S&P Capital IQ

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Mapfre, S.A. BME:MAP

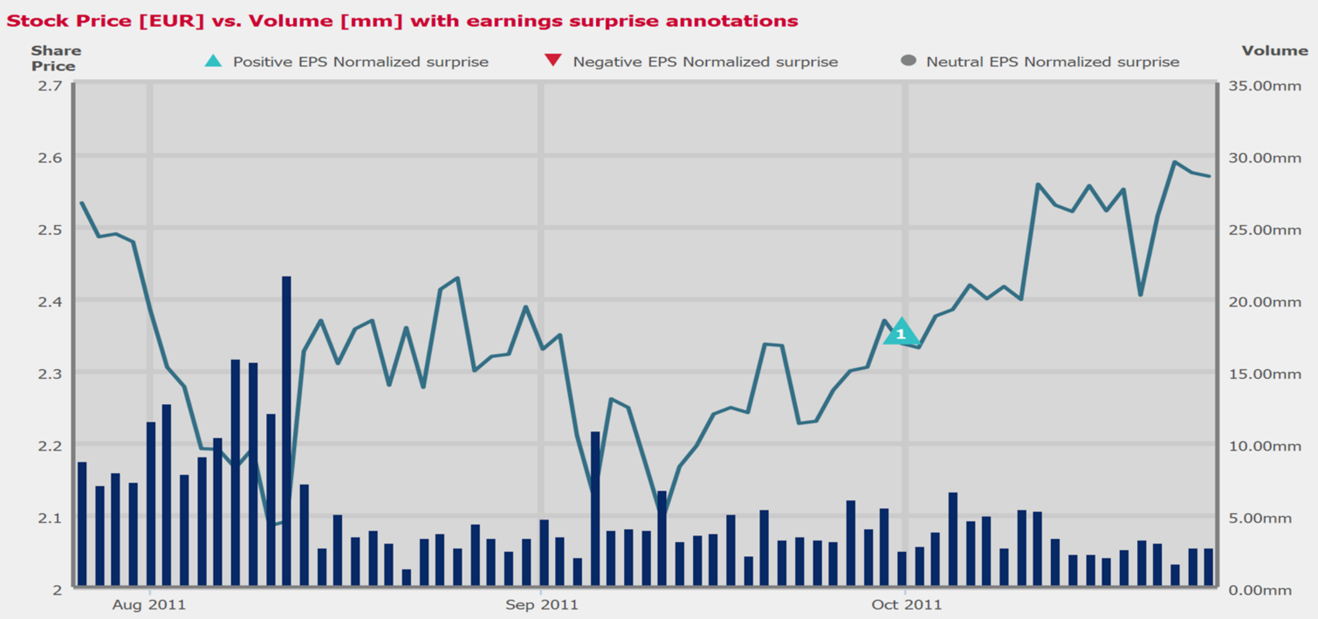
FQ3 2012 Earnings Call Transcripts

Friday, October 26, 2012 2:15 PM GMT

S&P Capital IQ Estimates

	-FQ2 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.08	0.30	0.33
Revenue (mm)	5056.00	20282.73	21082.53

Currency: EUR
Consensus as of Oct-25-2012 11:11 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ2 2011	-	0.08	-
FQ3 2011	7.19	7.23	1 0.56 %
FQ1 2012	-	-	-

Call Participants

EXECUTIVES

Esteban Tejera Montalvo
Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Jesus Amadori

Luigi Lubelli

Marcus Rivaldi

Marisa Godino Alvarez
Former Secretary of Investor Relations

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Exane BNP Paribas, Research Division

Rodrigo Vazquez
Alantra Equities Sociedad de Valores, S.A., Research Division

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

William Hardcastle
BofA Merrill Lynch, Research Division

Presentation

Esteban Tejera Montalvo
Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Good afternoon, ladies and gentlemen. Welcome to MAPFRE's Results Presentation for the Third Quarter 2012. 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, let's move on to the Slide #3. The pillars for the first 9 months of the year confirm the trends that were observed in the first half. MAPFRE enjoyed significant resilience to the present of this environment thanks to its business abroad, which has provided serious growth in our volume profits that is rapidly matching those generated by our strong domestic business activities. Premiums grew by 13%, driven, once again, by foreign business activities and primarily by Brazil. I must note that in September, 2011, we have only consolidated the new activities in that country during 4 months. Revenues grew a little less than premiums but are significantly more than 3%. We should keep in mind, however, that the last year we recognized a gain of -- EUR 122 million arising from the deal with Banco do Brasil which will not be repeated [ph] this year. Funds under management grew nearly 4%, reflecting primarily the growth of the international business. Today, the combined ratio of [indiscernible] improved [indiscernible] is now nearly have 1.5 percentage points base than it was a year ago. This reflects the comparatively low interest [indiscernible] capacity-related claims of MAPFRE RE and MAPFRE INTERNACIONAL and the improvement in Latin America in the ongoing strong [indiscernible] on first few months in Spain.

