

Mapfre, S.A. BME:MAP

FH1 2012 Earnings Call Transcripts

Thursday, July 26, 2012 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FH1 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	-	0.32	0.34
Revenue (mm)	10950.00	19930.29	20547.61

Currency: EUR

Consensus as of Jul-26-2012 5:45 AM GMT

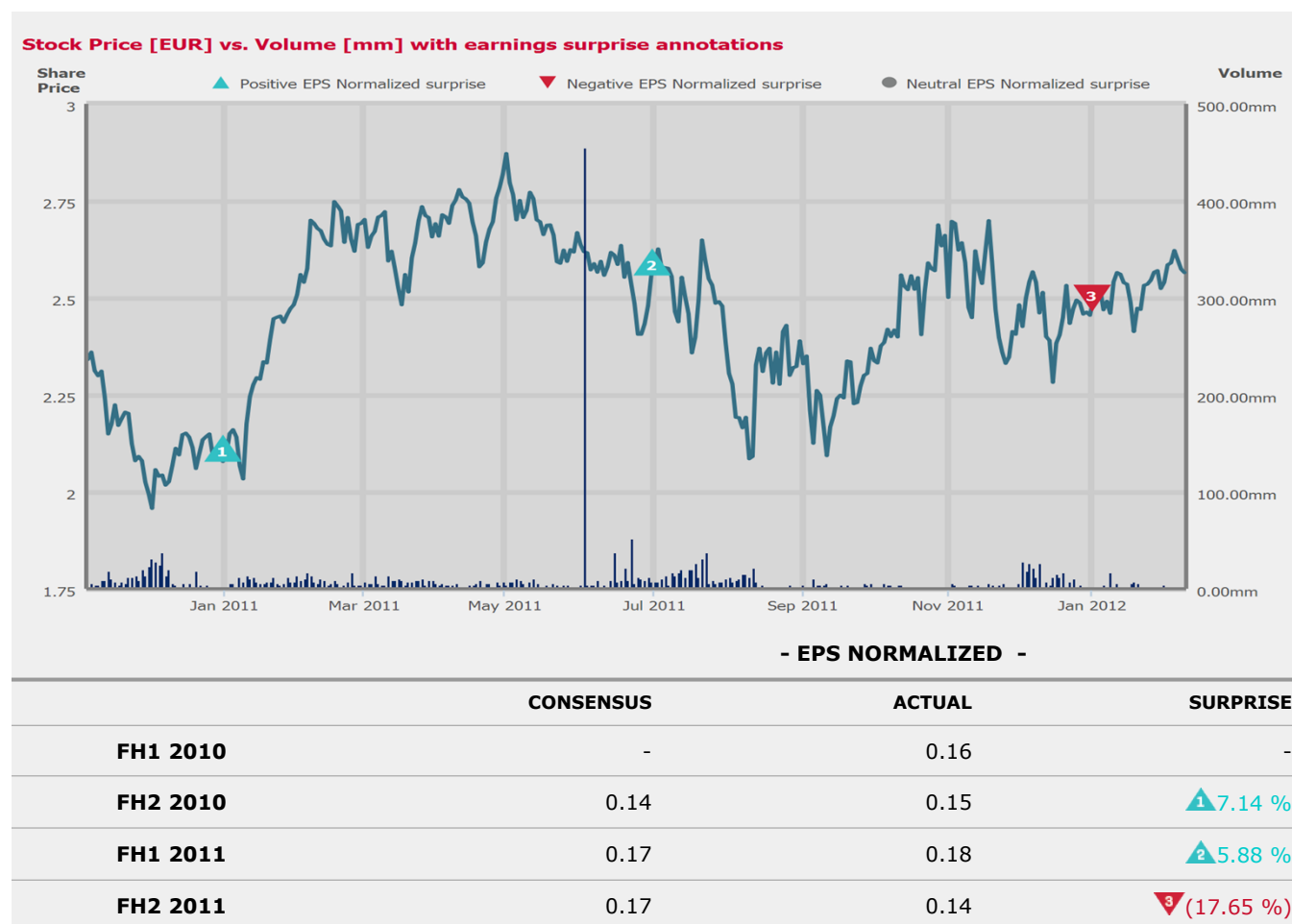


Table of Contents

Call Participants	3
Presentation	4
Question and Answer	11

Call Participants

EXECUTIVES

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

Luigi Lubelli

ANALYSTS

Atanasio Pantarrotas

CA Cheuvreux, Research Division

Federico Salerno

MainFirst Bank AG, Research Division

Giulia Raffo

Autonomous Research LLP

Maciej Wasilewicz

Morgan Stanley, Research Division

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

William Hardcastle

BofA Merrill Lynch, Research Division

Presentation

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

Good afternoon, ladies and gentlemen. Welcome to MAPFRE's First Half 2012 Results Presentation. 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, representing a overview [ph] of the budget figures for 2011. Finally, we will take your questions.

Please, let's move to Slide #2. MAPFRE had to, once again, provide evidence of its resilience, which is underpinned by the strong profitability of our domestic business activities and the sustained growth and proven results of our business abroad. Premiums grew more than 15%, basically the same rate as for the year 2011, driven, once again, by the foreign business activities and primarily by Brazil. I must note that the agreement with the Banco do Brasil came into force in the second quarter of 2011, where we only consolidated these activities in one month. Revenues grew a little less than premiums, but we should keep in mind, however, that last year we recognized a gain of EUR 124 million generated from the agreement with Banco do Brasil, which was not repeated this year. Funds under management grew nearly 4% reflecting primarily the consolidation of Banco do Brasil and leadership [ph].

