S&P Capital IQ

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Mapfre, S.A. BME:MAP

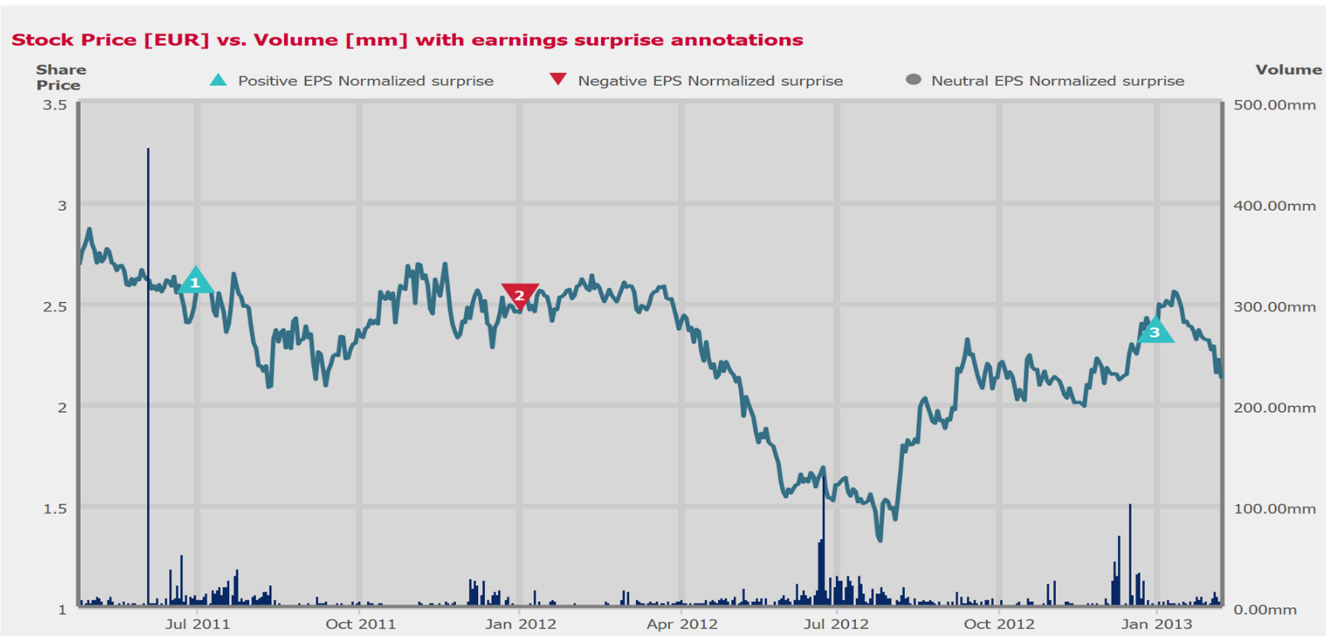
FH1 2013 Earnings Call Transcripts

Thursday, July 25, 2013 1:45 PM GMT

S&P Capital IQ Estimates

	-FY 2013-	-FY 2014-
	CONSENSUS	**CONSENSUS**
EPS Normalized	0.31	0.32
Revenue (mm)	21158.46	22463.01

Currency: EUR
Consensus as of Jul-23-2013 12:22 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	**ACTUAL**	**SURPRISE**
FH1 2011	0.17	0.18	1 5.88 %
FH2 2011	0.17	0.14	2 (17.65 %)
FH1 2012	-	0.14	-
FH2 2012	0.14	0.17	3 21.43 %

Call Participants

EXECUTIVES

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

Luigi Lubelli

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Unknown Analyst

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Presentation

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

Good afternoon, ladies and gentlemen. Welcome to MAPFRE's First Half 2013 Results Presentation. As usual, I'll give an overview of the results and the main business developments, and later, Mr. Lubelli will explain the financials in greater detail and present to you [indiscernible] the value of figures for 2012. Finally, we will take your questions.

Please move to Slide #3. The underlying trends were positive in the first half. Revenues and premiums grew at a much faster pace reflecting a pickup in sales in Spanish Life, Latin America, GLOBAL RISKS and in RE. Adjusting for the sale of the Argentina facilities announced in 2012, premiums increased 6.5% and revenues, 6%.