The underlying profit growth was around 9%, taking into account several nonrecurring items that have resulted analyzing [indiscernible] greater detail.

Moving on to the next slide. Here you have the main drivers of the year. The international business continues to deliver its potential and would register a valid growth in the international business, but in this [indiscernible] accounts by the depreciation of the euro.

In new light, as I've mentioned before, based from the combined ratio in Spain and the strong improvement in [indiscernible] the writing result and international insurance in Global business. In Life, there is an improvement of the current results, thanks to the growth of the international business especially. And as you can remember, we made an impairment of our shareholdings in Bankia and Cattolica during the first half of the year, and we have a provision that's worth EUR 20 million in the first half of the year and now is EUR 30 million for the challenging financial environment.

There is also a positive impact on equity as a result of the recovery of the -- in the financial markets, which is partially offset by the depreciation of the Brazilian real.

On the Slide 5, we have the pillars for both years that contain sizeable non-recurring items that need to be taken into account. In 2012 we have the write-downs from the holdings of the Greek public debt, which are neutralized by the release of the provisions appropriated in 2011. The write-downs of our shareholding in Bankia and Cattolica. And as I mentioned before, the provisions for EUR 30 million covering potential losses in financial and real estate assets, and we have additional utilization rates.

Taking into account these items, we see that the results from insurance operations [indiscernible] over the first half, reflecting the strong profit growth [indiscernible]. The recurring attributable result grows a solid 9%.

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

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

On Page 8, you can see the agreement of the Board of Directors relating to interim dividend. In light of the volatility in the economic and financial environment, MAPFRE's Board of Director's deems it appropriate to strengthen the Group's level of capitalization, liquidity and financial flexibility in this challenged environment, and we have agreed to pay an interim dividend against the 2012 results of EUR 0.04 per share, fully in cash. That's according -- could be the EUR 0.08 that we approved given the year. The total dividend paid in cash in the year amounts to EUR 0.12 per share.

In total, the outlay amounts to EUR 370 million. I will now hand the call to Mr.Lubelli for a more in-depth analysis of our results.

Luigi Lubelli

Thank you, Esteban, and good afternoon, everybody. So let's please move on to Slide #10. On this slide, we have the usual breakdown of the business by geographical area. We continued to the trend observed today, and I would say over the last 4 or 5 years. The foreign business represent 67% of total premiums, against 61% a year ago, so it's 6 percentage points more. And this reflects strong organic growth abroad, 24% in Latin America, excluding Brazil, 11% in MAPFRE INTERNACIONAL, excluding Malta and 30% in Global businesses against a 5% contraction in Spain.

In addition to this, we have the consolidation of the business with Banco do Brasil during the whole 9 months of the year against only 4 months in 2011, plus a contribution of over a EUR 90 million from Malta. And this was further enhanced by depreciation of the euro against all currencies, except the real and the Turkish Lira.

The contribution to total results is shown here according to an adjusted accounting figures. You have adjusted figure on Slide 42 of the appendix and, excluding non-recurring items, the foreign business activities contributed 47%, 4 7, of total insurance profit, up from 38% a year ago. So it means we're talking about nearly 10 percentage points more year-on-year.

Compared to the previous quarter, we see a higher weight of the Spanish business due to a winning -- of the winning of a large corporate contract in the Life business, as well the comparative effect of the write-downs, which were carried out in June.

In my view, these developments provide evidence of the high degree of international diversification in MAPFRE's operations, which now contribute 2/3 of premiums and basically 1/2 of profits. And as Esteban was highlighting, this enhances our resilience to the adverse developments in the Spanish market.

