

Mapfre, S.A. BME:MAP

FH1 2016 Earnings Call Transcripts

Wednesday, July 27, 2016 10:00 AM GMT

S&P Capital IQ Estimates

	-FH1 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.12	0.23	0.27
Revenue (mm)	-	22304.93	23275.29

Currency: EUR

Consensus as of Jul-25-2016 12:31 PM GMT

Call Participants

EXECUTIVES

Esteban Tejera Montalvo

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

Fernando Mata Verdejo

Executive Director

Natalia Arana

Unknown Executive

Presentation

Esteban Tejera Montalvo

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

Good morning, ladies and gentlemen. Welcome to MAPFRE's Results for the Second Quarter 2016. As usual, I'll give an overview of the results in the main business lines. And later, Natalia Núñez will explain the financial information in more depth.

Here with us is also Fernando Mata, Head of Strategy and CRO of the group. And we will answer the questions that we will have received at the end of the presentation. If any further questions arise during the call, please send them to the specified email address, and we will answer them if time permits.

Let's now turn to Slide #3. As you can see here, profitability has improved significantly on the year, and MAPFRE is on track to meet its strategic goals. The attributable result has increased 20.5%, reaching EUR 380.4 million, and the return on equity has improved 0.8 percentage points to 8.8% year-to-date.

The depreciation of the Venezuelan bolivar and the Brazilian real have continued to affect the financials. If we exclude the effect of the Venezuela on our accounts, the attributable result would have grown by 26.8%.

Total premium fell by 0.8%, mainly due to currency movements. Excluding Venezuela, they would have grown by 1.5%, Non-Life premiums are benefiting from the continuous recovery in the Spanish market. The integration of the line of business in Italy and Germany as well has a steady growth at MAPFRE RE and MAPFRE U.S.A.

Life premiums have proven resilient with a 1.3% year-on-year growth, despite the complicated market environment. The strength of MAPFRE's Asian network in Spain has offset the lower sales of protection products, linked to lending in Brazil as well as the depreciation of the currency.

The Non-Life combined ratio has fallen by 1.6 percentage points to 97.5%, driven by improvement in telecom management in our main markets, together with the absence of extraordinary weather-related claims in the U.S.

MAPFRE has actively managed its balance sheet, realizing gains in the investment portfolio with interest rates near record lows during the quarter. We also took advantage of the opportunity to use EUR 1 billion in our 10-year senior bond in May with a 1.625% coupon, diversifying our fund resources in very favorable conditions.

During 2016, we are seeing a strong growth in managed savings, 6.2%, thanks to the Life business acquired by BANKINTER VIDA in Portugal, positive evolution of mutual in pension funds businesses, as well as the appreciation of the Brazilian real during the year.

It also reflects the effect of the UNIÓN DUERO VIDA and DUERO PENSIONES businesses, which are classified as held for sale as a consequence of banco [ph] sales communication to exercise the call option. Without this effect, management savings would have grown 10%.

Shareholders' equity has increased by EUR 454 million during the quarter, EUR 372 million during the year, supported by the performance of the investment portfolio and the appreciation of the Brazilian real during 2016.

Please turn to Slide 5, where we will take a look at the regional breakdown of premiums. As you can see here, MAPFRE's has a well-diversified business needs with around 31% of premiums coming from Iberia; 30% in LatAm, of which nearly 17% is from Brazil; 11% in North America; 11% in EMEA; and the practically 17% remaining coming from MAPFRE RE.

During the year, the variations in premium contribution reflect the positive developments in Iberia, North America, EMEA and MAPFRE RE. Brazil has suffered a reduction during the first quarter of the year, reflecting the depreciation of the Brazilian real. It's increasing its contribution during the second quarter,

especially to the good performance of the business -- industrial business and agricultural insurance that offset the slight decrease in motor insurance.

Please turn to Slide 6. Here, we can see the regional breakdown of profit. Results are also well-balanced by geographic region with about 52% of attributable result in Iberia; 26% in LatAm, of which nearly 15% is from Brazil; 9% in North America; and 19.5% at MAPFRE RE.

EMEA has suffered from extraordinary losses due to negative run-offs in assistance here, as well as several large corporate claims at global in the first quarter. Finally, in APAC, results were impacted by the Taiwan earthquake in the first quarter of the year.

