

# Mapfre, S.A. BME:MAP

## FY 2011 Earnings Call Transcripts

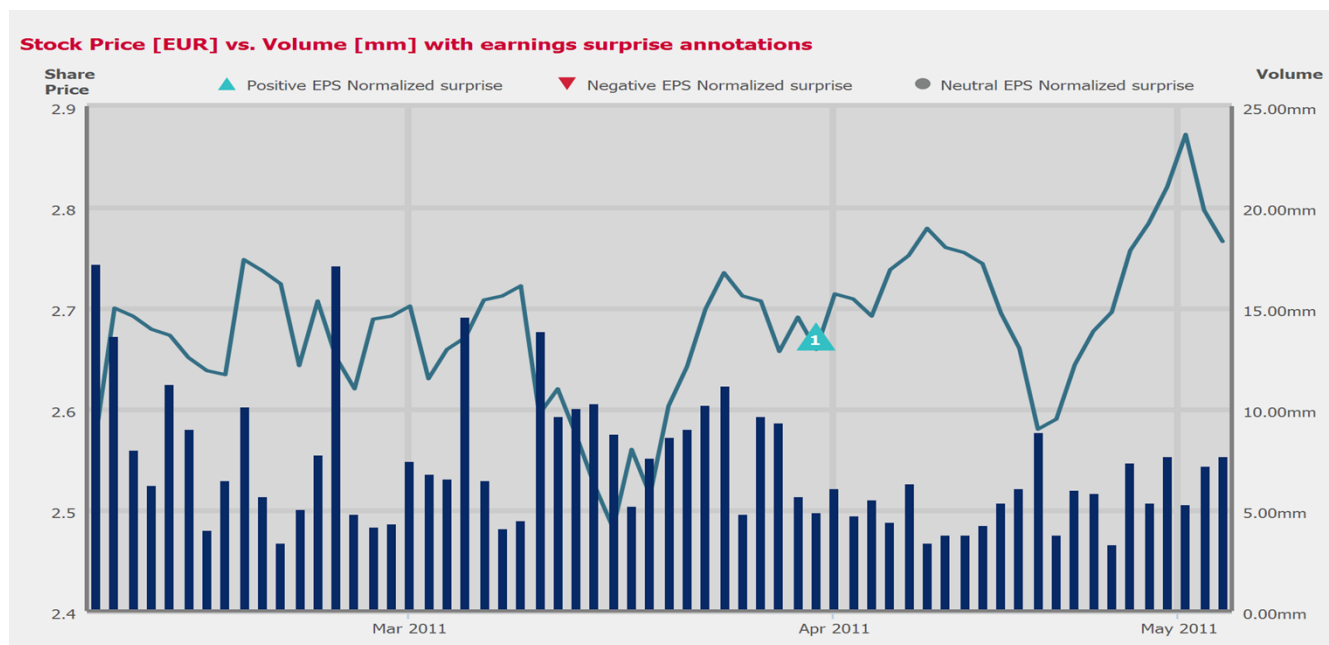
Wednesday, February 08, 2012 4:45 PM GMT

### S&P Capital IQ Estimates

	-FQ3 2011-			-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	7.19	7.23	▲0.56	0.31	0.33
Revenue (mm)	-	-	-	17596.17	18822.59

Currency: EUR

Consensus as of Feb-06-2012 5:00 AM GMT



# Call Participants

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## EXECUTIVES

**Esteban Tejera Montalvo**

*Former First Vice Chairman,  
Director General and Non  
Executive Chairman of Mapfre Re*

**Jesus Amadori**

**Luigi Lubelli**

**Ricardo Blanco**

*Former Chief Executive Officer,  
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## ANALYSTS

**Atanasio Pantarrotas**

*CA Cheuvreux, Research Division*

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# Presentation

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## **Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

Good afternoon, ladies and gentlemen. Welcome to MAPFRE's Full-Year 2011 Results Presentation. As usual, I'll give an overview of the results in the main business developments. Later, Mr. Lubelli will explain the financials in greater detail. And finally, we will take your questions. Please move to Slide #3. Last year, I began this call by saying that 2010 have not been an easy year. Well, 2011 was at least equally challenging from a macroeconomic and market standpoint, as well as the worst year on record for non-insurance catastrophe point of view. Against this backdrop, I feel that the results of MAPFRE were essentially good. Revenues and premiums grew about 15% against 9% in 2010. Profits grew 3.2% against 07% in 2010. Earnings per share grew 0.7% as opposed to a 3.6% for a year ago. The combined ratio worsened, but seeing the Life of the frequency and severity of capacity losses, it was actually very good.

Assets under management grew a further 4.2% over figures of last year have increased 15.5% due to the consolidation of CATALUNYACAIXA. Overall, our performance, we are very proud of and which reflects the strength of the [indiscernible] business, the benefits of our expansion amount of our overall proven management approach.

Please move to the following slide. Here we highlight the results. The most important thing it is the business growth in Spain and abroad. In general, we maintain our tradition of growing more than the markets where we are present. We have favorable trend in loss experience, in the course of this year ever in terms of catastrophe losses. We reinforced our focus on the insurance business. Together, we saw significant improvement in [indiscernible] results for non-features activities. And we register a growth in the current financial results, which has mitigated an impact of the market prices in excess of EUR 100 million. And also we had strengthened our financial position. We have increased our equity over EUR 1,900 million, which represents an increase of nearly 25%.

We have larger interest coverage than this year than in the previous year. This year is 36.5x against our 30x in 2010. We had lower leverage, 15.6% against 19.8% in 2010. And we remain, we have very, very high solvency margin of 287%, which is better than the previous year.

Let's move to next page. Here is a breakdown of the main nonrecurring items in our results. As I've said before, this was the worst year on record in terms of insurance catastrophe losses. Actually, here we have included only those that had truly a [indiscernible] nature, such as the earthquakes in Japan and New Zealand and the floods in Thailand. However, our figures were also strongly impacted by losses in the U.S. with EUR 95 million more than they did in the previous year.