On the next slide, we have a different way of showing the contributions to premiums and results. Once again, we can see that foreign business activities drive the development of our financials. This is very similar, once again, to June. We have 4 main contributors to premiums and profits: Spain, Brazil, the U.S.A. and the insurance business. There are no material differences compared to the previous quarter, save for the impact of the June write-downs I just referred to, which rise slightly more -- raised slightly more than 1 percentage point the contribution of Spain to profit. And of course, there's a little [indiscernible] weight on Brazil due to its full consolidation.

If we compare year-on-year, we're see up here a different profit contribution due to the full consolidation of Brazil and the absence of major weather-related and capacity-related claims at MAPFRE RE and MAPFRE U.S.A. I would like to note that Brazil and the USA, if you sum them up, already contribute nearly 1/4 of total insurance results.

On the following slide, we have a more detailed breakdown of the Non-life business. Spain continues to experience a slowdown in sales which is, unsurprisingly, a reflection of the economic situation. Nonetheless, it continues to win market share in Motor Insurance, for instance. The underwriting result remains extremely strong and it remains a major driver of our group's profit. Year-on-year, we see an improvement in the combined ratio in motor and commercial insurance and the deterioration in the other lines, which in 2011 benefited from especially denying loss experience, especially in household and burial.

America remains the main driver of Non-life premiums growth, bringing in 75% of the total increase. It has recorded a combined ratio below 100% for the second quarter in a row, reflecting an improved loss experience [ph] in general, health and accident insurance, that more than compensated for the high acquisition cost of the business distributed to retail chains in the [indiscernible and led to a EUR 30 million improvement in the underwriting results.

Overall MAPFRE U.S.A and MAPFRE RE are the main drivers of the improvement in the technical result at the consolidated level, thanks, as I said, previously to the low incidence of weather-related and catastrophe claims compared to 2011. They are also major contributors to premiums growth, thanks to the development of their business and also to the depreciation of the euro. MAPFRE Global Risks continues to record growth in its foreign business. Its combined ratio improves notably compared to June because in that -- on first half, it was negatively affected by 2 large claims in Europe.

Year-on-year, you can still see an increase in its expense ratio, which is due to a rise in the cost of its insurance protection.

And last, but not least, MAPFRE ASISTENCIA continues to experience an acceleration in its growth, that's driven primarily by the extended warranty business in the U.S. and the travel insurance business in the U.K., France and China. The variation in the combined ratio against the first half is mostly driven by foreign exchange.

On Slide 13, we have the Non-life account. I've already spoken in detail about premium growth and underwriting results and you can imagine by now trends and figures remain in-line with the first half.

If you compare to June, premiums growth decline and that is obvious because the full year consolidation of Brazil gets diluted as the year advances.

Financial income, excluding non-recurring items, especially write-downs, goes up by about 5% year-on-year, driven by higher yields in Spain and the development of the foreign business. The net provision for write-downs amount to EUR 137 million in this account.

We move on to the Life business on Slide 14. Here, too, external growth is a powerful driver of top-line growth with a contribution of EUR 850 million from Brazil and EUR 65 million from Malta.

Organic growth is very strong in Brazil, Central America, Peru and Uruguay. MAPFRE is also recording a very large increase in sales, which is coming mainly from European ceding [indiscernible] companies. If we compare the figures [indiscernible] year-on-year, the size of the Foreign Life business is up 70%, 7-0, in terms of premiums and 50% in terms of technical financial results.

MAPFRE VIDA saw -- has seen a strong performance of the agents' channel, which is largely making up for the contraction in sales of the bancassurance channel. Premiums loans improved notably compared to the first half due to the winning of a large contract worth EUR 350 million with a corporate customer. The technical financial result continues to benefit from the growing weight of Life-Protection insurance.

The account for Life business is on Slide 16. I already referred to the main drivers. Here what I would like to highlight is the increase in the technical financial result, excluding nonrecurring items, mainly agreements with Banco do Brazil in 2011 and EUR 10 million of realization losses in write-downs this year.

Once again, the main driver of this loss is the development in technical financial result in the Latin American business.

On Slide 16, we have the other business activities. Here if you exclude the figures at the consolidated level, we have a forming [indiscernible] relevance of this line, which is a valid reflection of our decision to exit most of these business lines. The most notable development here, the inclusion of some noninsurance activities in Brazil and Spain, the write-downs of investment in Cattolica, which was down in the first half and provisions of EUR 40.5 million for losses of real estate assets, EUR 33 million of which were appropriated in this quarter.