The combined ratio shows notable improvement, in line with what was already offset in the first quarter. I might remind you that in 2011 it was affected by earthquakes in Japan and New Zealand, as well as weather-related claims at MAPFRE USA. Underlying profit growth was around 10% taking into account several non-recurring items that I will shortly analyze in greater detail later. Please move to the next slide. Here you can see the highlights of the first half results. Organic growth of the international business, enhanced by depreciation of the euro, has given us to as well the current composition of our business where the international business already contributes 2/3 of the premiums and half of the recurring results. In non-life, we had an excellent underwriting result in Spain and improvement in the combined ratio in reinsurance and direct international insurance. In life, improvement in recurring results thanks to the growth of the international business and the focus on Life-Protection insurance in Spain, according to the new strategy we adopted 2 years ago.

We have details in our accounting the impairment of the shareholdings in Bankia and Cattolica as well as the provision of EUR 20 billion for the persistent volatility in the financial markets, and the negative impact on equity of the volatility in the financial markets in the second quarter.

In Page #5, we have the write-down of the shareholdings in Bankia and Cattolica, and you can see how they affect the different subsidiaries in the accounts. The Board of Directors has decided to write-down the value of the MAPFRE's shareholdings, as I mentioned before in Bankia and Cattolica, as according to the evidence available of a full recovery of the investment in institution scenes and special [ph]. In Page #6, you can see the development of our recurring results. As was the case in March, the figures for both years contain special non-recurring items that need to be taken into account.

In the first quarter, we basically only had the write-downs on the holdings of the Greek public debt, which were nationalized, but the release of the provisions appropriated in 2011.

In the second quarter, the following charges were recorded: the write-downs of our shareholding in Bankia and Cattolica I just mentioned, a provision of EUR 20 million, which raises the total amount appropriated for the effect of the financial markets volatility to approximately EUR 50 million, pretax, and additional precompensation range [ph].

Taking into account these items, we see that the result of insurance operations growth is slightly reflecting strong profit growth that compensates for the decrease in underlying results in Spain and reinsurance.

The recurring attributable results grew a solid 10%, helped, among others, by the exit from most of our non-insurance businesses. In Page 7, we can see, and later Mr. Lubelli will explain this a little, one of the most notable developments in our first half figures, which is the strong increase in the weight of our

foreign business activities, which now constitute 2/3 of our premiums and half of our profits. MAPFRE is increasingly benefiting from the combination of the strong cash generation in domestic corporations, compounded by the increasing diversification provided by the strong premiums and profit growth of our foreign operations, both of which also provide the benefit of the currency appreciating against the euro. That is a start for sustained financial strength that allows MAPFRE to absorb the inevitable losses, in light of the financial market volatility. And finally, I would like to show you that, given these figures, we have continued to operate in corporate transactions. As you know in the third quarter, we acquired a 10% shareholding in MAPFRE America for EUR 244 million and after this operation, MAPFRE holds 99.22% of the subsidiary.

And now in June, MAPFRE America has acquired the 35% shareholding that it didn't control of MAPFRE Mundial, so we are now the owner for the 100% shareholding in our Central American operations. And finally, we have reached an agreement with Euler HERMES to develop a joint venture of our credit activity insurance in Spain and in Argentina, Chile, Colombia, and Mexico. This venture is expected to start operating in the beginning of 2013 and we think that this will be the start of the new organization and will complement our activities in Latin America.

I will now hand the call to Mr. Lubelli, who will comment about our financials in greater detail.

Luigi Lubelli

Thank you, Esteban. Good afternoon to all those following this conference call today over the phone and over the Internet. Please let's move on to Slide #10. Here we have the usual breakdown of premiums and results by line of business and geographical area. As Mr. Montalvo was pointing out, the weight of the foreign business has jumped to 66% of total premiums. We were at 62% a quarter ago only and 58% a year ago.

This acceleration has been driven mainly by the strong organic growth abroad. We have 23% in Latin America excluding Brazil, 11% in MAPFRE International excluding Malta, and 14% in global businesses, which compares to a 6% contraction in Spain.

In addition to this, we have the non-organic growth with the consolidation of the business with Banco do Brasil during the whole first half against only one month in 2011, plus the contribution of nearly EUR 65 million from Malta.

And, furthermore, we have another positive factors raising the weight of the foreign business, which was the depreciation of the euro against all currencies but the real. The contribution to total results on this slide is shown according to adjusted accounting figures. On Slide 42 of the appendix, you will find the adjusted figures and this excludes non-recurring items, you will see that foreign business activities contributed 49% of total insurance profit, up from 42% a year ago, and 45% in the previous quarter at the close of March of this year.

The MAPFRE development provided evidence of the high degree of international diversifications in market operation, which enhanced its resilience to the adverse developments in our domestic market.

On next Slide #11, we have the same information, but broken down differently to highlight the main contributors to MAPFRE's premiums and profits, which are Spain, Brazil, the USA, and the reinsurance business. Compared to the previous quarter, we see an acceleration in non-life premium growth in MAPFRE RE and the MAPFRE Global Risks due to the depreciation of the euro and to organic growth.

Conversely, the Spanish business has suffered from a comparatively lower volume of issuance in the life business, especially in Life Assurance, compounded by a slightly bigger contraction in the non-life business; compared to the previous quarter, the contribution of the Spanish business to profits falls because of the write-downs in Bankia and an increase in the loss ratio.

On the other hand, the contribution of Brazil goes up very considerably because of the inclusion of 2 extra months of profits in the second quarter of this year, while in the same period of the previous year, it was affected by the stoppage of the issuance from MAPFRE-CAJA and the expenses incurred upon the establishment of the joint business with Banco do Brasil.

On Slide #12, we move on to the non-life business. In Spain, compared to the previous quarter, we see a slight additional slowdown in sales, which is a reflection of the economic situation. The combined ratio goes up due to an increase in the loss ratio and to the fact that the expense ratio was lower than normal in first quarter, due to the change in the accrual criteria for expenses in MAPFRE Brazil.

The underwriting results remains, nonetheless extremely strong and it is a major driver of the Group's profits. America continues to record sustained growth, the loss ratio improved in our general insurance health and accident lines versus the first quarter.

