change, there's no update, there's no conversation?

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A - Luigi Lubelli {BIO 4108780 <GO>}

And honestly, nothing that I can report on in terms of direct manifestation from Banco do Brasil to MAPFRE. There's actually nothing that we - where we should report here. I mean, intuitively, and I don't mean to - and I don't want to speak on behalf of Banco do Brasil, but Banco do Brasil does have Iveco (69:28) which allows it to control the equity which it invests in the insurance business, which is BB Seguridade.

So if there were a need, Banco do Brasil could simply sell on the market part of its stake in BB Seguridade and that would reduce its capital consumption coming from insurance. I mean, I'm saying, off the top of my head...

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure.

A - Luigi Lubelli {BIO 4108780 <GO>}

... that wouldn't change our ownership in the businesses that we have with them, because that will remain unchanged, so MAPFRE will not be affected. But it comes to my mind that there's a possible way in which Banco do Brasil can control the equity it has in this business.

But as I say, I'm speaking on their behalf and I shouldn't do it. I don't know whether they consider that to be a way or not.

Q - Vinit Malhotra {BIO 16184491 <GO>}

No, no, sure. I appreciate. I was just looking for if there's nothing, then there's nothing. Okay, that's fine. Thank you very much. Thank you.

Operator

There are no further questions.

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

Well, if there's no more questions, I would like to thank you for attending our company's call and I call to see you again in for the next quarter results. Thank you very much and very good holidays for (70:26). It could be happy people that are really able to have holidays now. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Bye.

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