During the quarter, we have seen the increase in the contribution of results coming from our 3 main regions: Iberia, Brazil and North America.

And finally, on Slide 7, we'll give an update of our solvency position. Our preliminary Solvency II figures as of March 31, 2016, confirm MAPFRE's strong solvency position. A 200% Solvency II ratio is based on a high-quality capital structure at EUR 8.6 billion in eligible own funds, of which 93% is unrestricted Tier 1 capital and the remaining 7% is grandfathered subordinated debt. Excluding the use of transitional measures for technical provisions, MAPFRE will still have an excellent solvency position of 181%.

I will now hand the call over -- Natalia, who will explain these figures in greater depth.

Natalia Arana

Thank you, Esteban, and good morning, everyone. Please, let's move on to Slide 9 to take a closer look at the Non-Life account.

On a yearly basis, Non-Life premiums have fallen by 1.3%. This decline is -- in premiums was mainly driven by EUR 387 million multiyear PEMEX policy in Mexico, issued in 2015 as well as the depreciation of the Venezuelan bolivar and the Brazilian real.

Excluding the effects of Venezuela, premiums would have increased by 1.5%. Premium-wise, we are seeing the following trends: continued pickup in production in virtually all lines of business in Iberia, consolidation of the direct insurance business in Italy and Germany, as well as positive developments at MAPFRE U.S.A. and MAPFRE RE. The combined ratio has fallen 1.6 percentage points to 97.5%, due to a 0.9 percentage improvement in the loss ratio and 0.7 percentage point decrease in the expense ratio. These reductions are stemming from improved technical management in our main markets, especially in Iberia, as well as the absence of extraordinary weather-related claims in the U.S. East Coast. The reduction in expense ratio must also be highlighted. And it's driven by MAPFRE U.S.A, stemming from higher commission from ceded reinsurance as well as lower expenses in Brazil and Iberia across main lines of business.

Net financial income has fallen 3.8%. Considering the strong effect of currency movement, the underlying result was -- has actually been quite resilient, given the low interest rate environment.

Please, let's move on to the next slide to take a look at the trends during the quarter. On the quarter, premiums have fallen 11%, mainly as a result of seasonality in Health and Burial issuance in Iberia. In Brazil, we are seeing an improvement in market conditions with a 22% appreciation of the Brazilian real during the year, as well as higher issuance in Industrial risks in Brazil, as Esteban mentioned before.

There has also been an improvement in claims experience, thanks to the absence of heavy rains that affected the first quarter of the year. In the quarter, the combined ratio has increased on a stand-alone basis by 1.5 percentage points, mainly due to the higher catastrophic losses at MAPFRE RE, including the Alberta wildfires and the heavy flooding in Northern Europe, as well as an uptick in the claims ratio at MAPFRE España, where we have experienced higher frequency of motor and homeowner claims due to seasonality effects.

Financial income has performed strongly on the quarter. As Mr. Tejera mentioned before, MAPFRE has been managing the portfolio actively, taking advantage of the nearly record low interest rates to realize gains during the quarter, especially in Iberia and MAPFRE RE.

Now we can take a look at the Life business on Slide 11. Despite a challenging market environment for Life products in Europe, premiums grew by 1.3%. In this regard, we are seeing the following trends: higher sales in Iberia through the agent network and the issuance of savings policies -- group savings policies issued at the corporate level; increasing production in Malta, thanks to the attractiveness with profits product offering. In Brazil, in term, premiums and results have both been affected by lower lending activity in the bancassurance channels and the depreciation of the real. The technical financial result has increased by over 5% year-on-year, supported by higher realization gains at MAPFRE RE and positive developments of financial income in LatAm South and Iberia. These improvements in results were partially offset by worsening of net financial income in Malta due to poor performance in the financial markets during the first quarter of 2016 compared to the first quarter of prior year.

On Slide 12, we will discuss the main developments during the quarter. Premiums grew by 36% during the quarter, mainly due to this group savings policies in Iberia that we mentioned on previous slide. There are also positive trends in Brazil where we are seeing that MAPFRE's agent network has performed well, and claims frequency in Life protection products has fallen. The strong recovery of the Brazilian real during the quarter, nearly 50%, is also helping to boost results.