The bottom line is on Slide 17. Despite impairments and provisions, which, in total, amount to EUR 270 million, the pretax profit is down only 1.8%. And this reflects a strong improvement in the underwriting results in the Non-life businesses, as well as larger financial income, reflecting higher yields and a larger volume of business, as well as the exit from most noninsurance businesses.

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

Anyway, as we compare September against June, we see a smaller impact because in September, 2011, we had already booked 4 months of this business. In addition to that, as you know, we bought back the 10% stake BFA held in MAPFRE AMERICA, which means that in the second and third quarter of this year, we will be paying that percentage of MAPFRE AMERICA's profits at a consolidated level.

On Slide 18, we have the balance sheet. We had some variations in intangible assets in Europe [indiscernible] coming from the final assignments to which asset of the valuations carry out in the alliance of Banco do Brasil. Cash has fallen compared to the previous year because it's been invested in financial assets. If you compare to June, you would see the demands in investment equity, technical reserves go up because we -- mainly because the risk premium on Spanish securities has fallen at the close of September compared to the close of June. And then we have other variations, which we single out on the slide. We see an increase in insurance and reinsurance operations coming from the growth of the volume [indiscernible] by the International business. We have the tax impact of the higher intangibles compared to the previous year on the deferred taxes. And overall, in the balance sheet, we have the impact of depreciation of the euro against the Brazilian Real, which reduces balance sheet growth.

Finally, we have the statement of changes in equity. As I said, if you compare to June, we can see a recovery in the market value of investments. And I feel some may find surprising the shallow accounting figures, but it's just a matter of comparing them with the figure for the close of 2011. If you look at it on a quarterly basis, the investments available for sale recorded a net appreciation [indiscernible] of EUR 580 million and of that, EUR 230 million was absorbed by shallow accounting, which is about 40%. So the relation remains broadly in-line with what we've seen today.

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

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

Esteban Tejera Montalvo
Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re
Thank you, Luigi. Well I think that you have to now [indiscernible] and as usual we are now available for your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Will Hardcastle of Bank of America.

William Hardcastle
BofA Merrill Lynch, Research Division

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

Luigi Lubelli

We continue to believe so, that the decision on dividends which you referred to does not respond to the fact that the position is insufficient. What we think -- I mean we have to take stock of the environment in which we operate and the reality in which we operate. We are based in Spain and the country is in a economic situation that has become more difficult than it used to be in the past. But more importantly than that, there is a perception of Spain and Spanish companies which -- you will correct me, but is of greater weakness compared to the past. And we think we are a company that has a tradition of high or extremely high financial strength. And we think that the best way to go along the road in the future is to keep an even stronger capital and liquidity position, just to respond to these environment. So we continue to believe what we said in Q2 and we continue to conserve our capital position to be in that range. Yes, that's the answer on the [indiscernible]...

Esteban Tejera Montalvo
Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Yes, same as Luigi. For us it's very important to have 3 or 4 months in the market, that's true. We have resilience in this financial environment. And the most important thing is financial flexibility for the future in the sense, as you know very well, our position of debt is very low, but having [indiscernible] of liquidity and financial flexibility for the months to come are the most important consideration of the Board at the time of fixing the dividend. The dividend, in any case, is paid through cash and the new conditions inflation in Spain also help us to take the decision.

William Hardcastle
BofA Merrill Lynch, Research Division

Okay. And can I just ask one separate question. Regarding the property provision, can I just check. Is that a provision on a specific impairment? Is it?

Luigi Lubelli

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

Operator

You next question comes from the line of Maciej Wasilewicz of Morgan Stanley.

Maciej Wasilewicz
Morgan Stanley, Research Division

Yes, it's Maciej from Morgan Stanley. I've got 2, if I can. First question is, I just want to confirm at the moment, are you in any way looking at M&A in the Spanish region at all? Or in fact more broadly? Is there any M&A on the agenda that you can see? Or can you rule out any kind of acquisitions of any material size, at least over the next 6 months? Just because there's been a few market reports that I thought might be worth cursing [indiscernible]. The second thing is on the reinsurance business. I think -- would I be right in saying that would your most sensitive business to your rating? And if so, could you in any way describe what impact you expect on that business going into next year? I know that a lot of the business is sticky, you've had a lot of little clients for a while. Part of it is internal. How should we be thinking about this business going into Q1 next year?