In fact, in 2011, we registered EUR 115 million. In the previous year, we registered only EUR 20 million. We have also -- we have also the losses in Australia and the U.S. for MAPFRE. In any case, [indiscernible] used to for this our profits went up nearly 5% in terms of insurance profits.

We also built decisively with the losses from our noninsurance activities which have disappeared. In fact, we recorded a small profit of EUR 0.5 million. Adjusting for other items, we are left with underlying profit growth in the sense of 5%, which provides evidence of the strength of the insurance business model in general and of MAPFRE, specifically.

Please move to the following slide. During the last year, we have paid dividends for our amount of EUR 456.5 million, which represent an increase of 2.7%. And today, the Board of Directors has agreed to propose to the AGM the payment of final dividend against the 2011 results of EUR 0.08 gross per share. The total dividend proposed against the 2011 results amounts to EUR 0.15 per share. In Page 7, you can see the key highlights of the year. In January, we launched VERTI, the MAPFRE FAMILIAR's direct sales company for Motor and Home insurance. In April, we transferred the shareholding in BANCO DE SERVICIOS FINANCIEROS CAJA MADRID-MAPFRE and we purchased the 12.5% of MAPFRE INTERNACIONAL.

In June, we launched the start-up of the alliance with Banco do Brasil. In August, we consolidated Middlesea Insurance in Malta. In October, a new operational structure was put in place. And finally in December, there's the announcement of the reorganizations of MAPFRE and the changes in the Chairman that will be approved in the next meeting of the General Assembly of Shareholders in March.

Please move to the next slide. Here is a summary of our figures. I just wish to highlight that our premiums are now very close to EUR 20 billion. Our profits are very close to EUR 1 billion. Equity has continued to grow, and debt has continued to fall while our solvency levels have remained extremely strong and very close to 3x the minimum requirement. And Mr. Lubelli will be showing in greater detail our financial strength is consistent with our high AA rating [indiscernible] Our return on equity remains around 14%, and these are the main figures. I will now hand the call over to Mr. Lubelli who will explain the financials in greater detail.

### Luigi Lubelli

Thank you, Esteban. Good afternoon to everybody on the line and over the Internet. And with no further delay, please let's move to Slide #10.

On the slide, we can see the breakdown of premiums and results by line of business and geographical areas. The trend observed in previous years of an increasing weight of foreign business activities continued as we've seen throughout the year, such as activities made up over 62% of aggregated premiums against 59% in 2010. The contribution to total profits rose to 38% from 30% a year ago. However, it might be said that this is affected by a series of nonrecurring items and catastrophe losses. If we were to adjust for these, the contribution would be broadly stable at the level it was in 2010, which was 50% in the case of Spain and 30% in the case of foreign business activities.

On the following Slide #11, we show the contribution of the various subsidiaries to premium growth. Of the EUR 2.7 billion aggregate increase shown on this page, EUR 1.2 billion came from the business with Banco do Brasil. That means that even excluding this venture, MAPFRE AMÉRICA was the main contributor to the increasing premiums, thanks to growth in motor, general and Life-Protection insurance, as well as new distribution agreements.

MAPFRE VIDA grew thanks to a strong sales performance in the agents' network and the full-year consolidation of CATALUNYACAIXA. Growth was also notable in MAPFRE RE, which benefited from strong new business inflows and assistance there, due to the consolidation of InsureandGo and organic growth in Turkey and Latin America. Premiums are marginally in Spain due to the weak economic activity. However, relative to the market, the performance was especially strong in motor and household insurance, which we call it positive growth rates and then increasing market shares.

Please let's move to Slide #12, where we find the breakdown of sales in Spain by distribution channel. The performance of the agents' channel reflected strong sales of savings business in the Life line and falling sales of commercial insurance in Non-life. The growth in the bancassurance channel were due primarily to the full-year consolidation of insurance activities of CATALUNYACAIXA. And that applies to both Life and Non-life.

On Slide #13, we have the development of the consolidated technical result -- the technical results -- sorry. At the consolidated level, as we've seen before on Page #3, the combined ratio was 1 percentage point worse than in 2010, which given the catastrophe claims, I consider is an excellent result. It is evident at first glance where the catastrophe claims hit, which was the case of RE and INTERNACIONAL at the bottom of the chart. MAPFRE FAMILIAR had a better technical result than in 2010, thanks to strong underwriting performance that more than compensated for the increase in the expense ratio which was due, among others, to the launch of VERTI.

Global improved considerably over 2010 when it was strongly affected by the Chilean earthquake. Compared to the previous quarter, the ratio deteriorated due to higher claim severity and the appreciation of the dollar. EMPRESAS had a very strong year, thanks to exceptionally good frequency and severity. Compared to the previous quarter, there is a slight deterioration. AMÉRICA improved both -- compared to

both the previous year and the previous quarter, thanks to the good underwriting results of the business with Banco do Brasil.

On Slide #14, we find the Non-life Account. I believe I've explained that lengthy development of premiums and losses on the previous slide. The expense ratio increased due to the larger contribution from the international business, which as we know, especially in the case of AMERICA is a higher cost ratio. And a larger weight of business originated through brokers and new channels.

There is a strong general effect on the account of the consolidation of BB SEGUROS, the Banco do Brasil SEGUROS. And the financial income has several items to be understood. On one hand, the realization gains were about EUR 60 million lower in 2010 compared to the previous year. Virtually we did not have any exchange rate differences. And there are write-downs of about EUR 34 million from the exposure to Greek sovereign bonds.

On Slide #15, we have the Life Account. Here once again, the account year-on-year is strongly affected by the full-year consolidation of the operations of CATALUNYACAIXA, insurance operations of CATALUNYACAIXA. The business with Banco do Brasil and Middlesea, which has a sizable Life business in Malta. The agents' channels, the agents' channel performed very well. In addition to that and in addition to Banco do Brasil, we had organic growth of business in Latin America and a very good development of Life Reinsurance.