On the next slide, we will now take a look at the result of further business activities. The results for other business activities has improved EUR 4.2 million compared to the previous year. This valuation was driven by lower financial expenses at the holding company level.

As we mentioned earlier in the presentation, last November, EUR 1 billion in a senior bond with a 5.125% coupon mature. And this one was replaced in May with a 10-year senior bond with a 1.625% coupon. We are still seeing some negative trends in net operating revenues and expenses due to lower activity at noninsurance business in Iberia as well as negative run-offs cancellation of unprofitable contracts and optimization of the cost base at MAPFRE ASISTENCIA in EMEA and MAPFRE ASISTENCIA in North America.

On Slide 14, we will discuss the main drivers of the consolidated result. Profit, tax -- profit before tax has increased by over 11%, explained mainly by the improvement in the results of both the Life and Non-Life business as we explained on previous slides, together with a lower impact from the result on restatement of financial accounts, stemming from the depreciation of the Venezuelan bolivar. The attributable result stands at EUR 380.4 million, a 20.5% increase, which has been impacted by a slightly higher effective tax rate compared to the previous year mainly due to the increase of the corporate tax rate in Brazil, which was offset by a decrease, mainly by a decrease in Iberia, the absence of EUR 31.7 million net result from CatalunyaCaixa insurance business in 2015, under discontinued operation.

It's also worth mentioning that noncontrolling interest fell compared to the previous year, mainly due to a reduction in profits in Brazil.

On the next slide, we will take a look at the variations in equity and the balance sheet year-to-date. Fixed income markets have performed very well during the year with Spanish 10-year yields falling from over 1.8% at the beginning of the year to around 1.2% at the end of June. This strong value has had a very positive impact on the value of our available-for-sale investment portfolio, although partially offset by shadow accounting. The balance sheet and the investment portfolio has also been influenced by the strong appreciation of the Brazilian real during 2016. Depreciation was 22%, which was slightly offset by the depreciation of the U.S. dollar, 1.5% of depreciation for the U.S. dollar. This movement led to a large recovery in shareholders' equity, EUR 372 million during the year, and EUR 454 million during the quarter.

The balance sheet variations also reflect an increasing cash as well as financial debt due to the issue of 1 billion of senior debt in May, which was used to partially pay back EUR 450 million of the revolving credit facility, helping this way to diversify our funding sources, the classification of UNIÓN DUERO VIDA and DUERO PENSIONES businesses as held for sale and the incorporation of the Life business acquired by BANKINTER VIDA in Portugal.

On Slide 17, we will take a closer look at the investment portfolio. We would like here to point out that a conservative asset allocation strategy with around 79% of the portfolio in fixed income, of which 58% is allocated to governments, over 25% of the corporate portfolio is allocated to bonds with collateral, mainly cover bonds.

Since the beginning of the year, the value of the investment portfolio has increased by EUR 3.4 billion, reaching EUR 49.7 billion. The main drivers of this variation include: an increase in the value of the available-for-sale portfolio, especially in Spain; a strong increase in Brazil due to the improvements in market value, as well as the appreciation of the real; an increasing [indiscernible] from the issuance of debt in May. And also the movements in the investment portfolio include the business acquired by Portugal, by bank -- in Portugal by BANKINTER VIDA and the exclusion of the investment portfolio of UNIÓN DUERO due to its classification as available-for-sale.

Now on Slides 18 and 19, we are going to sum up the main embedded value figures for 2015. Our total embedded value grew by 6.7% in 2015, mainly due to a EUR 204 million increase in adjusted net asset value from the accounting impact of the gains realized from the sale of CatalunyaCaixa VIDA. The variation in the value of in force business was less substantial with a 0.6% increase, reflecting the effect of the sale of CatalunyaCaixa. Excluding this effect, the value in force would have grown by 8.4%.

From this total value in force, the share belonging to the parent company has increased by 5% between 2014 and 2015 from EUR 1,307 million to EUR 1,375 million. Regarding the value added by new business, it fell by 22%, reflecting mainly the exclusion of CatalunyaCaixa from the consolidation scope, as well as a reduction in new business margins driven by the low interest rate environment on a change in the new business mix.