Esteban Tejera Montalvo
Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

I think in relation with M&A, we are not thinking about new [indiscernible] in the short term. The situation in Spain has been tough in our markets very high [indiscernible]. We are taking advantage of the situation. The market is beginning to market sharing [indiscernible] not insurance and homeowners, [indiscernible] in branches where we operate in Spain. So no need for new merger and acquisition in Spain. And frankly, no opportunity in the horizon. So this is the situation difficult.

Luigi Lubelli

And in terms of -- we thank you for asking the question because I imagine you can be in the minds of many. Actually, as a matter of fact, we are quite pleased by the initial reactions of the market to the downgrade because there's an increasing perception and, let's say, acknowledgment by market participants that this is not due to an actual weakness in MAPFRE itself but rather to some kind of impact from being Spanish. The main brokers have reaffirm their opinion of MAPFRE than acceptable security with no restrictions. So actually, the response of the main brokers is very favorable in that respect. And it's true that a portion -- a significant portion of our business is with MAPFRE companies but it's true that most is with non-MAPFRE companies. Two-thirds comes from companies that do not belong to our group. And as you say, you're absolutely right, we have long-standing, ongoing relationships. We are devoting a lot of time and efforts into dealing with our ceiling companies and to giving them all the information they need to confirm their opinion about the financial strength of MAPFRE. And I said that -- actually, I should say, that we are very pleases with the reaction to date. So far so good, I have to say. Clearly we have a renewal session coming up in February. We will let you know what is the final verdict of that. But let's say that the initial reaction is positive, and I think it is especially positive that the main brokers are absolutely compact on considering -- on continuing to consider MAPFRE as an acceptable security.

Maciej Wasilewicz
Morgan Stanley, Research Division

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

Luigi Lubelli

Global aerospace was not in our Insurance business, global aerospace was in the Global Commercial business. And simply, the rules of global aerospace are that the members of the pool must be rated single-A minus or better. So that is basically let's say -- if you wish, an automatic consequence. It's unavoidable. We maintain an excellent relationship with the members of the pool and they absolutely have no doubt about MAPFRE. It's just a fact that it's kind of an entry ticket. You either have the ticket or you don't. Broadly, the Commercial business is in a -- clearly, the Commercial business is a newer business than their Insurance business but basically, they're going about this issue the same way that their insurance business is doing, which is speaking to their customers and providing them with all the insurances that they need. Obviously there is some degree of automatic cancelations which are not avoidable. Some clients simply have a policy of wanting a certain rating and not accepting below a certain rating. And this was the case of this pool.

Operator

Your next question comes from the line of Giulia Raffo of Autonomous.

Giulia Raffo
Autonomous Research LLP

Just a quick questions. One, the first one would be on your dividend, a choice. And I was wondering whether you can comment how much of the Board choice was attributable to the fact that S&P has now got the Spanish sovereign rated only 1 notch higher than what would be considered as junk. Then question on that further would be, if I look at your debt, I see that you have EUR 500 million of credit facility which are expiring in 2013. What's your thinking on that? And can we link the decision on cutting the dividend payment to that and thinking of the refinancing need and how difficult it could be or how costly it could be given the rating? And then one quick question on land. Should we interpret that the EUR 40 million charge that you took in the 9 months, EUR 32 million of which were in Q3, were mainly in relation to the EUR 700 million land? Or is it just a general charge? And should we expect something similar to come for Q4?

Luigi Lubelli

No. There is absolutely no link whatsoever between the decision of the Board and the S&P rating. It's -- the reasons that I -- Esteban and I mentioned before, are the reasons for it. But I think it's important and I appreciate the fact that it's a piece of news that is catching your attention. But really, it's plain and simple. This is a management decision. It does not have anything to do with anyone else. It comes from MAPFRE. We have a certain track record as a group. We have a certain reputation and we have a certain image in the market, which we think is a valuable asset from a commercial standpoint. We cannot ignore the fact or pretend that it's not -- does not exist, the fact that Spain is no longer perceived to be as safe as it was perceived to be, say, 2 years ago. And that clearly has an impact on all Spanish companies including us. Other companies will respond to this in different ways. Our decision has been to respond in the way we usually have in the past, which is by keeping very strong solvency, very strong liquidity, even higher than what we have kept today and that is the reason for that. And clearly, money is fungible, meaning, if we keep more money, the money can be used for the syndicated loan maturing in 2013 or can be employed for any other purpose. The dividend -- the syndicated loan, you're right. It matures in 2013, at the end of the first half. We have not yet taken a decision about the loan. We may decide to either refinance it or to pay it down. It's something that we are -- the possibilities we -- this has not yet been decided. But I'm sure it's coming up and it's something we will handle in the coming months. But then, of course, if we have more cash in the holding company, it's cash that can be deployed for that reason or for any other reason.