MAPFRE RE is very much in line with the first quarter, except for the cited favorable Forex effects. Year-on-year the comparison continues to be altered by the Japanese earthquake occurred in 2011. MAPFRE USA benefits strongly from the appreciation of the U.S. dollar and from the absence of the exceptionally large claims incurred in 2011.

And in fact MAPFRE Global Risks is experiencing strong growth abroad. These figures are impacted twofold by the depreciation of the euro. You will see this in a few other companies. On one hand, that increased the premiums growth, and on the other, it raises the cost of claims, leading to a worst loss ratio.

Additionally, the company incurred in 2 large claims in Europe. MAPFRE ASISTENCIA is in line with the first quarter; its growth continues to be driven primarily by travel insurance in the U.K. and France, where it experiences comparatively higher acquisition costs.

On Slide 13, we have the non-life accounts. I'll skip the description of premium growth and underwriting results, which I think I've covered in detail. Anyway, trends and figures are very much in line with those we saw in the first quarter.

Financial income, including non-recurring items, especially write-downs, goes up about 30% with year-on-year, driven by higher yields in Spain and by the development of the foreign business. In this account, the provision for write-downs amounted to EUR 159.5 million.

Let us now move on to the life business on Slide 14. We see external growth is a powerful driver of top-line growth in the life business, with a contribution of EUR 540 million from Brazil and EUR 46 million from Malta. As I said before, last year the MAPFRE-CAJA business was in runoff, awaiting the commencement of the business activities with Banco do Brasil. This year the business activity is off and running with a strong impact on both sales and the technical financial results.

Additionally, we have strong organic growth in Latin America at large and in MAPFRE RE, which recorded a very large increase in sales coming mainly from European sailing [ph] companies. Overall, if we compare to June 2011, the size of the foreign life business is up 80%, 8-0 in the year. MAPFRE RE experienced strong performance from the agents' channel, which is partly making up for the contraction of sales through the bank assurance channel.

The technical financial result continues to benefit from the growing weight of Life-Protection insurance, whose benefits we will see shortly in the medi-value [ph] presentation. The life account itself is shown on Slide 15. Once again, I've already run through the main drivers. I would like to note the notable increase in the Bankia financial results, excluding non-recurring items, which were mainly the agreement with the Banco do Brasil a year ago, and the EUR 30 million of realization losses in write-downs this year. Once again, the main driver, by far, of this positive development was the Brazilian business.

On Slide 16, we have the other activities. Here you have the details. Basically, we have a few reclassifications of items related with non-insurance activities, the write-down of the investment in Cattolica, and an additional provision of EUR 7.5 million for losses on real estate assets.

On Slide 17, we have the bottom-line. The impact of the write-downs on the development of free cash profits was remarkably low with a year-on-year contraction of 3.3%, which compares with 1.7% as of March this year. I must note that this figure includes the total amount of provision for impairments of EUR 197.6 million. Compared to the previous quarter, we see a significant growth in taxes. There's nothing especially strange. This is due to the fact that last year the tax rate falls because of a series of adjustments arising from the combination of the joint venture activities with Banco do Brasil.

In 2012 the tax rate is quite stable. It was 29.5% at the close of June and 29.1% in March. Coincidentally the growth rate of the share of minority interest fallen compared to the previous quarter, and that is due to the fact that in June of 2011 we had already booked a month of the joint business with Banco do Brasil. In addition, we have bought back this year the -- BFA's 10% stake in MAPFRE America, which means that around that percentage of the total in company's profit for the second quarter was returned this year.

On Slide 18, we move on to the balance sheet. Here, the valuations are not dissimilar to what we already saw in the first quarter. We had an increase in goodwill and intangible assets, especially intangible assets, including also the lines with Banco do Brasil.

Cash and equivalents have fallen because of the purchase of financial assets. In this quarter, unsurprisingly, we had a negative impact of the volatility in the financial markets on the total value of investments, as you will see in the movement of equity. And the rest items we already covered in the first quarter. This quarter we've seen on the balance sheet the impact of the depreciation of the euro versus the main currencies, as I said before, except the Brazilian real.

On Slide 19, we have the breakdown of the investment portfolio, one of the 3. This updates the figures we provided for the full year 2011. The main differences that you'll see are a slight imbalance in the fixed income, with a marginally smaller weight of corporate debt, and a decrease in the weight of Spain to 50.7% from 52.8% at year end. That is 2 full percentage points less that were made up for by a higher weight of Latin American and U.S. investments.

On Slide 20, we have the breakdown of the fixed income portfolio. The total weight of fixed income has barely varied. However, it now shows notable development in the second quarter, arising from the combination of changes in market values and specific de-risking initiatives. Particularly, to compare with March, the Spanish sovereign bonds holdings have fallen by over EUR 1 billion reducing their total weight to 51.6% of total sovereign bonds from 59.4% a quarter ago. Part of the decrease comes from diversification into non-peripheral Eurozone countries' bonds, which explains the strong increase you see in the line other sovereign, which went to 14.5%, up from 10.3%.

The rate of Irish and Portuguese bonds has gone up due to a recovery in market values. And holding of financial institutions' bonds have fallen by about EUR 360 million. Of these, EUR 420 million came from the reduction in the holdings of bonds issued by Spanish financial institutions.

On Slide 21, we have the further breakdown of investments. Here the main change, once again unsurprisingly is the impact of the downgrade of Spain's sovereign rating to the BBB range, which means that this category has gone up from 8.2% at year end to 45.6% at the end of June.

Finally, for this presentation on Slide 22, we have movement in equity compared to the previous quarter, and it won't come as a surprise to anyone we had negative impact from the increasing spreads of Spanish bonds.

If you look at the line, investments available for sale, that accounts for a loss of EUR 660 million over the last 3 months. However, as a result of last year's assigned to the much less [ph business around 58% of this negative impact, or EUR 380 million, was neutralized by shadow accounting.

Translation differences had a further loss of EUR 127 million. Due to the fact that while the dollar has appreciated 2.4% since year-end, the real has depreciated 6.2% over the same period.