On Page 19, we can see the -- during the last few years, the perimeter of the Life business has changed due to the inclusion in 2014 of the Bancaja [indiscernible] portfolios. We've seen the [indiscernible] agreement as well as the sale of CatalunyaCaixa VIDA in 2015. Embedded value has proven resilient despite a challenging market environment.

During 2015, we have seen several positive trends that we must highlight. The value of the in-force business has been benefited from positive mortality developments of in-force corporate annuity business and positive contribution of mutual and pension funds due to lower distribution costs and improvements in client retention. New business margins have been resilient, despite the low interest rate environment, thanks to growth in higher margin Life protection products.

You can analyze all these figures in greater detail in the embedded value presentation that we have also made public today.

For the time being, this is all from my side. And I will now hand back the call to Mr. Tejera.

Esteban Tejera Montalvo

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

Thanks, Natalia. Now, we will start the Q&A session, to answer your question that most of you have sent us throughout the morning. If any other issues arise, in the meantime, please send us an email and we will be happy to respond if time permits. We will start.

Question and Answer

Operator

[Operator Instructions]

Unknown Executive

The first set of question is with regards to the evolution of the business at MAPFRE U.S.A. Michael Huttner from JPMorgan asks, "Given the new incentive plan, how is the group addressing the U.S. Non-Life units outside of Massachusetts, where the loss ratio -- the loss worsened in the second quarter of 2016, 94.4% versus 91.2% in the first quarter? Why not just shut it down and avoid the dilution of the greater Massachusetts results where the second quarter loss ratio was 68.1% versus 73.3% in the first quarter?"

Fernando Mata Verdejo

Executive Director

Thank you, Michael. This is Fernando Mata. Well, the situation [indiscernible] in the United States, in Massachusetts, the realities after the change in tariffs and some of the writing conditions, we are in a better situation and business is profitable. And the combined ratio is a normal path. Related to the expansion, the expansion has to be founded, in this case, in internally generated capital for our core business in Massachusetts, no doubt. The reason for the expansion that we discussed in previous meeting: first is the geographical diversification; second, to look for growth opportunities in other states; and the third is increased businesses opportunities and now having the [indiscernible] Life on most mature market. We believe that these measures learned outside Massachusetts will have an effective impact in those states in the coming months for sure. And according to your plan, we wouldn't have considered a new state entry until late 2017. In fact, we are analyzing the performance of some states. And we've seen improvements in meeting homeowners in the majority of the states. And there is still in personal auto, some work to do, mainly in New York, New Jersey and California. The remaining states are performing very well.

Unknown Executive

Thank you. The next question comes from Andrew Sinclair at Bank of America Merrill Lynch. Can you please break down gross written premium increases in North America between tariff increases and volumes?

Natalia Arana

Thank you, Andrew. The increase in gross written premiums in the North American region is 7.3%. MAPFRE U.S.A. increased 8.4%, mainly due to the growth outside of the states of Massachusetts, which was 18.3% above prior year, [indiscernible] Connecticut, Rhode Island, Florida and Washington. Connecticut continues to contribute with the large increases, stemming from the strong competitive position in marketplace. In Massachusetts, premiums increased 4% over a premier year. Personal autos, written premiums, resulted in 2% growth due to competitive environment. A 2015 rate change was minus 1.3%, while homeowner is growing at 10% year-on-year, due to tariff increases. As you can see on Page 22 of the presentation, the number of the homeowner policies increased 3.9% over the prior year, while the average premium per policy increased 6.3% from 2015. Premiums breakdown by geography, as of June 2016, is 69% coming from Massachusetts and 31% from other states. This is the most complete answer we can give you regarding your question.

Unknown Executive

Thank you. Regarding Brazil, Andrew Sinclair from Bank of America Merrill Lynch sends the following question: Can you please provide local currency growth in the quarter for Life and Non-Life? Can you please break down gross written premiums increases in Brazil and local currency in Non-Life between tariff increases and volumes? And also can you please update us on the outlook?