Giulia Raffo
Autonomous Research LLP

Just because -- excuse me, but it strikes me that paying EUR 0.07, sorry EUR 0.04 instead of EUR 0.07 at the end only saves EUR 90 million. So I'm trying to understand what -- the thinking, because if you're worried about Spain, then EUR 90 million against Spanish asset of EUR 9 billion, EUR 10 billion is not going to do you much of a saver. So I'm trying to understand what's -- your capital is strong, your cash flow are strong. I don't really see what -- the delta here.

Esteban Tejera Montalvo
Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Yes, Giulia. But in that situation, where we are reporting the real benefit last year and this is an interim dividend. So the situation is that keeping the same EUR 0.07 when the situation in Spain is so complex was not an alternative for the Board. In any case, this is only to be more confident from the point of view of the liquidity and financial flexibility. The situation seen from Spain could be different, say, from London. Here we have suffered in the last month's situation where one day you have to downgrade of the Kingdom of [indiscernible] Spain for the rating agencies or there was a -- they expect with the rest of the Euro [indiscernible] then suddenly the market open or close. In this environment to represent -- to have buffers and to send a signal to the market that we can keep resilient due to a current policy is our way of factoring as usual. In other times, we practiced [indiscernible] and there are times we have to down this reduction at least few terms, but within the year, we have paid fully in cash the entire dividend, increase dividends, and this is relative. And the tax commissions in Spain also have changed. There is now a higher rate of taxes for dividends than before. So the Board have to weigh these different factors and have decided to reduce the interim dividend more than the reduction of the earnings at this time of the year, because we don't know what could happen in the near future, depending on the situation of the country, not the company.

Giulia Raffo
Autonomous Research LLP

And I was trying to have a sense of what we should expect for the final and also for '13, '14. Because the macro situation is unlikely going to change in the next 6 months. So if you don't guide us on what you claimed to be a decent cash buffer, it's very difficult for us to see whether this is temporary or whether this is going to stay for 18 months, 24 months, up until the macro situation...

Esteban Tejera Montalvo
Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Unfortunately, we have not the solution for the next -- for the near-future environment. But what we thought, as member of the Board was that reducing the dividend and paying in cash [indiscernible] was more prudent than paying the same dividend when the situation is so troublesome. And this is not a precondition or in regards of the situation this year. But just in case the situation continues to be bad [indiscernible] next month, what happens in the end year, we can know exactly how the situation evolves. And according to that, the final dividend could be one or another depending on the situation.

Luigi Lubelli

You had another question Giulia on land, and the answer is yes. Those provisions are on land.

Giulia Raffo
Autonomous Research LLP

Okay. And should we expect something similar to come through in Q4 similar to Q3? So another EUR 30 million?

Luigi Lubelli

I cannot tell you that because as -- I believe I was answering Will's question before. That depends on the final valuations at the end of the year. I mean, the year has not necessary borne that relationship. These are estimates and then we have the final review performed by third parties. I mean, no, you shouldn't necessarily extrapolate from this one to year-end.

Giulia Raffo
Autonomous Research LLP

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

Marcus Rivaldi

Yes. More or less, yes.

Operator

Your next question comes from the line of Niccolo Dalla Palma of Exane BNP Paribas.

Niccolo Cornelis Modesto Dalla-Palma
Exane BNP Paribas, Research Division

So, firstly, follow up to the previous question, and then a couple of other ones. Just to be clear, on the syndicated loans you mentioned that Q2, that there were some rating-related covenants. My understanding is that they have not been reached even with the recent downgrades. Can you just confirm that, that's the case? And then secondly, you mentioned a large corporate contract on the Life insurance side. If you could just give us more detail, not -- clearly not about the counter-party but about the type, exact type of contract here. And last, we recently saw a presentation from the regulator pointing, again, out that the Baremo review seems to be on track for the end of year and the commission has been enlarged, which caused some delays. But they speak about some news to come therefore by December 31. So surprisingly they seem to be very explicit about the increase of cost of claims it would drive-through. Maybe you could give us an update of your view of the situation on this specific topic.