Given that the amounts of equity invested in both currencies is broadly similar, the loss on the real outweighs the gain on the dollar, leading to a negative translation adjustment. And the other changes are detailed on this slide.

Now this is all for this presentation. If you allow me, I will now move onto the European embedded value presentation. I'll give you time to change documents and let us move on to slide number three of that document.

If you already have it on Slide #three, we have the summary development of the European embedded value in 2011. The value of the in-force business grew 4%, which compared to the 1% a year before driven primarily by new Life-Protection business sold through the bank assurance channel.

On a like-for-like basis, the EEV grew around 10% against the 8% we saw in 2010. This reflected mainly the cited increase in the VIF, the expected returns and the capital increase carried out by MAPFRE Vida to receive the shareholdings in the life and pension subsidiaries of Union Duero and Caja Castilla La Mancha.

If we exclude such capital increases, the valuation would have been slightly lower than the one we saw in 2010 and that is due to the substantial increase in the time value of financial options and guarantees. This year, we also provide the EEV on a consolidated basis, which from now on will be the basis for comparison. Its amount was EUR 2.33 billion, EUR 1.83 billion of which were attributable to MAPFRE shareholders.

The return on embedded value improved substantially, to 7.9% against 4.9% in 2010, which is a logical consequence of the stronger underlying growth in the VIF and the adjusted net asset value. It also benefited from a non-working consequential impact of changes in assumptions, unlike what was the case the previous year.

Business-wise, the sales pattern was characterized by strong growth in the Life-Protection business, a falling sale of savings business in mutual funds, reflecting the greater financial uncertainty and lower levels of household savings, and the modest increase in pension funds. These trends, by and large are continuing this year as we just saw in the first half presentation.

Given that the Life-Protection business has comparatively lower volumes, but higher margins, this led to a fall in the present value of new business income, accompanied by a rise in the value added by new business and a notable improvement in the new business margin, which went to 6.1% up from 5.4% in 2010.

The remarkable performance of the agents' channel, which includes the present value of new business income by nearly 18% and the value of new business by 9% must be noted. As we just saw again such performance is continuing into 2012.

On Slide #4 very quickly, we have the summary of what happened in 2011, and the reason for which we now provide a consolidated EEV. Previously MAPFRE Vida acted as a single management unit, so it managed the life business, but the ownership of some companies was divided between MAPFRE S.A. and MAPFRE Vida itself.

On the 1st of January 2011, the last shareholding held in the subsidiaries of CAJA CASTILLA LA MANCHA and UNION DUERO were transferred to MAPFRE Vida by means of in-kind capital increase. So now we can present the embedded value on a consolidated basis, centered around MAPFRE Vida and that's the reason for providing this figure this year.

On Slide #5, we have the customary roll forward of the EEV. I have already spoken about the change in the amount and the present value of the in-force. You can see that the cost of capital went up nearly 12%; that is due to the growth in the volume of business and to the upward revision of the methodology used for the CAJA CASTILLA LA MANCHA business.

Especially remarkable was the near tripling of the time value of the financial options and guarantees, which was due to the decline in interest rates. They have become, they basically volume [ph] in the money. Overall, as I mentioned before, the aggregate EEV went up by EUR 238.5 million, or 9.6%. After consolidation adjustments in the region of EUR 100 million were left with a consolidated EEV of EUR 2.33 billion, as I said before.

On Slide #6, we have a breakdown of the EEV by business line and by distribution channel. As was shown on the previous slide, the present value of the in-force grew a net EUR 164.8 million, thanks primarily to sales of Life-Protection insurance, which made up for the impact of the outflows in the savings and funds businesses.

The cost of capital varied in line with the value of the in-force, except in the case of the pension funds. In this case, the value of the in-force fell and that was due primarily to larger reimbursement and expense assumptions, but not to any substantial changes in volume. If we had those, then we would have had an impact on the cost of capital, but that wasn't the case. Actually the cost of capital rose because, as I already said before, a change in the calculation criteria applied to the pension fund business of CAJA CASTILLA LA MANCHA, which previously were calculated in a different way and this year were aligned to the criteria applied for other businesses.

As the base of calculation is unchanged, 100% of the solvency requirement at a 4% rate. By channel, the contribution to the growth of the present value in-force came primarily from bank assurance businesses with partners other than Bankia. The behavior of the cost of capital is different if you look at it this way, by channel, that is. In the agents' channel, we see the increase comparatively much more than the value of in-force due to withdrawals and to a decrease in the margins in the funds business that dampens the overall increase of the value in-force. In the case of MAPFRE CAJA MADRID VIDA, the value in-force grows much less than the cost of capital due to higher mortality and lossvaluation [ph] assumptions.

In the other bank assurance channels, the value in-force and the cost of capital moved broadly in line. In their case, as I said before, the growth of the cost of capital is reinforced by the changes applied to the CAJA CASTILLA LA MANCHA. And I already explained the reason for the strong increase in the attained value of financial options and guarantees.

On Slide #7, we show MAPFRE's net share on the VIF. Compared to 2010, we see an increase of 11% in the share of minorities, which is understandable, given that most of the increase in the value came from Life-Protection sales through bank assurance partners in which, as you know, we have a 50% minority.

Slide #8, we have the roll forward of the embedded value, which breaks down the change of the embedded value to explain components, and let's look at them beginning on Slide 9. As I said before, we had the consolidation at MAPFRE at the level of the subsidiaries of CAJA CASTILLA LA MANCHA and UNION DUERO which had a positive impact, net of the intangibles.

We have changes in the model. We've used the same cash flow projection horizon in all subsidiaries. On some externalization, we've updated the assumptions on an externalization business, and we've taken into account the profit-sharing programs of the insurance contracts, which we had not been taking into account to-date; the figures are there for your perusal.