Natalia Arana

MAPFRE Brazil growth in local currency in first half of 2016 is total premiums plus 3.2%; motor, minus 12%; Life protection, minus 8%; mass multiple risks, plus 3%; and our reinsurance, plus 80% -- 10 percent. Motor insurance is affected by contraction in number of new cars sales and the strong competition. In an environment of high interest rates, the strong competition is something that is very common, is a common factor in these areas. And we don't play this competition work. The companies that are growing in Brazil are those with low tariffs. And on the other hand, companies focused on technical result are consequently with higher tariffs do not register growth this year in motor. MAPFRE Brazil is not willing to reduce tariffs. In Life protection, premiums distributed by Banco do Brasil suffered a contraction, stemming mainly from lower amount of loans granted to bank customers. However, Life premiums distributed by MAPFRE's network have a growth of 21% in local currency, 21% in local currency.

Unknown Executive

Paz Ojeda, JB Capital asks, "Which business was the main driver to premium growth in the quarter? In terms of the combined ratio, what can we expect for the second half of 2016?"

Natalia Arana

As we have said, Paz, the main contributor to premium growth was our reinsurance. Growth was 80% in the first half of 2016. As you noticed, by now it's very difficult to have an idea of the evolution of combined ratio in the second half of 2016, as most of the claims are related to the worsening economic environment. In any case, we expect to have a better combined ratio than the market as MAPFRE Brazil is focused on profitable growth, while avoiding entering into price wars. Actions in 2016 include cost rationalization plans and increasing distribution platforms, cross-sell initiatives to -- further in the penetration of insurance product in Banco do Brasil client base. With all these measures, we hope the technical result will show better results.

Unknown Executive

Niccolo Dalla Palma from Exane BNP sends the following question: According to the disclosure from BB Seguridade, in the first quarter, motor insurance suffered from price adjustments of service providers in some states and credit life insurance due to reported claims which were not fully processed because of registration mismatches. Could you give us an update on both?

Natalia Arana

Okay. Price adjustments are normal in an environment of high inflation and are already translated to tariff calculations. Regarding claims not fully processed, the incurred but not reported provisions are calculating taking into account these mismatches, these possible mismatches.

Unknown Executive

Thanks. The next set of question is regarding the Spanish business. Andrew Sinclair at Bank of America Merrill Lynch and Michael Huttner at JPMorgan would like to know the following about Iberia Non-Life. You indicate that the higher loss ratio for Iberia in the second quarter was down to higher frequency, what have you seen on severity? Is the Baremo having any impact?

Fernando Mata Verdejo
Executive Director

Thank you, Andrew, and quite interesting question. And first of all, the first quarter was quite mild in terms of weather. And there is no rain or snow, particularly on -- the number of vehicles in the [indiscernible] was quite limited as well. During the second quarter was a pickup of severe weather as well a lot of rains across Spain. And it was an increase of loss ratio. Regarding the varied amount, these are not significant impact on the result. And during the first quarter, what we saw is an increase in the cost of non -- an increase in the cost of severe injuries. And as of June, the average increase of cost is before 5%. It was basically the estimation for tariffs. So overview, I mean the increase of the cost of Baremo is quite aligned with the increase of tariffs.

Unknown Executive

Thanks. Expenses in Iberia were down again quarter-on-quarter. Can expenses continue to reduce in absolute terms?

Fernando Mata Verdejo

Executive Director

We are expecting an additional reduction as well in the second quarter. And as we already mentioned, there is an inventory of over 100 initiatives in order to cleanse nonperforming portfolios and also to reduce expenses as well. And some of them, we studied last year. And we've seen some of the fruits in the first half of the year. But the main of these initiatives are still ongoing, and we expect further reductions during the second half of the year.

Unknown Executive

Thanks. Financial income was higher than expected and much higher quarter-on-quarter, what guidance can you provide in the outlook for financial income? In the second quarter, how much of it was gains?

Natalia Arana

Well, the increase is due mainly to some of the realization gains as I mentioned at the beginning of the presentation in -- the realization gains net of impairments compared to the last quarter were 65.6 in this quarter versus 60 in the first quarter. [indiscernible] the realized gains from both years, the underlined financial income would be roughly EUR 65 in the first half of 2015 and roughly 68 in the current year.

Unknown Executive

Thanks. Can you please break down gross written premium increases [indiscernible] vary between tariff increases on premiums?