Luigi Lubelli

I'll answer the first question. Jesus will take the -- Jesus Amadori will, Head of Investor Relations, would take the second one. There's no covenants per se on the syndicated loans. We have a -- no, we have no issues with the ratings, with the loans at present. So there's nothing on that front. And on the Baremo, I'll turn over to Jesus.

Jesus Amadori

We are cognizant of the deadline that you were mentioning before. However, the second bid, which is -- that, that might come into force next year, I think there's -- we think there's a large degree of judgment in that. The same way that the deadline has been extended several times, it could be extended further. So you should not assume that it's going to be effective this year or the next one. We check, obviously, with our guys -- you would expect that Mapfre, being 20% of the market, if something was coming that soon, we would know about it. So we are still quite prudent and as we have said, repeatedly, you should not assume that, that is going to bring a structural pick up in claims inflation. In the past, that has only produced a one-off increase and then the market has structurally adjusted through price increases. And your third question which was regarding the corporate transactions. Obviously you would not expect us to comment [indiscernible] clients [indiscernible] in its business, but as we detail the presentation that has benefited to a large extent the agency channel, which is the way that -- which usually corporate transactions are sourced.

Niccolo Cornelis Modesto Dalla-Palma
Exane BNP Paribas, Research Division

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

Marisa Godino Alvarez
Former Secretary of Investor Relations

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

Operator

Your next question comes from the line of Vinit Malhotra of Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

I think most of my questions have been answered, but just one thing if I can ask. There were a lot of things going right in the underwriting in most of the markets. You mentioned 2 quarters where the Latin America [indiscernible] is the low-ender now. But the lackening insurance profit on Page 5 of your presentation, on a quarterly basis, it's again going down in 3Q, so I can calculate 256. It was 281 in 2Q, 268 in 1Q. Is that just some seasonality here that we should watch out for? Very, very simple question in this context but I thought I might have that asked.

Marisa Godino Alvarez
Former Secretary of Investor Relations

I'm not sure I'm following you on this one. Because I actually think that the underwriting revenue results from the insurance operations is actually -- but my memory might fail me. I thought it was actually -- it's actually doing better than it was as of June. In June, it was growing 0.6%, and now, it's growing 5.4%. Are we talking about the same figure?

Niccolo Cornelis Modesto Dalla-Palma
Exane BNP Paribas, Research Division

Yes. We are talking about the 5.4%. But if I did just a quarterly progression, I just wanted to check if -- but otherwise [indiscernible] and I saw it going down. Maybe it's just seasonality, as simple as that, but -- because everything is going right.

Marisa Godino Alvarez
Former Secretary of Investor Relations

Yes, but you have to bear in mind also the impact of Brazil, which is quite strong in the sense that we -- the more the year goes on, the more there is of Brazil in 2011. And therefore, it has to, on a quarterly basis, relate to some slowdown in the profit earned in the quarter. Secondly, also, last year, we have most of the impact of catastrophes in the first half. So clearly, in the second half, the profits earned were larger than those that went on a quarterly basis in the first half, so they're also, possibly, depressing the comparison year-on-year that you're making.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Okay. Yes, because -- I mean, it's just that -- I'm not making comparisons, I'm just looking at quarterly trends. So 1Q, 281; 2Q, 268; 3Q, 256. I'm just wondering if -- is something -- is everything -- is it just a...

Marisa Godino Alvarez
Former Secretary of Investor Relations

Are you're talking about the quarters of this year? Or are you comparing...

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

This year. Yes. I'm just talking about this year, this year. I'm not talking about the growth rate at all, no. There seems to be progression down whereas everything else is firing on the right cylinders on the communication that [indiscernible] are improving. Is there's something that -- it just could be nothing major going on, but just thought if you had also noticed that. If you haven't then it's fine.

Marisa Godino Alvarez
Former Secretary of Investor Relations

No. I mean, there are so many elements. I think, the Life account has made some more -- some slightly less money this quarter than the previous one. I mean, there are variations which happen. The non-licensed was doing very strongly for sure this quarter on a stand-alone basis.

Operator

Your next question comes from the line of Marcus Rivaldi from Morgan Stanley.