The intangible assets have a positive impact due to the amortization on a regular basis of the value of business acquired. We continue on Slide #10. We have change in assumptions. As usual, the interest rates play twofold. We have an impact on lower discount rates, but also an impact on lower returns, which is compounded in this case, by a higher credit risk. And then larger unit costs, in sum altogether they basically have no impact but taken one by one they are quite large. We expect a return as usual, the unwinding of the discount rate with the expected after-tax return on the beginning of the year. The valuation with respect to expectation were slightly higher-than-expected actual profits and higher-than-expected loss rate. So, it's positive and negative. And I've already spoken about the time value of financial options and guarantees.

Moving on to the value added by new business, we have positive developments. Last year we had a fall, we closed 2009 with a 5.6% margin, then in 2010 we went to 5.4% and now we're back up to 6.1%. This is mainly reflecting the growing contribution of the Life-Protection business across all channels and the strong sales performance of the agents' channel, which together, more than made up for the decrease in the funds and savings businesses.

Finally, on Slide #12, we have the main sensitivities. As usual in market portfolios, both the value-in force and the value added by new business, which is shown on the next slide, are more sensitive to variations in interest rates and in the loss rates.

The sensitivity to increases in the probability of a default on Spanish income fixed income portfolio is broadly in line with the figure reported a year ago, which was EUR 205 million. The fall is due to a decrease in the technical reserves of the life savings business.

Just for it to be perfectly clear, the value-in force already assumes for 2012 a default rate that's nearly 7x the average historical default rate calculated by S&P. So it's already stressed in the ordinary calculation. With this sensitivity, we want to quantify the impact of a further 0.25% increase of the default rate included in the base scenario. And this will be all on my side, and I'll now give back the conference call to Mr. Tejera for questions.

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

Thank you, Luigi, and as usual, now we are available for you for questions.

Question and Answer

Operator

Thank you. [Operator Instructions] Your first question comes from Vinit Malhotra.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Just the first thing is on the global risks, I'll focus more on the P&L presentation, the global risks could you just break out what was the impact of the large losses versus this currency factor, which you mentioned and that's the first question. The second question is, in the Motor business in Spain, there's a very strong improvement in 2Q, while whom [ph] was a bit weak. So, maybe you could talk a bit about that? And lastly, here, there was some gain of EUR 18 million from Windium [ph], just could you elaborate? And just one comment for my second, the MAPFRE Re holdings at Bankia stake was to be honest, a bit of a surprise, but maybe there was nothing to read there, but any comment is welcome.

Luigi Lubelli

Now, I mean we do not exactly disclose the, but let's say, by and large you can say about 1/3 of the total valuation in the loss ratio comes from those claims. In MAPFRE Global Risks is the -- on the Motor business, your question was why sell [ph] in the second quarter.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

For the company, it was very strong, combined ratio very high, very low valuation?

Luigi Lubelli

Well, I mean it's okay. It's not too, it improved, it's not too dissimilar to what it was on a community basis a year ago. We have seasonality frequency, also it's not especially high, unfortunately, I should say, so.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

No, nothing unusual?...

Luigi Lubelli

Yes, nothing special, it's reasonably-normal variation. Then you asked about the gain on the purchase of minority in Mundial that's all.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Yes, I mean, this one also a one-off, is there anything to add there? It's just a simple, it was never simple but...

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

No. What was -- sorry I missed your question. You said something about a gain, which...

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Yes, the EUR 18.3 million runoff gain on Mundial.

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

Okay, fine. So, that's fine. Yes, it's simply that the option was exercised for an amount that was lower than the amount booked in the option and that's why there was a valuation difference. We, basically, we did the transaction for less than it was expected to be.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Okay. And if I can just sneak in one more. This EUR 20 million provision for volatility of markets, I'm presuming that's pretax. And I can -- it seems to be more in the life business in MAPFRE Vida. Is that a fair understanding?

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

No not really. It's just a provision. It's not -- it can be for accounting convenience it will be booked to one account or another, but it's a general provision. Generally it cannot be attached to any account specifically.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

But it's not for policyholders. So, there's nothing there. Okay.

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

And then MAPFRE RE, when we acquired the Bankia stake, it was acquired by MAPFRE at large as an investment of technical reserves, so it was carried out by several companies at the same time.

Operator

Your next question comes from Niccolo Dalla Palma.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

I have 3 questions, please. The first on MAPFRE, if you can update us on how much in H1 of the premiums was internal MAPFRE business and nongroup business, and maybe if you have it, also a profit split, but I guess that's premium strategy here. I think it was 36% MAPFRE business in 2011.

On the Spanish P&C side, 2 things. First, the GSP has reiterated that the work on Baremo is carrying on and expected to be completed by year end, and perhaps a drop before that. Do we have any visibility at this stage or any more visibility than you had a quarter ago. And lastly, on the top-line outlook we see that the very profitable burial business is under strong pressure. And in Home, instead, volumes are holding up pretty well, notwithstanding the market conditions. Maybe you could explain these 2 extremes in a bit more detail, while on the Motor side, I think it's more straight forward.

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

Niccolo, let's see. I don't have the precise split, but I think I can help you out with this one on exactly -- I can give you the figure of the premium. Let me see -- I suppose this one will do [indiscernible] because this is using the CNMV filing. Roughly -- no, that wouldn't do. No, I don't have the precise figure. But usually this figure varies very little. Usually 35% of the business of MAPFRE comes from [indiscernible]. I don't have the precise figure for this half. I would be most surprised, if it was substantially different from that.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Okay. Just to check there's no big changes from last year?

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

No, really. No, no, no, the Baremo, nothing to report, especially qualitatively I mean there's nothing major to say on that. It's going on, but in terms of the consequences anticipated of that, we have no -- nothing new to report. Now on the burial business, the burial business is -- and it's not a joke it's doing okay, it's just that, that line in MAPFRE is burial business and other. What is causing the apparent pressure is the other, because there were 2 line transfers. One was accident that was moved to the accounts of MAPFRE Vida and the other one was small businesses, if I'm not wrong, right? Which was transferred to MAPFRE Empresas. If you adjust for that, it's basically flat in Home zone. Is it clear?