Fernando Mata Verdejo

Executive Director

As we already said that we don't disclose this information and -- but we cannot [indiscernible] which is very important and the number of insured [indiscernible] is quite similar to the one we have at December last year. So basically, our increasing premiums is due to an average increase of the price.

Unknown Executive

Thanks. Regarding Iberia slides group savings premiums, were these all one-offs? Or will we expect further?

Esteban Tejera Montalvo

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

Well, even if our people in the commercial lines are very active and this is a result of this, this what has been -- especially we would want is impossible to predict, definitely will be 1 or 2 of this kind of operation in the next quarter, but we are very active in this market.

Unknown Executive

And excluding the group savings premiums, underlying growth still seem strong, what is a fair run rate here? Any change in the product mix [ph] in recent quarters?

Fernando Mata Verdejo

Executive Director

There are 2 contrasting movements. First, the MAPFRE specific agency channel is growing strongly, with new product lines in the second quarter having a very good [indiscernible] single premium which is working very, very well. We witnessed in this world that the unit links type products are having a good performance versus last year, which is clearly due to the declining interest rate environment. So it's a

mix of both. I mean the single premiums and also the unit links products as well. And the decline in the banking channel is due to lower production in the single and regular premiums due to the focus on protection products, which have as you know, a higher margin. The trend depends much on the current interest rate environment and customer appetite. However, their sales campaigns and new products launch scheduled for later in this year, which should help as well to rectify the situation.

Unknown Executive

Thanks. Michael Huttner at JPMorgan would like to know: Iberia loss ratio rose from 70% in the first quarter to 74% in the second. Is this a new trend number?

Natalia Arana

In 2 quarter 2016, standalone, there has been slight increase in the loss ratio as a result of seasonality effect, as Mr. Mata mentioned before. Easter, this year, fell in the first quarter with a consequent delay in the reporting of claims that have appeared in the second quarter. This is mainly the seasonality effects.

Unknown Executive

Paz Ojeda, JB Capital, has 2 further questions. First, [indiscernible] Spain, can you comment on the expectations for growth in premiums and the performance of the combined ratio?

Fernando Mata Verdejo

Executive Director

The rate increases during 2015, and so far this year, have had a positive effect on the net earned premiums. And in addition, claims in the portfolio, specifically in some plates and combined with the mild weather, better underwriting and claims handling as well have improved the profitability of this business. This is also a reduction in majority of the operating expenses as well. And well MAPFRE actively manages its portfolio of business, and we focus on profitability. Clearly, an unknown factor is the future loss experience. However, increases combined with the cleansing of the portfolio should lead to, at least, [indiscernible] the improvement during the second half of the year. In the 2Q 2016 standalone, there has been a slight increase in the loss ratios as a result of the seasonality effect that we already mentioned. So that's it from my side.

Unknown Executive

The second question from Paz Ojeda is [indiscernible] has been reclassified as a business held for sale. Can you give an indication of the potential gain which you will be booking?

Esteban Tejera Montalvo

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

It's too early to comment in these possibilities. We just received the formal application for the call option they have. And we are currently at the beginning of the negotiations.

Unknown Executive

Thanks. Paz Ojeda also asked the following questions with regards to MAPFRE ASISTENCIA. Can you please explain the negative run-offs and the results from other activities coming from MAPFRE ASISTENCIA? Why aren't the negative run-offs affecting the technical result at said company?

Natalia Arana

Paz, what we can say regarding this question is that MAPFRE ASISTENCIA has businesses which are insurance products and enter in the technical result account as well as service businesses, which enter in other business activities. On Page 57 of the results presentation, you can see the minus EUR 15.8 million losses in business activities at MAPFRE ASISTENCIA, which are reflecting very consolidated numbers. The portfolio cleansing process was well under way at the end of 2015 and the largest economic impact was felt in the fourth quarter of this last year and the first quarter of 2016. Also we have mentioned, it takes time to consult these types of products as well as to adapt to the new cost structure. What is important to

keep in mind is that premiums have been resilient, and we will return to profitability in ASISTENCIA as a result of the measures taken.