Marcus Rivaldi

Sorry, a couple of quick questions about the debt situation again, I'm afraid. First of all, I think I noticed that your financial sub debt has crept up slightly in the quarter and I was wondering if you can just explain what's driving that. Secondly, about the refi or whatever you're going to do with the syndicated facilities. Is it purely a function of liquidity required at the hold co to pay that down? Or are there any capital considerations in terms of how you make or lend proceeds into local subsidiary operations that could have implications there? And then final one is just about the timing or how you're thinking about this. I mean, If you're looking at other names like Generalis, [indiscernible] currently yielding below 5%, Unipol which I would say is a much weaker company than yourself, trading at around 5%. What are you looking for in terms of yields before making decision, maybe to go for a bond issue as a means to sort of removing this issue from you?

Luigi Lubelli

Okay. Let's go one by one. The subordinated debt is -- we've got it in the books at market value. So the market value with the -- sorry, it's market value and the recognition of interest rate. There are variations in the accrual of the interest payments -- the coupons, sorry, the accrual of the coupons on the bond that may cause differences. We have -- your question is whether we have made any purchases or sales of the bond in the quarter. We've done none. So the stock 1.5 year, it's basically nothing. The question on the syndicated loan. Really, I mean, it's what I answered to Giulia. We are -- we have no decision. I mean, we will see further on, how we -- what we think is best in our interest. I mean, if you look over the last years, our policy has been to reduce the level of indebtedness. So unless there's any need that we are not aware of now, possibly, are intention would be to go down. And then cash comes from where it comes from. The idea is to use available cash in the group in order to pay that down. We'll see -- if it were more appropriate. This is a revolving line. It's something we like because we don't need to have it drawn, we can keep it at 0 if we have the available cash balances. It is very convenient for corporate treasury management. So we'll see. Honestly, there's no decision on that and if we were to decide to pay it down, we would be doing so using available cash. I wonder if I'm answering the question or not, Marcus.

Marcus Rivaldi

Yes. I think you did. I guess, I was just more thinking if you were really thinking that you needed to do bond issue? You've got to be so flexible at the moment, given markets open and close very, very quickly. But it seems that your base case would be one more of maybe -- pay it down to be the base case?

Luigi Lubelli

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

Operator

The next question comes from the line of Federico Salerno.

Federico Salerno
MainFirst Bank AG, Research Division

Just a quick question for Esteban. When you mentioned that if the situation remains difficult, you will take a hard look at the dividend in the spring next year. I was just wondering, could it go through 0? Or have your ruled that out?

Esteban Tejera Montalvo
Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

I wasn't thinking of this kind of reaction. I don't know. I think that you know very well the action. We tend to move in a more volume way. Now the situation is [indiscernible] what it is. We will feel more comfortable. In this situation where its difficult doing [indiscernible] alternative paying full in cash. I hope that the situation of the [indiscernible] at the end of the year will [indiscernible] and then the decision I hope will be accordingly to the final results of the year. But I wasn't thinking about [indiscernible].

Operator

Your next question comes from the line of Rodrigo Vasquez of N+1.

Rodrigo Vazquez
Alantra Equities Sociedad de Valores, S.A., Research Division

I have a quick question regarding the holding adjustments in mostly America. I regard that -- I saw that there is a EUR 26 million negative holding adjustment in Q3 when compared to a positive EUR 2 million in Q2. So if you could further expand on that?

Luigi Lubelli

Let me just state that explanation for you. We did have -- if my memory does not fail me, a positive item in the first half. Let me just grab the figures for you. Just bear with me for a moment here.

Rodrigo Vazquez
Alantra Equities Sociedad de Valores, S.A., Research Division

There is a positive EUR 18 million in the first half, but the variation between Q2 and Q3 is a negative EUR 26 million.

Luigi Lubelli

Yes, we have EUR 18 million for the hooks on the Panamanian operation that we recognize then. I believe the items at Mapfre and the holding company vary. I mean, expenses are not recognized in a piecemeal fashion. I mean, they're regular way throughout the year. We have basically, at the same level, if I'm not wrong, as the previous year. If that's okay with you, I mean, on the very tiny detail on this one, if you don't mind, I can come back to you with the detail on that one. But broadly, the figures are more or less in-line with what they were -- on a cumulative basis, the figures are most or less in-line with what they were 1 year ago.

Operator

[Operator Instructions] We have no further questions at this time. Sir, please continue.

Esteban Tejera Montalvo
Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

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

Operator
That does conclude our call.