Funds under management also grew, reflecting primarily Life and mutual fund sales, along with positive mark-to-market adjustments in Spain. The combined ratio remains 50 basis points lower than in 2012 as was the case in March. In this regard, I must note the strong improvement in Latin America, whose combined ratio decreased nearly 6 percentage points.

The return on equity also went up compared to the first quarter to 9.1%. Profits and earnings per share are up 5% year-on-year.

Please move on to the next slide. The environment continues to be challenging, but we have reached again to grow in this challenging environment, thanks to the benefits of the geographical diversification, which offset the impact of premiums and results of the depreciation of the Brazilian real and the decline in the demand in Spain. The improved demand on the Non-life underwriting result, with a significant decrease in the combined ratio of international business and the remain [ph] of [indiscernible] in combined ratio in Spain despite of the tough conditions; the recovery and growth in Life Assurance, thanks to the International Insurance business. And in this quarter, we have had an excellent performance on the agents channel in Spain.

And in this quarter, we have registered a lower financial income as a result of the decrease in interest rates and the negative mark-to-market of the trading portfolio in Brazil.

In page 5, you can see that the reported attributable result is up 5% year-on-year, as I mentioned before. The reported results fell reflecting a series of development. The fall in demand in higher combined ratios in Spain, with the related losses in Spain, in the U.S. and in several countries in Latin America, especially in Argentina and in Mexico. The appreciation of the euro, which is the most important driver of the results of the quarter and the lower recurrent financial income due to a decrease in interest rates in Europe and the U.S.A., and an increase in the interest rate in Brazil. The environment remains challenging, even if we have received today good news that in Spain, where the figures of unemployment have improved. We can report now a decrease of the unemployed people, of the 225 people during the last quarter. In the third month in a row of the decreasing figures of unemployment, which is a very good news even if the rate of unemployment remains very, very high, at a level of 26%.

In this environment, we are taking initiatives to raise business volumes and increase profitability. And we trust it will bear fruit in the remainder of the year, and we'll be able or regard [ph] this then [ph]. Already in the second quarter, we saw the pickup in sales I just referred to and have continuation of the significant improvement in combined ratios in Latin America.

On Page 6, you have a summary of the changes in our equity story in the last 2 years. We are now, as you know well, the leading insurer in Spain and Latin America. We have a more diversified company, with more than 2/3 of the business outside of Spain. And we have, when we compare with last year, a more clear financial horizon.

On Slide 7, you can see how MAPFRE is benefiting from diversification into world markets, as well as markets with a comparatively better economic outlook, such as the U.S. This is helping it withstand the prolonged contraction in the Spanish market. As you can see on Page 8, we have a presence in countries, which according to the IMF forecast, are markets with more possibilities on growth than Spain in the coming years and with possibilities of improving their sales to insure people in a bigger proportion, but in the growth of the countries themselves. As you know very well, there is a positive elasticity of insurance demand to the growth of GDP, and this should support over the next year, the strong growth that we expect coming from our diversification. And so we are observing during the last years in our figures coming from Latin America.

On Page 9, you can see the details of the new credit facility we have signed at the end of June. This is a new facility of EUR 750 million. It's a revolving facility with a maturity date in 5 years, that's in 2018, which replaces the EUR 500 million revolving credit facility maturing in June 2014, we have canceled in advance with better condition from the point of view of prices and with [ph] very, very high participation of the Spanish and foreign banks. We have [indiscernible] indicate [ph] 5 Spanish banks and 7 foreign banks, and this facility is fully undrawn at this moment. This has the possibility of having a clearer horizon from the point of view of the funding during the next years.

I will now hand the call to Mr. Lubelli, who will comment, as usual, our financial in greater detail.

Luigi Lubelli

Thank you, Esteban. Good afternoon to all who are following this conference call today. Please turn to Slide #11. Here, we see a continuation of the trend that we have been observing for years now. The weight of these business activities evolve [ph] continues to rise. The contribution to premiums stands at 69% compared to 66% a year ago, while contribution to profits, if we adjust for the nonrecurring items we had in the first half of 2012, went from 49% to 53%. As Mr. Tejera just highlighted, this trend should continue based on the prospective macroeconomic situation of the countries we operate in.

Compared to March, we see a considerable jump in the contribution to premiums. That is due to the significant pickup in insurance at MAPFRE AMÉRICA, MAPFRE RE and MAPFRE GLOBAL RISKS.