Unknown Executive

Thank you. Michael Huttner at JPMorgan had the following questions regarding the strategic plan and objectives. Do these results indicate that the progression to the over 11% growth target by 2018 in the first half of 2016 was 8.8% and under 96% combined ratio could be linear? In the first half, it was 7 -- sorry 97.5%, or are there easy wins under way which could lead to positive surprises earlier?

Fernando Mata Verdejo
Executive Director

Thank you for your question, Michael. As you know, our strategic focus is on profitable growth, and the targets were set in order to be achieved gradually over a 3-year period. We can conclude we are on track to meet these goals, thanks to the measures taken to improve technical management. And some of them, they had to be implemented in the remaining period as well in order to reduce expenses in the main markets. And we're pretty confident that we will meet these goals.

Unknown Executive

Thanks. Andrew Sinclair at Bank of America Merrill Lynch and Maria Paz Ojeda at JB capital markets had the following questions regarding Non-Life financials results. Firstly, Andrew Sinclair asked to quantify gains by business unit for this quarter.

Natalia Arana

The information for the accumulated first 6 months of 2016 by business unit can be found on Page 65 of the results presentation. The information for the first quarter of the year was also published in the appendix of our first quarter earnings release. In Non-Life, realized gains were EUR 88.7 million on the quarter compared to EUR 33.9 million in the first quarter of the year. The largest variations were at MAPFRE España with a EUR 33.6 million increase on the quarter; and at MAPFRE RE, which also had a large increase. We took advantage, as we have said before, of these historic low levels of interest rates that we have seen in the last quarter to actively manage our portfolio realizing gains.

Unknown Executive

Paz Ojeda would like to know the impact of the realized gains on the recurring yields?

Fernando Mata Verdejo
Executive Director

Thank you, Paz. Gains were realized in an excellent moment in the market with deals and historic lows. Obviously, there is a toll. And some of the deals have come back up with effects of new investment going forward positively. Basically, they're affecting to Iberia and Spain. And we can assess that the reduction on the recurrent investment income will be like 20 BP more or less. And on our accounting deal is over 2.5%, which is a wonderful in the current scenario.

Unknown Executive

Andrew Sinclair at Bank of America Merrill Lynch asked the following question: Were there any material reserve releases in this quarter?

Natalia Arana

Andrew, what we can tell you is that reserve releases didn't have a material impact on results during this quarter. This is what we can say.

Unknown Executive

The next question is regarding negative EUR 83 million result in corporate areas and consolidation adjustments. We have received questions from [indiscernible] at Nmás1, Andrew Sinclair at Bank of America Merrill Lynch, Michael Huttner at JPMorgan, and Niccolo Dalla Palma at Exane BNP Paribas.

Natalia Arana

Okay, we can see that this is very interesting question for all of you, so we will try to answer the best we can. Holding and consolidation adjustments includes general expenses like interest payments, mainly of the 3 holding companies, MAPFRE U.S.A, MAPFRE America and MAPFRE International. And also the minority interest at MAPFRE RE and MAPFRE America. And also the noninsurance activities of several subsidiaries including MAPFRE ASISTENCIA. The consolidation adjustment of the Non-Life result has fallen from EUR 9.1 million to EUR 13.2 million, due -- a provision for the multiyear incentive plan for management, which is spending to be allocated to the respective business unit and we will plan to do so by the end of this year, but this is the main effect that you can see and this is the main movement of the consolidation adjustments.

Unknown Executive

Thanks. Paz Ojeda, JB Capital Markets would like to know the following: Can you comment evolution of the online subsidiaries of VERTI and Direct Line?

Fernando Mata Verdejo

Executive Director

Yes, thank you, Paz. First, VERTI. Well, as you know, premiums at VERTI amount to 40 -- more or less EUR 40 million and have declined 2.5% year-on-year -- -- the decline basically is due to the reduction in number of units. And because we implemented this as an increase of tariffs across the board. So all in all, VERTI is also well lined up with profitable growth main objective, MAPFRE. Regarding integration of the Direct Line operation in Italy and Germany, I would like to say that the integration plan is expected to last approximately 2, 3 years, more or less. And this acquisition's transfers through know-how to the group is already being used throughout MAPFRE's digital transformation and expansion of the digital direct business worldwide, which is by the way, 1 of the 4 strategic lines to be developed during the 3-year period.