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Yes, it is very clear thanks. And how come the Home volumes are holding up so well, even if the environment is I think not the most favorable one?

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

Well, possibly because we do something good from time to time. Well, it's basically sales effort by the macro, I mean it's a very tough year and that's something that you cannot make up for, because you have a country which is experiencing a contraction in aggregate demand. So, there is little you can do against that. But our network continues to be extremely effective, as you could see in our performance in Motor, in our performance in Life-Protection, and in our performance in Housing.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Okay, so there is no exemplary [ph] factors like regulatory supports which had been there, it's ...

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

No, no. No way. No.

Operator

Your next question comes from Atanasio Pantarrotas.

Atanasio Pantarrotas

CA Cheuvreux, Research Division

I have 3 questions. The first one is on capital. If you can provide us -- if you have some update on the solvency 2 capital position of MAPFRE? And, generally speaking, if this tough environment could drive you to review your EPS policy in the future, mean, or to pay a lower dividend or to pay insurance like you did in the past?

The second question, in regards to your exposure to the Spanish govies, I wonder if it is only state that is under original debt in your total exposure to the Spanish office?

And the last question is regarding the Motor business. We saw a positive decline of the claim frequencies in the Motor business for the whole market in Spain in the first quarter, according to the insurance lobby data. I wonder if this trend is continuing for, also in the second quarter and what is going in your business specifically?

I note that this time you did not publish the number of cars insured by MAPFRE, so I would like to know, also, if you can provide this data, to have the sensitivity, which is your trend of the average Motor premium?

Luigi Lubelli

Okay. In terms of capital and solvency 2, it isn't that we are [indiscernible] markets, in the tough situation of the Spanish economy, but our position in terms of capital remains very strong. As you know, we have a very good position in solvency one ratio, which is, maybe, the strongest position in Europe. And, in solvency 2, the position remains also very, very strong.

Due to the nature of our business, we have the reinsurance, mainly non-life, in mass [ph] insurance for particular and very low volatility in even if now the investment policies at issue is not in terms of the volatility in general terms excluding the current situation that's in Spain.

In any case, we come from a very strong position. There is no worry about our capital position. In terms of what will be the dividend policy, this is a question is a confidence of our board there -- usually a decision is taken at the end of the year, in the report of the third quarter.

Until now, our debt position remains very good [indiscernible] with our capital position. I don't see special changes in this field, but, in any case, the environment is changing every day and we must wait until the end of the third quarter to know exactly if something can change in our policy of the dividends in order to answer the question then.

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

Okay. In terms of the Spanish govies, we basically have no original debt, it's minimal [indiscernible] original debt. Frequency is falling, I would say in response to a previous question is fortunately or unfortunately, it reflects the depressed state of the economy. And so, it's difficult to get that, according to the present economic environment, cash flow frequency, one would expect it to continue, but that's all I can tell you. Certainly, it has a positive impact on the development of our loss ratio in Motor.

True, I have to say we didn't put the number of cars, but, basically, it's probably in line with the year end figures, there is not any major variation with respect to that. We're probably holding on to the volume of business.

Operator

Your next question comes from Maciej Wasilewicz.

Maciej Wasilewicz

Morgan Stanley, Research Division

It's Maciej from Morgan Stanley. I have got 2 questions. The first question is focused on MAPFRE Empresas. When I look at the results in 6 months 2012, impressively you've managed to grow premiums into what should be, I imagine, an extremely tough market. Yet, if I look at your combined ratio, although it appears to have fallen, year-on-year, you've mentioned there is a 3 percentage point of one-off positive in the 6 months figures for 2012. If I add that back in, actually your combined ratio would have gone up. I'm just wondering if you can comment a little bit about like what the environment is out there for MAPFRE in that for Empresas?

Because I imagine that sales are tougher, do you have to have your sales people offering bigger discounts? Do you have to sort of be a bit more aggressive? How do you expect that business to evolve, both from a top line and combined ratio perspectives?

And my second question will be on your ratings downgrade by S&P and I presume other agencies as well. I'm just wondering is there anything in your capital structure at all, any debt covenants or any sort of contracts you have that could, potentially, be triggered if your rating hits a certain point or are you fairly safe from anything like that happening? I know that's a very broad question, but if you could just give us some clarity there, that would be great.

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

Let's see. As I said before Empresas it has premiums growth, because this year there was a line transferred to it by MAPFRE that's a small businesses line and that explains the growth in premiums. If you exclude that, the premiums are actually contracting about 6%. That is a not surprising reflection of the economic environment. It's true that the combined ratio of this company has gone up, but, frankly, the combined ratio of this company is to dream of. It has the best combined ratio we have in MAPFRE, so it was not abnormal that it went up a bit, just because it was exceptionally low in the first quarter. Additionally, as you know, we changed the expense accruals criteria in the first quarter.

The impact was especially strong then, and it gets that way as the year passes. So, it also led to an increase in the combined ratio, but anyway the combined ratio, is exceptionally low. The environment is, as you can imagine it, there are fewer and fewer companies out there, so there is fewer clients to insure and the results are very good, so there is some competition that is offering some rates that, perhaps are not entirely technical and we don't want to be part of that game.

So, that is one of the reasons for the contraction in the premiums volume of this company. But no, easy to make a guess but no one is expecting volume, economic growth in Spain any time soon, so I imagine the sales for commercial insurance will remain -- be depressed worldwide. Does that answer your question Maciej?

Maciej Wasilewicz

Morgan Stanley, Research Division

Yes, no I guess it does, yes.

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

And then, the rating downgrade, if it were especially severe we would have to, let's say, renegotiate the terms of some loans, but it's -- that's something we take into accounting in our liquid assets, yes, varied [ph] liquid assets.

Maciej Wasilewicz

Morgan Stanley, Research Division

And what size? I mean, is there any way you can -- I don't know you can actually give me any kind of quantification on what size of loans might be needed to be renegotiated, if there is significant further downgrade?

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

If there is significant further downgrade, yes.