And here too, we have 2 items affecting the underwriting and financial results. We have a gain of about EUR 136 million recognized upon the establishment of the alliance with Banco do Brasil and about EUR 47 million of write-downs, once again coming from Greek sovereign bonds.

On Slide 16, we have the Other Business Activities, where we see as we've been seeing throughout the year, the decrease in operating revenues and operating expenses, which comes from lower business volumes in MAPFRE FAMILIAR's noninsurance subsidiaries and the discontinuation of MAPFRE INMUEBLES's real estate activities.

The next financial income falls compared to the previous -- the net financial loss falls compared to the previous year. And here too, it reflects a combination of elements, which are detailed there on the slide. The negative results from the sale of BANCO DE SERVICIOS FINANCIEROS. Last year, we had an impairment of the shares of CATTOLICA. So with the revenues from MAPFRE INMUEBLES, which now comes under this line, as well as a new appropriation of provisions for the depreciation of its property stock. And as we would also see in the interest coverage, lower interest payments for about EUR 14 million.

The results from minority interest basically had disappeared. Until March, the reflected would be a recognition of the results of BANCO DE SERVICIOS FINANCIEROS CAJA MADRID-MAPFRE. And the other revenues last year included the impairment of corporate stock, which as I said previously this year, forms part of the net financial income.

On Slide 17, we have the development of results by subsidiaries. MAPFRE AMÉRICA stands out because of the gains recognized after the granting of the authorization to create the alliance with Banco do Brasil, as well as the profits volume from this alliance. MAPFRE FAMILIAR shows a contraction, which reflects the [indiscernible] realization gains we called in 2010. Excluding realization gains and write-downs for both years, the net income would've gone approximately 7%. MAPFRE INTERNACIONAL suffered a significant fall due to large weather-related and catastrophe claims in the U.S., partially compensated by larger realization gains. MAPFRE RE also suffered a fall due to a series of catastrophe claims. This has [indiscernible] as I was saying before was the worst year on record. MAPFRE GLOBAL RISKS improved mainly because last year it was affected by catastrophe claims, which was the case of the Chilean earthquake, and MAPFRE EMPRESAS and MAPFRE VIDA recorded small losses due to primarily to write-downs. And in addition, MAPFRE EMPRESAS in 2010 had a considerably larger amount of realization gains.

On Slide 18, we have the bottom line. There are several elements affecting this. We have the agreement with Banco do Brasil, which is an impact. We have the restatement of financial accounts for a similar amount in both years in Venezuela. The appropriation of a provision for financial market instability where

part of which, most of which was appropriated in June and the remainder in the last quarter of the year for a total amount of 58 -- EUR 55.8 million. And the tax figure includes the positive impact of the sale of the shareholding in BANCO DE SERVICIOS FINANCIEROS.

On Slide 19, we have the balance sheet. Here we have clearly the 3 elements, which the consolidation of Banco do Brasil, Middlesea and to a lesser extent insurance InsureandGo, which affected variation. In 2011, we had depreciation of the euro against the main Latin American currencies. Clearly, as you may expect and we've seen throughout the year, the market value of investments was negatively affected by the rise in the risk premium. We have an increase in other intangible assets and minority interests, which was actually singled out precisely in this last quarter for the full-year account. This is because of the value of business acquired assignments to the assets consolidated after the alliance with Banco -- the accounting of the alliance with Banco do Brasil.

And we also see a decrease in cash balances, which was mainly due to the redemption of the senior bonds issued in 2001, which we did in July. If we compare it to the third quarter, the balance sheet shows a notable increase in goodwill, along with larger intangible assets and a significant increase in minorities. As I said before, this is due to the recognition of the value of business acquired arising from the business with Banco do Brasil.

On Slide #20, we have the breakdown of the investment portfolio as last year we have 3 slides about this. The breakdown is broadly in line with 2010. We have a slight larger weight of government bonds. In terms of geographical breakdown, Spain has gone up due to the purchase of government paper and Latin America due to the business with Banco do Brasil, while the rest of Europe has fallen due to falls in the market value primarily and to a minor extent sales of some bonds. Investments at fair value through P&L has doubled in weight primarily because this is the accounting approach employed by Middlesea, while investments have the maturity increased primarily because Banco do Brasil accounts for a substantial part of its investment through this approach.

On Slide 21, we see an increase in the weight of government paper due to the investment in Spanish government bonds I just cited, along with the fact the a larger proportion of -- the large proportion of the holdings of the business with Banco do Brasil and Middlesea are made up by government bonds. The weight of peripheral Eurozone countries, excluding Spain, has fallen to 11.1% from 18.5% a year ago. So it is a decrease of more than 7 percentage points. The weight of financial institutions holdings also has fallen in this case by 6 percentage points, while its breakdown is probably identical to 2010.

On Slide 22, we have a further breakdown of the fixed income portfolio. The breakdown by type of guarantees virtually unchanged. In terms of currency, there is an obvious increase in the weight of the Brazilian real from 4% in 2010 to 10% this year. And the breakdown by ratings as we call the downward trend due to the numerous downgrades by the rating agencies. Nevertheless, 86% of the portfolio remains rated single A or better, while in 2010 the proportion was 92%. This breakdown is before the downgrade of Spain by Standard & Poor's, which obviously would increase notably the single A slice.

On Slide #23, we have the changes in equity. Increase is just a bit south of EUR 2 billion and that includes the result for the year. The negative impact of the volatility in financial markets on the value of investments which, as usual, is partially offset by shadow accounting. Unlike last year, we have negative translation differences because the euro appreciated, as I said before, against the main Latin American currencies. And most of the change is in other items where we have about EUR 1.8 billion of minorities in Banco do Brasil, the scrip dividend, which was a further positive amount of about EUR 170 million, and they were compensated by the increasing minority shareholders as a result of the acquisition of the 12% -- 12.5% in MAPFRE INTERNACIONAL.

Lastly, Slide 24. We have the financial structure. As a direct result of the lower leverage and increase in equity, we see that the total weight of equity has gone up to about 85% of total financing. And interest coverage and leverage ratio are extremely strong. We have nearly 37x interest coverage and 15% leverage, which are consistent with the high AA or even AAA ratings and that's clearly at odds with the ratings bestowed on us by some agencies.