Unknown Executive

Thanks. The next set of question is regarding the Spanish business, Niccolo Dalla Palma from Exane BNP Paribas, would like to know regarding the Spanish motor. Is it correct that the Baremo reduces the cost for the small injuries, but increases that of severe injuries? If so, does this mean that we will only see the negative effect when you start to settle the severe ones? How long can this take --

Fernando Mata Verdejo

Executive Director

Well, the new environments -- some cases of minor injuries, such as whiplash. It is also true that to say that the more severe claims will take slightly longer to settle, and therefore, it should be logical to assume that the path should increase due to the course of the year. This situation has been mitigated increasing in the cost of the average claims to be opened according to the increase of the Baremo. So basically, I mean it will be not a significant impact. However, the effects should be mitigated by the tariff increases with MAPFRE is pulling through, which is about 5% to 6%. As I already mentioned, currently, the average cost of claims affected by the Baremo is below 5%, so let's say that there is a perfect correlation between increase of tariffs and increase of costs.

Unknown Executive

Thank you. Paz Ojeda, JB Capital Markets asks, "Can you explain the restructuring plans for MAPFRE U.S.A. referred to on Slide 14?"

Natalia Arana

Paz, sorry about this, but perhaps, it was a misunderstanding where we were trying to say that the restructuring plans refer to MAPFRE ASISTENCIA in North America, not MAPFRE U.S.A. As we have mentioned in previous -- previously, business volumes have fallen in this market and MAPFRE ASISTENCIA due to a loss of a large client and the cost rate has been optimized to adapt to these changes, including the close of a call center among other measures, but this is the only reason of this. I mean the restructuring plans refer only to MAPFRE ASISTENCIA in North America.

Unknown Executive

Niccolo Dalla Palma, Exane BNP Paribas and Paz Ojeda JB Capital Markets would like to know, "What has been done with the proceeds from the EUR 1 billion senior debt issue? And what are your plans for the EUR 150 million [ph] in cash that is left over?"

Esteban Tejera Montalvo

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

Well, as we mentioned before, we attended the maturity of the EUR 1 billion debt, that we have at the end of the year. And we should speak to this with the -- mainly with the revolving bank facility we had. And then in May, we issued this new issue of EUR 1 billion, with a 10-year maturity. We paid back -- at the end of June, we have paid back EUR 450 million. The other liquidity, just at the end of June, due to the fact that we had to attend several current obligation like increase of capital in MAPFRE ASISTENCIA which was done for EUR 85 million, if I remember well the figure. We have to pay also in the coupons of the subordinate debt just in this month and other current activities of the company that needed to liquidity. At the same time, remember that at the end of June, we were just on the aftermath of the Brexit. And we prefer to have liquidity for possible opportunities in the process. At the same time, due to the low prices of the share, we acquired our own shares by roughly less than 1% of the acquisition of own shares. And this is why -- there is no intention of doing acquisitions with this remaining money. And you can see during the next quarter that the figures of the bank facility can be -- will go down possibly, according to the current necessities of the -- and the policy of the investment we have.

Unknown Executive

Thank you very much. We haven't received any more questions.

Esteban Tejera Montalvo

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

Well, thank you for attending our conference call. I would like to thank you again for accompanying us during the presentation. And I will give Natalia the opportunity of announcing to you the date -- of the investor date we are planning to do in the last quarter of the year prior to finish this conference call.

Natalia Arana

I think this is a very good news. I think most of you will value that as a very important step in MAPFRE in order to give more clarity and approach closer to the management. For us, we are very happy to announce, all of us, that on the 16th of November, we will celebrate our first Investor Day. And we will hope you -- all of you to be there at the Investor Day. We will be in Madrid, we will have to decide the venue, but we will -- it will be in Madrid. So I hope to see you -- most of you there.

Esteban Tejera Montalvo

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

Well, I hope we'll also -- to meet you in Madrid. In the meantime, I will send you the best wishes for the holidays and for both of the [indiscernible] opportunity of having [indiscernible]. Thank you for attending the conference call and good-bye.

Fernando Mata Verdejo

Executive Director

Thank you, bye-bye.

Natalia Arana
Thank you. Bye.

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