Maciej Wasilewicz

Morgan Stanley, Research Division

But the size of the loans that if would be renegotiated are we talking about that EUR 500 million or could it be in the sort of -- you have EUR 400 billion of financial -- of debt. Of course, a lot of that's not actually loans to banks or anything like that, but there are some substantial line items in there. Just wondering if any of the big line items in there would potentially be up for renegotiation with a downgrade.

Luigi Lubelli

We do not have EUR 4 billion of debt. We have EUR 1.8 billion debt.

Maciej Wasilewicz

Morgan Stanley, Research Division

Yes, okay, EUR 1.8 billion of sub-debt and financial liabilities. Yes, would any of that, I guess, would any of the EUR 1.8 billion need to be renegotiated?

Esteban Tejera Montalvo

Copyright © 2018 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

spglobal.com/marketintelligence

Former Vice Chairman, Finance & Investment Area GM

Well, yes, as you know, we have syndicated loans, syndicated loans have the standard clauses that are required, not the bonds. The bonds do not have such clauses.

Operator

Your next question comes from Giulia Raffo.

Giulia Raffo

Autonomous Research LLP

One first question relates to reinsurance. At Q1 you made comments about the downgrade from rating agency having had no direct impact in terms of volume yet or seasoned appetite towards you. But you made a point that it required bit more effort, let's say, from your perspective in terms of like explaining to cedants that it was just an automatic rating change following the sovereign and it had nothing to do with your quantum of capital.

Can you just update us on the situation, is this still the case that it's only conversation and do you have a sense that your customer still feeling fine with exposure towards you? Then my second question is relating to Bankia. Would you go as far as saying that you can rule out any further investment at MAPFRE SA level in relation to the Bankia equity capital? So, could you rule out any involvement if Bankia was to ask for capital? And then my final question relates to the outlook for Spanish bank assurance. Really, we have seen and we continue to see quite a lot of integration and that creates a situation where we have different insurance provider sitting on the same bank. And, clearly, there is time and the authorities have lengthened the amount of time for banks to sort this problem out, but can you make any comment of what is your appetite to potentially invest further in the Spanish bank assurance space?

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

Hi, Giulia. With regard to the rating downgrade in the second quarter, you know there was a further downgrade of Spain, which has an impact on the ratings of all financial institutions. So for the moment, in terms of developments, MAPFRE Re is rated single A- and with that rating we can continue to do business. As you can imagine, clearly, it's contacts with ceding companies have intensified. It should be obvious, but for the moment actually the renewal season that the company went through in May, June and now July was actually doing pretty well. Furthermore, a very positive development was the fact that the A-rating by A.M. Best was affirmed. Actually, they took it -- originally, I must say, but it took them twice in 2 weeks at the beginning of June, and both times the rating was affirmed at A-, which was very helpful for the North American business. So, that's really what there is to report on MAPFRE RE, it continues to do business and with these ratings you can do.

Luigi Lubelli

Hi, this is Luigi. In order to the other 2 questions, generally speaking, in terms of the bank assurances in Spain. We now have the position where we must wait and see what happens within the market of the bank assurance in Spain. And the situation is that in terms of the life insurance in part of the savings life insurance, we are thinking it is flat period for something, because these times all the banks are looking for deposits. As you know very well, this is not the situation to launch a new saving in life insurance campaigns. You gave I think that given this year or these 2 years will be difficult to have significant activity in this kind of business, we continue to develop with good results in the evolution of the Life Protection business in these terms.

In any case, from the point of view of new alliance of the restructuring of the current situation, the good news is that, as you know the supervisor has allowed the sector to remain in the next 2 years in the same position, where it's possible to share different networks of banks and very nominally to solve the situation to get only one insurer provider for one bank. I think that in the future, it will remain the same sense in the new periods of the current situation will remain, because the former situation of having only one bank was not -- was something that occasioned. In any case, our position is that we have several partners.

We are working with them in life and pension companies and in non-life assurance. And I don't see at the moment, I don't see any need of increasing our position there or change our position in the next months.

In terms of the Bankia, as I said a year ago, when we made our investment in Bankia, at that time, we thought that this was a good investment. Unfortunately, the situation was not that. We have made impairments. We would have no commitment of increasing our position, because you remember we never took a position that implied having a seat in the board or having significant position that allows us to take an active position in the management of the company or something like that. I said a year ago that our investment there was a financial one, and unfortunately, the results of this financial investment have been moving back, but this is the situation. There is no more commitments, more implication for the future. I think that I have to replace the opportunity.

Giulia Raffo

Autonomous Research LLP

Yes, yes now that's clear, to the extent of what can be said at this stage that's very clear.

Luigi Lubelli

Giulia, just a clarification by myself. I mistakenly said that A.M. Best was A-. It's actually A+ with a negative outlook. I got confused with the S&P ratings, which is...

Giulia Raffo

Autonomous Research LLP

Yes, no worries, I think it was more of a qualitative question, right? I was trying to understand, if there was any more pressure felt by you in having those conversation with cedants, but it doesn't look like, so that's comfort in use.

Operator

Your next question comes from Will Hardcastle.

William Hardcastle

BofA Merrill Lynch, Research Division

Hi, sorry I've got a poor line over here. Can I just confirm that you said based on normal conditions, there are no worries on the capital position? And then, the second question was is the split of senior and covenant-guaranteed bonds still broadly the same as Q1?

Luigi Lubelli

Yes, clearly, when we think of both things, yes, in terms of the capital and the split-off, you're talking about financial institution, is that right?

William Hardcastle

BofA Merrill Lynch, Research Division

Yes, that's right.

Luigi Lubelli

Yes, it's moving soon.

Operator

[Operator Instructions] Your next question comes from Federico Salerno.

Federico Salerno

MainFirst Bank AG, Research Division

Just a couple of things. Still on solvency beginning from 287 in the full year 2011. Can you say what the number was at the end of the semester or at least how it's moved during the first half? And then related

to that, can you say how much solvency should fall before you begin worrying and look to your dividend with some special attention. Then just a clarification on the previous points, concerning investment in Bankia. I didn't quite understand, you rule out an investment in Bankia or does that include an investment in extending the bank assurance agreement, as well? And then the last point is there any news we should be aware of about the 50% stake held in MAPFRE by Bankia's holding?