And this would be all on my side, and I'll give back the call 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. We are available for your questions.



## Question and Answer

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### Operator

[Operator Instructions] Your first question comes from Vinit Malhotra of Goldman Sachs.

#### Vinit Malhotra

*Goldman Sachs Group Inc., Research Division*

I've always been curious about the Spanish motor business there you have been growing as you pointed out faster than market. And if I go to Slide 33, please, we can see that relative market has improved a bit on the motor, you kind of worsen in the 9 months period. Is there something that we should be thinking about this faster-than-market growth catching over the combined ratio? Is there something there? That's the first question I have, please. And the second question is, again focusing on MAPFRE FAMILIAR. Property seem to have fairly strong improvement in the fourth quarter. Was anything there that we should know? In combined ratio of revenue?

#### Ricardo Blanco

*Former Chief Executive Officer, Managing Director and Director General*

Well, no. The 2 things regarding the first question if the things do not go hand-in-hand because that is a trend. The growth trend is something that we have seen throughout the year. It was not seen just in the last quarter. The last quarter we just say had a higher loss ratio. It happens. I mean, it usually, year-on-year it tends to be -- and even a figure with not much of changes, but we have seen in other quarters in variation of this kind. It happens from time to time. It is also relatively normal at year end when you review the sort of nothing which we have not seen in previous quarters in other years. Property, you're right, and it was due to a sales campaign, which took place in the last quarter.

### Operator

Your next question comes from Giulia Raffo of Autonomous Research.

#### Giulia Raffo

*Autonomous Research LLP*

I have a few questions. A couple I'll be pouring on numbers. But one, it would be helpful if on the VOLVA assets that you talk about for the other intangible. If you can give us a sense of what is the minority share of that EUR 2.45 billion items, so that when we calculate your tangible book value after minorities, we can attribute this other intangible correctly. The second question is a follow up on what Vinit was asking. I understand that there are fluctuation between one quarter and the other. But if we look at the combined ratio progression in your Spanish motor, there has been quite a sharp deterioration in Q3 and Q4. I mean, the first half, you were running at 95, then you had Q3, you had 96 and now Q4 at 99. I mean, was there anything particular in the quarter or perhaps at the end of the year when you look at the initial loss peak that you took on the first 3 quarter, you thought that perhaps more conservative -- conservatism was necessary. And my other question is, on the dividend side, as far as I understand, you have the intention to pay the dividend in cash. Now is there anything that could happen between now and the AGM that might change your view on that? And specifically, I was wondering whether you can give us any update on the Bankia relationship? And finally, on the motor, I believe there been some news on the Baremo. So I was wondering whether you can give us some first comment on what you would expect for 2012 and whether we should expect any implication from that in your motor business loss ratio?

#### Ricardo Blanco

*Former Chief Executive Officer, Managing Director and Director General*

This is Esteban. I prefer to answer first the question on dividends and our relationship with Bankia. And as you can see, our policy is to pay in cash. And unless something happens from here to the 10th of March that implies a new operation or new necessities of increasing our capital or maintaining our solvency where we're paying in cash dividend. In terms of the situation on Bankia, they have -- these



were -- we can see all kinds of rumors and information possible to foresee what will happen. I think that Bankia is a great choice. And from the point of view of MAPFRE and from the point of view of the insurers, we have our, news is that the government has approved delay of 2 years in the application of the law that established that each bank will have only one partner in insurance. So we'll be, in any case, independently after what will happen in the map of the financial situation in Spain due to mergers or acquisitions or changes of property. We are securers with 2 years to fix the situation if this situation change in a significant way. So I am sorry for not having more information that is not available at the moment. But the good news for us is this, that we can maintain our account in the design deposition just in case it is necessary. And for the other questions, Luigi?

**Luigi Lubelli**

We answered your question on this first one, Giulia?

**Giulia Raffo**

*Autonomous Research LLP*

Yes. I don't remember which one. I think the first was the intangibles, sorry.

**Luigi Lubelli**

I know. The one on dividend and Bankia.

**Giulia Raffo**

*Autonomous Research LLP*

Yes, yes. I know. I think it's clear. You can't -- at this stage, you don't know whether something will happen in the next 6 weeks that it doesn't -- we'll see. At the end of the day, that's clear.

**Luigi Lubelli**

Okay. In terms of the VOLVA, roughly it's about EUR 1.2 billion, the amount. Regarding whether there was conservatism in reserves, I suppose you can say so. I mean, we've tried to value them prudently based on how we see the expected trends in the market going forward into 2012.

**Giulia Raffo**

*Autonomous Research LLP*

I guess, what I was trying to check is whether it was too optimistic the 95% that we saw in the first half and perhaps equally is wrong to extrapolate on the 99% in Q4 and just clear view of 96% is more of a proxy.

**Luigi Lubelli**

I would say so. As I said before, it's not the first time we see -- I mean, quarterly trends, what they are, I mean, quarter for quarters. The yearly figure is much more of a benchmark to go by. And we've seen in previous years spikes and falls of similar amount that happens. So on a quarterly basis, it does happen. As far as the Baremo is concerned, we have a new director general of the supervisory authorities, and she said that she expect "news" in 2012. As far as the industry is concerned, I mean we have -- letting the supervisor and the Ministry know that we'd rather have it sooner than later because we'd much rather have a clearer framework to operate in. But that's as much as we can tell you. We don't know where it's going to happen. The Director General said that she expects news, but that's as much as we can tell you.

**Giulia Raffo**

*Autonomous Research LLP*

Okay. Just one quick -- sorry, I forgot to ask before. On Slide 20, out of the, after maturity on your fixed income, the 1,767, is there anything -- is any of that which is either Portugal or Greece within the 1.8 [indiscernible]?

**Luigi Lubelli**

It's primarily Latin Americans. Actually, Giulia, you will see that there's been a considerable increase year-on-year and that comes from Brazil.

**Giulia Raffo**

*Autonomous Research LLP*

That's why I was curious whether it's [indiscernible] trying to have a sense because that's the only category together with property, which we don't see the value for.

**Luigi Lubelli**

The Eurozone bonds are held in Europe and Europe is at fair value for equity.

**Operator**

Your next question comes from Will Hardcastle of Bank of America.

**William Hardcastle**

*BofA Merrill Lynch, Research Division*

It looks like you've increased your provision in the quarter for the financial market instability despite the additional Greek write-down. Can you explain what specific concerns have driven that increase? And also maybe touch on the level of impairment that your Greek debt write-down implies? And the final question is on [indiscernible]. It looks like you've increased the reserves ready to regulatory changes. Could you maybe just touch on what those changes were and how much that's actually impacted --

**Luigi Lubelli**

Well, I think it's obvious the reason for which the provision was increased anyway. It wasn't a dramatic amount compared to the stock that was already appropriated in June is clearly uncertainty, and the reasons for which the provision is appropriated. I mean, I'm afraid there's no better answer in that one. Prudence, call it prudence, whatever you want. Roughly, Greece is at 50% of its nominal value on the books, roughly. And last question was, again, honestly, Dr., I'm afraid this precise change in regulation, do you know it?

**Jesus Amadori**

This is Jesus Amadori. There was a change in [indiscernible] reserve policy basically part of the expenses, expense policy that can be attributed to [indiscernible] has been changed and has led the industry to provision more in that précised reserve. Obviously the precise impact we cannot tell you because that's not confidential. But obviously the results would have been much more in line with premium development, obviously.

**Luigi Lubelli**

Unfortunately, in Turkey, there have been some comings and goings in terms of the regulation on reserves. So we've had, if my memory does not fail me, we had a positive impact last year and negative impact this year. There's been a bit of swing that's developed.

**Operator**

Your next question comes from Atanasio Pantarrotas of Cheuvreux.

**Atanasio Pantarrotas**

*CA Cheuvreux, Research Division*

Yes. I have a few questions. First of all, regarding your Spanish motor business, I saw that average premium paid by customers declined 5.5% compared to the past years. And this trend is the first time after 2, 3 years that there is a decline of the average premium paid by customers. So I wonder if this is a trend that concern you, and if this explain why there was a slight deterioration in the last part of the year in the motor business. My second question regards the expense ratio. Do you think that we would see some improvement to the expense ratio? So some expense season in 2011 like the launch of VERTI

are not -- will not be repeated in 2012? And my third question is regards to the tax rate. Do we expect an increase in tax rate in the next year given also I think that the weight of Brazilian operation are increasing. And if am I correct that the tax rate there is around 40%? And final question regarding the reserve offering just like the 63. I appreciated that you disclosed the data regarding the runoff. I wondered if the numbers and the figures that you give in the Slide #63 are on net premiums of the combined effect there or on the final reserve at the end of the year? And if you can provide us in the future also the triangle evolution?

**Luigi Lubelli**

Many questions. Let's see. The decrease in the average premium per customer is fundamentally due to 2 reasons. The main one is the fact that we have an economic slowdown and so there's 2 trends. We have fewer policies from new business. So the policies in the portfolio age and people when the policies age, usually tend to reduce their covers. And secondly, this is compounded by the fact that because of the prices, people can afford to pay less money for the insurance premiums so they downshift. They reduce the number of covers now because the targets older but simply because they cannot pay as much. So that is fundamentally the reason for the decrease in the premium per customer. I believe this is a trend we've been seeing throughout the year. And you say this is the first year, but I think we already saw that...

**Atanasio Pantarrotas**

*CA Cheuvreux, Research Division*

The person is to use 2008 and begin 2009, so perhaps there were some recovery in late '09 and beginning '10 of the...

**Luigi Lubelli**

And then to a smaller extent, VERTI. I mean VERTI by its very nature is a company that in terms of price positioning is at standard to level, which is below the average monthly premium. And VERTI has said, relatively, a large contribution is 67,000 policy in its first year. I mean it's not an immense amount over the total policy stock of MAPFRE, but it also has an impact. The expenses of VERTI, clearly we expect them to have gradually a smaller influence of the total, average amount because clearly as the premiums grow, they're going to be less felt. In terms of the rest of the trend, somehow you'd be questioned on expenses connects to the question on the tax rate. The more we have an increase in the weight of the foreign business, both expense ratio and tax rate tends to go up. You've seen that in MAPFRE America. If you look at MAPFRE AMÉRICA, you have you would have seen a quite material swing between the loss ratio and the expense ratio. And that is because the business is now coming through Banco do Brasil, has better loss ratio and clearly there's a sleepside on the expense ratio.

We also have a growing volume of broker-intermediated business in the commercial side, which also has an impact on this. So it has a trend. Clearly as these businesses grow in weight, it does have a bearing on the expense ratio. And the tax rate, you're absolutely right. Clearly with Brazil having a larger weight, we do have an upward trend. If the U.S., by the way, also were to go up, because the U.S. really this year was banged hard on the head by catastrophes, the U.S. also has a tax rate, which is higher than Spain. So if they were as we expect them and hope that no such catastrophes appear, at least not to the same extent in 2012, then also we would pressure the tax rate up. The figures on Slide 63 are for Direct Insurance. That's before Reinsurance. I'm not sure about the trend. The triangles are found in our annual reports. So we do give the triangles. The annual report I think is going to be filed tomorrow.

**Operator**

Your next question comes from Maciej Wasilewicz of Morgan Stanley.

**Maciej Wasilewicz**

*Morgan Stanley, Research Division*

It's Maciej from Morgan Stanley. I wanted to focus a little bit on the negatives just to get some comfort around those issues. In terms of impairments, my first question is on Commerce Group. I realized last year was a bad year for Commerce Group for reasons other than fundamental underlying performance.