Luigi Lubelli

Federico, let's see solvency one. I mean the way it is calculated, if you look at it's actually a good question for the benefit of everyone on the line. If you look at our statement of changes in equity on Slide 22, you will see that by and large, the equity stays at the same amount as it was at the end of 2012. So in terms of the volume of risks to be covered, we have on the one hand some fall in Spain and clearly a robust increase abroad. Even taking that into account, the solvency margin, the way it's calculated under solvency one, it would require a really large stretch, much larger than the one we saw to date this year to lead to a substantial fall in ratio. We don't have the figures in June. But the mechanics of the ratio. It probably has moved downwards but it hasn't moved downwards by any worrying measure, so that would be my reply to your question on that one. I wonder if that, if you find that clear?

Federico Salerno

MainFirst Bank AG, Research Division

Yes, thanks.

Luigi Lubelli

In terms of dividends, I think, as Esteban just said that for the moment when the Board of Director has taken no, has simply not debated this issue, the Board of Director discussed the issue of dividends in the fall. So for now, no decision has been taken about, about dividends. So there's nothing to report on that front. And the comment of solvency, on solvency, I just said. I wonder if what Esteban said came out, you may have confused it. There's no obligation to make an investment in bank assurance.

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

What was the question exactly [indiscernible]

Federico Salerno

MainFirst Bank AG, Research Division

No, I mean, you answered Giulia that you don't intend to invest any more money in Bankia, if I understood correctly, but do you include a potential investment in more bank assurance, in more branches within the bank assurance agreements or in that definition or not?

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

What I'd like to say is that the current and non-definition of the market situation, there is no interest in doing any new agreements. But, in any case it depends a lot on the circumstances in the next month. Then honestly, I can't see any opportunity now, but I don't know how the current map of the different financial institutions in Spain could fuse [ph] and then there is opportunity. We always kind of establish [ph] it, but I think that in the less amount the situation will remain with very, very little clarity. So, I don't foresee in the short-term these kind of investment in general, not only in Bankia.

Federico Salerno

MainFirst Bank AG, Research Division

And with regard to Bankia then, it's a question for Bankia, but in this case we have public statements made by Bankia about the 15% stake in MAPFRE, which they singled out as a stake they intend to hold. And if there is any evidence today, is that Goirigolzarri has become a board member of MAPFRE. So I suppose that...

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

It is the only subsidiary of Bankia where the President of Bankia will be in the board. So, there is a commitment of developing the business and I think that they will remain in the same position in our company.

Operator

You have one question from Giulia Raffo.

Giulia Raffo

Autonomous Research LLP

Excuse me, just one -- 2 quick follow-up questions. One, can you confirm that roughly the duration of your Spanish sovereign paper is around 5 years? And then just a follow-up on Federico's question about solvency trigger and how far down solvency needs to go to before you start looking at capital preservation measures? Can you at least share with us whether there is one specific metric that you look at, are you primarily focused on solvency one? Are you primarily focusing on solvency 2 or are you looking at your leverage because I guess rating agency model are not so relevant today in the sense that you can own as much capital as you want. A lot of your rating will actually be a function of what the sovereign situation is going to be. But if you can just at least give us a sense of what the key binding constraint is when you look at capital?

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

Yes, Giulia the -- I mean it's not usually disclosed, but basically the duration of the sovereign portfolio is around 7 years -- more or less slightly less than 7 years.

Luigi Lubelli

In the other question, Giulia, we follow our solvency position in terms of metrics, but in one hand, we have solvency one, but in the position there it's always on the -- is followed by the -- we follow solvency one, we follow solvency 2 and also basically in the models of the rating agencies.

The situation is that now we remain strong in solvency one and solvency 2. Our position from the point of view, in the mathematical point of view in the capital models of the rating agencies would have rapidly downgraded our position and the problem is that we have the correlation of our position, the rating with the sovereign. Even if we have covered a lot our presentation of the investments in Spain of the properties coming from abroad and the presentation of income coming from abroad, which help us to separate a little our position from the Spanish Kingdom.

From the point of view of the rating, and taking pressure for improving our solvency, we have [indiscernible] but this is not the concern now, because the rating agency position is not according to the capital model, it's influenced by several circumstances as you know very well. So, in any case, we follow constantly our solvency position, and I can assure you that at the moment we haven't any worries about that position.

Giulia Raffo

Autonomous Research LLP

I share completely on that view. I guess I was more trying to listen to what internally was the management team was to see this as the key, binding constraint, because if I look at solvency one, you were at 285% [ph] back in 2010 and back then you were still doing some capital preservation via strip dividends. Clearly, you didn't raise capital, but you were -- and at the time it was that leverage that made you and also the acquisition pipeline that made you take that choice. I was more trying to have a sense of today, which is the key measure of capital that you are using as your binding constraint?

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

Well I know that I am speaking in a very growth [ph] and general explanation, but at the end of the day, if I go more in this, in any case, I don't want to give the impression that one change in the policy of the dividends we are taking are not because, at this moment, and due to the evolution of our balances, there is no change in our position. So, it depends on what would happen in the near future, but at that time, we will remain with the same policy and we have no need to take special measures to reinforce our capital position. Sorry, Giulia, but I think that giving -- I can't give you more details, because there is not more details to give, because [indiscernible] there are no changes and we remain in the same position. I am sorry.

Operator

There are no more questions. Please continue.

Esteban Tejera Montalvo

Former Vice Chairman, Finance & Investment Area GM

Well there is no more questions. Thank you for joining us in this presentation. [indiscernible] holidays for everyone. I hope to meet you again for the third quarter presentation. Thank you. Goodbye.

Copyright © 2018 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2018 S&P Global Market Intelligence.