But nevertheless, it's been several bad years in a row on Commerce Group. I'm just wondering how close you came to triggering a goodwill impairment on that part of the business? The second question I had was on the land impairments that you've had. I understand that you've taken about a 20% overall overtime impairment on the original INMUEBLES portfolio. I was just wondering. I mean if this is vacant land and its valued at EUR 0.20 less than it was a couple of years ago, I mean is it possible for you guys just to offload it at the price that you're currently valuing on your balance sheet, because that would -- obviously it's not yielding anything in terms of income, so it would be better just offload it at the price that's on the balance sheet, if that price is achievable. And the final question is just one of fact. I'm just wondering, on your portfolio of equities, what level of impairments did you take in 4Q, and how much unrealized gains do you have on equity still in your shareholder equity?

**Luigi Lubelli**

Okay. Let's see. No, in commerce, we have not come close on impairment. I mean we -- these are figures, which I review with the auditors each year. And if there had -- I mean the impairment, there is or there is not. That is the fact. So it has been reviewed with the auditors, and the auditors have not demanded any impairment, which means that the valuations hold. I mean that's the long and short of it. Why do we not offload the land in INMUEBLES? We value it -- actually, once again, the auditors, they require quite extensive test of the valuations of very large sample of stocks, so the valuations we are comfortable with and the auditors also require that it is appraised by external valuers, so we're reasonably safe there. I suspect that if we got a decent offer as we do with buildings from time to time, if someone comes along and makes us an offer for land, we could sell it. But this is a moment in which you have to be careful about selling whatever is property in Spain. So it depends if there's a good opportunity, why not. But unless we find it, I wouldn't say we would be rushing to dispose of these properties. And the last question on the impairment of equities, I'm afraid I don't have that answer for you, because you're asking me exactly what impairment it was in the last quarter on equities.

**Maciej Wasilewicz**

*Morgan Stanley, Research Division*

Yes, because I mean you have EUR 1 billion in equities and the market's quite weak at least in 3Q last year. I don't think you took large impairments in 3Q.

**Luigi Lubelli**

It's kind of natural, the impairments. We have them at fair value for equity. So whatever is the value, they are recognized in equity for their value.

**Maciej Wasilewicz**

*Morgan Stanley, Research Division*

Yes. I guess the question is whether or not they'll eventually flow through the P&L, and that will depend whether or not you've got unrealized gains on them still. So I was just wondering whether or not we can expect in 1Q or 2Q of the market stays where it is, further impairments in equities or whether we're relatively secured that, that won't happen if the market stays where it is at this level?

**Luigi Lubelli**

Well, I suspect that would apply only to equities which suffer a very deep and prolonged decrease in price. And we've had that -- the one I can recall was the duration with the down payment we did last year for CATTOLICA, but otherwise, it has to be 18 months and 40% continuous for which usually is owning very limited cases. At any rate, this is what I'm saying. Whatever impairment there is, it's in equity. I mean our equity reflect the value -- our shareholders' equity reflects the value of our equity investments in the market any time.

**Operator**

Your next question comes from Federico Salerno of MainFirst Bank.

**Federico Salerno**

*MainFirst Bank AG, Research Division*

Just a couple of things. The first -- the question I have is on the dividend reinvestment plan. I browsed through the presentation, I couldn't see any mention of it. So was wondering if you plan to implement one going forward for this year or not? And then the second on the property portfolio besides INMUEBLES. I had a realized gains of roughly EUR 800 million at the full year 2010. I was wondering if you can give us a figure as updated as possible on that?

**Luigi Lubelli**

As I have said to you before, our policy is paying cash. The only changes to this could happen if we have something to acquire, and I don't foresee anything now is only thing I can say to you. As I have said before, from the point of view of the operations in the bank assurance business and so on, there is a situation where a lot of things are moving, but I don't think that this will happen in the near future. And we will be very prudent in this kind of these in the future. Due mainly to the -- because our strategic opposition from the geographical point of view is okay, so the policy is paying in cash. And the only thing that could change this policy is one specialty opportunity happens, and I don't foresee at the moment.

**Federico Salerno**

*MainFirst Bank AG, Research Division*

Okay. And regarding your question on the unrealized gains on Slide 56 of the presentation you will find the unrealized gains. They were EUR 795.2 million last year and they're falling to EUR 607.3 million this year.

**Federico Salerno**

*MainFirst Bank AG, Research Division*

Okay. That's including everything, basically.

**Luigi Lubelli**

Yes, that the like-for-like amount, we had EUR 800 million you had in mind.

**Operator**

[Operator Instructions] Your next question comes from Marcus Rivaldi of Morgan Stanley.

**Marcus Rivaldi**

So I just come back to the property questions again. And of course, all your presentations here today are on IFRS accounting for these assets. But if we're looking across in the banking space at the moment, we've got a regulator at the Bank of Spain, asking banks to take a very different approach to how they make or would make marks of properties going forward to sort of restore confidence in the Spanish banking system. So are you getting similar -- having similar discussions with your regulators as well about your property assets? I mean first of all, could you just clarify to what extent some of those unrealized gains of balance sheet are actually included in your regulatory insolvency position, and they just extend on from that to maybe a discussion around whether there's been a real cross from what we see in the Bank of Spain to the assurance sector?

**Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

The last part of the solvency margin, I may not be able to give you at this point a precise figure. We're looking into that now. For real estates, as generally speaking for investments, insurance balance sheets are much more solid than insurance balance sheets of banks because our devaluations of our assets are much closer to market than those of banks. I mean, none here is an expert on banking accounting. But somehow, the way really state assets has been valued in the banking industry in Spain resembles some sort of an embedded value approach. There is a certain inclusion in the value of the properties of expected future profits flowing from the property. Ours is market. We take the properties, have some surveyors, assess their value in the market and then us you are below or above that. And if you are below, you have to appropriate a provision. So let's say it's a much tougher valuation approach, the one used in

insurance. So what happens on the banking side does not necessarily have an impact on what happens on the insurance side. And the roughly 6% of the positive amounts in the solvency margin come from unrealized gains in property --

**Marcus Rivaldi**

So just to clarify, the EUR 600 million you're referring to, the off balance sheet piece, only 6 points of the solvency margin is coming from that source?

**Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

Yes.

**Marcus Rivaldi**

Okay. And just to be clear again, again, obviously the Bank of Spain is maybe asking back to take a closer look at maybe that approach to how they account for those assets going forward and then be potential impacts on valuations in the market. Have you thought about maybe making some general provisions against that as of this stage?

**Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

Once again, I mean and thank you for asking this because this is a popular question we receive. I'm sometimes am under the impression that with these and without financial investments, somehow we improvise in the valuation. I mean we have clear guidelines to go about when we value the assets. And our valuation is to take the assets. We're actually required by the auditors to provide evidence of market valuation of those, as well as by regulations, and that's the approach we follow. I mean it's not as if we fancy a percentage write-down and apply that. I mean we have some guidelines that we follow and this year, and I must tell you we were extensively tested because as you can imagine, the auditors at this time in history want to be double -- want to be double safe that they have the valuations under control before the sign off. So I'm afraid that's the way it works. We have an approach, and we follow it. If next year there is a new prevailing wisdom of how these assets have to be valued and then that leads to percentage x then percentage x will be applied. But this year, that's the approach that was followed.

**Marcus Rivaldi**

I appreciate that. And obviously, there is an approach, roughly just the Bank of Spain change [indiscernible] as you close the books for the year end. I'm just wondering how that maybe you're thinking about these...

**Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

I imagine what you're seeing is that if the approach by the Bank of Spain translate into new market valuation if it does, then possibly, yes, it will have an impact given that we go by market valuation. But it's not a direct impact given that the bank of Spain requires such valuation then the DGS, which is the insurance supervisor will do the same. Because to begin with, the way assets are valued is different. So the Bank of Spain has to fix troubles with the insurance sector does not have.

**Operator**

Your next question comes from Luis Pena of JB Capital Markets.

Your next question comes from Giulia Raffo.

**Giulia Raffo**

*Autonomous Research LLP*



Just to follow up on numbers actually. On the EUR 600 million unrealized gains on property on Page 56, can you give us a sense of how much belong to minorities because the scope has changed really with the Brazilian transactions. I just wanted to have a sense as to what would be the minority share of that? And then just a final detail, am I right in thinking that when a look at Slide 59 where you showed the profit break down by a unit, the Greek impairment have all affected the line called other companies and consolidation adjustment, which is to say the result of FAMILIAR and EMPRESAS, et cetera, have not been impacted by Greek impairment. If that is not correct, can you give us the detail of the Greek impairment by the main units?

**Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

Now we've not actually disclosed the figure, but it say it's negligible. The share of minorities in those unrealized gains. So by and large, they're all of the main shareholder. You can take them to the fundamentally of the main shareholder. The impairment in Greece was, let's say, complex in terms of the assessment. There is some in deadline and some in the lines of companies. But primarily there's a big chunk in the other companies' line, yes, but it's also in the company -- at the company's level.

**Giulia Raffo**

*Autonomous Research LLP*

Can you give us the numbers at the company's level?

**Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

As they were not fully assessed as a figure, I'm afraid I cannot give you. We have given the total impact at consolidated level.

**Giulia Raffo**

*Autonomous Research LLP*

It's not very helpful to us obviously as well, when we're making forecast for -- by division and trying to get a clean investment income by line.

**Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

But that we can do, Giulia, because we give you the total figure of nonrecurring items or realization and write-downs for each company. So you have the total amount, and you can deduct it to arrive at the underlying.

**Giulia Raffo**

*Autonomous Research LLP*

Not really because for FAMILIAR, we just got pretax gain. We don't know what the net of impairments and capital.

**Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

No, no, no. It's pretax gains net of write-downs.

**Giulia Raffo**

*Autonomous Research LLP*

So how can I guess what the write-down is? There are infinite solution that give me EUR 13 million.

**Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*



Yes, but you only have one solution for the underlying. I mean when we give you is, if you adjust for the figure, you will get the underlying.

**Giulia Raffo**

*Autonomous Research LLP*

Okay.

**Operator**

Your next question comes from of Luis Peña JB Capital Markets.

**Luis Peña**

So I have different questions. Well, first of all, I apologize because I joined late, so some of the questions might have been answered already. So the first one is on Bankia. If you can give us, well, some sort of information on how the situation is evolving regarding the bank assurance agreement of Bancaja and whether that -- whether you would be interested in acquiring or in being a partner of Bankia in that -- this division and network. The second one is if you can give us an outlook for the international business this year, especially in the U.S., Turkey and Latin America? So how do you see a slightly pinning growth and the combined ratio evolving in these geographies? And finally, regarding the one-offs, okay, so MAPFRE had very significant negative and positive one-offs in 2011. On the negative one-offs, I think that we could see again some sort of continuation of negative one-offs especially in property and what potentially some of the financial impairments. So the question is, will we see again the positive one-offs in 2012? And what could be the sources of positive one-offs if you are foreseeing any?

**Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

I have said before regarding Bankia that we'll remain with Bankia as main partners. We don't know how we'll have Bankia in the next months in order to make or not a new acquisitions or mergers is up. But I said before that the changes in the regulation approved last week give us 2 additional years to establish the final composition of our joint venture with Bankia and other partners, which means that in the meantime, we can have our [indiscernible] with Bankia in terms in the current terms. In Bankia, if Bankia have the will to maintain their position in JV and that is coming from Bancaja, could maintain it. So from this point of view, we must wait and see what happen in the financial evolution given the next months, and our intention and location is to be the main partners of Bankia now and in the future. But for doing that, we have more time now that we'll have in the situation of all the regulation that are at bank's insurance company to reach an agreement with only one partner. This is the main difference now. From the point of view of our -- the other question about the evolution of the international business, well, in the USA and commerce and especially after this year, special very bad this year from the point of view of catastrophes, I remind you that we have similar snowstorms at the beginning of the year, then we have hurricanes the kind of catastrophes that never had to occur in the state of Massachusetts before. I hope that these will not happen this year. And we have to increase our tariffs twice during the year, and there is an increase of more than 4% in the local currency of the gross premium and commerce. Commerce is working very well from the point of view of the current business. And I think that this is a company that keeps working in the way that MAPFRE works usually and in the branches that we are specialists. So we not only maintain but we are gaining market share in Massachusetts and starting to develop business in other states. And in Turkey, the situation is similar. We have these new regulation that was commented before about the interpolation of provisions in Turkey. But we have to suffer the evolution of the currency against the euro. But in local currency, the growth is very important. And last year in the situation from the point of view of profitability of the company, even if the competition there is very hard, is improving. And we are starting to develop our scheme of open new own branches in the territory that will give us a radical growth in the next years in the way that we did before in Latin America. So we are very comfortable in the international business. And I hope that the catastrophe side this year will be better than the year before. And as far as the last question is concerned, Luis, one-offs by their very nature, are unexpected figures, so both the positive and negative, we just have no idea about. I

mean that's something that we adjust for as if and if they happen. For the moment, clearly at the outset of the year, I mean there's nothing I can think of which is not already reflected in the 2011 accounts.

**Operator**

Your next question comes from Silvia Rigol.

**Silvia Rigol**

*BBVA Research SA*

The [indiscernible] bad relationship with Bankia and if their decision to choose only one insurer for the group in 2 years, how are you going to set the distribution channel of Bankia with Aviva? So how much we will just continue selling MAPFRE's products and [indiscernible] is continuing selling Aviva products? Are we supposed to hold that if it's the method of the bank?

**Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

In the meantime, there is a status quo situation where the old branches of the different franchises continue to act in the same way that they actually; before. And what's next?

**Luigi Lubelli**

No, I got to tell you the question. As they go, those which -- let's say a branch number. Branch number x sells MAPFRE, branch number y sales Aviva.

**Operator**

Your next question comes from Patrick Narrow [ph] of [indiscernible] Asset Management.

**Unknown Analyst**

I have first the question about the quality of your technical provision. I'd like to know what is the level of technical provision and premiums at the moment and what is the trend compared to last year's? Was that really that any what is the level of reserve release? Concerning your activity, I'd like to have a view of the growth in South America at the same time without Banco do Brasil, it looks without Banco do Brasil. We have weak slowdown in growth. MAPFRE VIDA saw the growth without CATALUNYACAIXA. It looks like it's a decrease. Could you explain that and develop that? And then last question is about the loss ratio, [indiscernible] it looks that in Spain and even in Brazil, we saw an improvement of loss ratio except catastrophes, of course. What is the reason of this good loss ratio? Why is it sustainable?

**Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

Okay, Patrick. Before I answer your question, I would just like to say to the participants, I apologize. We're actually very glad to receive so many questions, but we actually have to catch a flight to London to continue this conversation tomorrow. So I'm afraid we'll -- if you don't mind, this will be the last questions we answer. Now, Patrick, in terms of the quality of reserving, one of the participants made reference to the table on Slide 63, which shows the runoff of our reserves, which is positive consistently over the last 8 years. So that is the, I believe, the answer to your question. We also have our reserves reviewed externally on a yearly basis by actuarial consultants. And if the reserves are insufficient, we will have to make -- if they were insufficient, we will have to make additional provisions and that would be reflected in the notes to our accounts. And to my memory, that has never happened, at least since my time with MAPFRE. And so the quality of reserving this year is very much the same as it was last year. In Latin America, you're right, clearly there's such a large addition. If my memory doesn't fail me, excluding Banco do Brasil, the increase is about 11%. That has an element, which comes from Venezuela and Argentina, where we've cautiously decided to contain, let's say, our growth because we are not comfortable with the underwriting terms in the market and with the quality of the business that can be written. So that does have a bearing on the total growth of the business. Anyway, you will find a detailed breakdown of the growth by country, which I believe if you're asking that question, you've already looked at. But anyway,

also for the benefit of the other participants, you have it on Slide 41. And I mean, excluding Venezuela and Argentina, Puerto Rico, I mean you have growth of 16% in Mexico, 22% in Columbia, 25% in Chile, 15% in Peru. These are respectable growth rates. So but Venezuela and Argentina, indeed if you adjust them for the inflation, it leads to a decrease, and that's because we believe we have to be extra prudent on the business we write. In MAPFRE VIDA, you're right, if you adjust for CATALUNYACAIXA, there is a falling out due to the fact that the CAJA MADRID Bankia has sold a lower amount of premiums in 2011 than they did in 2010. 2011 was especially delicate year for the Spanish banking system and especially delicate for savings banks and banks coming from savings banks. So there was an intense competition for deposits and there was a need for banks to focus on the deposit taking. So in this case, in the case of this one had a bearing sales of the Life insurance. The loss ratio, you're right. I mean the year was an especially good one and actually was very, very good. In terms of, let's say, direct [indiscernible] non-catastrophe insurance, it's difficult to make exact predictions about the loss ratio. One company comes to my mind, which is the commercial insurance business in Spain, MAPRE EMPRESAS, which actually fortunately or unfortunate depending the way you look at it because of the slowdown in the economy had lower frequency and lower severity. The economy doesn't seem to be about to spring up again, so that may continue in 2012. The Brazilian business has, by nature, a lower loss ratio than the Latin American business before the business with Banco do Brasil, so that also pressures the loss ratio downward. But then there are the unknown unknowns I cannot tell you exactly how the loss ratio will pan out in 2012 seen from now.

### **Unknown Analyst**

And like to be sure to understand. You said without Banco do Brasil, the growth in South America would be 11%?

### **Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

Roughly because it's EUR 1.2 billion in premiums. So if you net that out, Latin America grows EUR 1.7 billion. If you take out EUR 1.3 billion or less than EUR 0.5 billion, which works about 11%. So this in our case. As I said before, we must leave, but thank you for the many questions and get back to work to Esteban.

### **Ricardo Blanco**

*Former Chief Executive Officer, Managing Director and Director General*

We thank you for attending our conference call. I hope to meet you again for the first quarter results presentation. Thank you. Bye.

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