On the next slide, #12, we see the contribution to premiums and insurances results by business areas. If we compare June to March, we see that the contraction in premiums in Spain halved; and that was, thanks to a strong development of the Life business. If we look at the weight of our total premiums, we, however, see a fall, and that's because the growth overall was even stronger, as I mentioned in the previous slide.

In terms of profit, if we compare to March, the picture, however, is changed. Spain has reversed its contraction and now contributes the same as it did a year ago, that is 47.2%. A year ago, we recorded significant write-downs, which drove down the contribution of Spain to total profits. This year, we have no write-downs. Actually, we even have EUR 20 million of realized gains, but we have lower volumes and a larger combined ratio. So the drivers have changed and in both years, they lead to the same percentage contribution.

Brazil continues its upward trend, driven by larger business volumes, a high-level market and substantially lower combined ratios, as well as a more mature operational structure. These improvements offset the negative impact of depreciation of the euro.

The rest of Latin America shows a fall, both year-on-year and quarter-on-quarter, which reflects several reasons: One is the appreciation of the euro, as I already mentioned. Then we have lower realization gains and -- which is significant on figures the transfer of Puerto Rico under MAPFRE INTERNACIONAL. If we bear all of this in mind, the second quarter was actually okay and was well in line with the same period of 2012. Overall, if we look at the performance, it is much stronger at an underlying level than it was a year ago, in spite -- even on post currency depreciation.

MAPFRE U.S.A. improved its contribution compared to the first quarter, but remains below the previous year, and this is because of the worse technical results although it must be said that being below the previous year in both quarters, it was considerably better in the second quarter of this year despite weather-related losses.

MAPFRE GLOBAL RISKS was impacted in the second quarter by foreign exchange losses. Overall, it goes up and thanks mainly to a much better combined ratio and a EUR 13 million gain from the creation of Solunion.

And finally, MAPFRE RE shows a decrease compared to the previous quarter due to a higher combined ratio. Year-on-year, however, it increases contribution, thanks to larger foreign exchange gains and the absence of write-downs.

On the following slide, we go deeper into the Non-life accounts. Here, the trends are broadening in line with what we saw in the first quarter. In Spain, premiums widened their fall and that's because the market continues to contract. We have seen a deterioration in sales in the market at large and especially in the motor business. And that is due because -- it is due to the purchase of cheaper covers and -- both because people have less money to spend and also because the car fleet is aging. There are -- the sales of new car has fallen considerably. A higher loss ratio along with lower net premiums earned led to a decrease in the underwriting results. Nonetheless, the combined ratio remains at exceptionally low levels, and it has to be said that it's gap over the previous year has narrowed in the second quarter.

Brazil grew, thanks to the reclassification from Life to Non-life of some lines of business we told you about in the last quarter of 2012, as well as to organic growth into the housing market. The underwriting result improved notably, thanks to this reclassification, as well as to a decrease in the expense ratio and, as I said, to the hardening, to an increase in prices.

The rest of MAPFRE AMÉRICA appears to fall, but that is due to the sale of the Argentine subsidiaries and the transfer of the Puerto Rican business, which was compounded by depreciation of the euro. If we adjust for that, the increase year on year is 5.5%, thanks to growth across the board and especially in Venezuela, Colombia and Chile. The underwriting results reflects the sale of the Argentine business, which had a core combined ratio and several initiatives to improve underwriting and risk selection.

MAPFRE RE shows premium growth. As we told you in the first quarter, that's due to the formalization of reinsurance operations with Group companies. If we exclude that, premiums grow 6%, which is actually a quite good result. The combined ratio increased if we compare it to the previous quarter due to larger charges for profit sharing, which were partly offset by a lower frequency.

MAPFRE U.S.A. shows growth, and that's due to rate increases in Allstate [ph] and to the appreciation of the dollar. The loss ratio was affected by snowstorms in the first quarter and rainstorms in the second.

MAPFRE GLOBAL RISKS perhaps shows the most significant change in trend compared to the first quarter. Premiums went up, reflecting growth in Latin America, especially in Fire and Transport, which more than offset the impact of the consolidation of Solunion, which is now accounted for by the equity method. [indiscernible] now the premiums issued outside of Spain at the subsidiary make up over 60% of its overall business. The combined ratio improved, thanks to a better loss experience on the back of a lower frequency. Moreover, if we look at the combined ratio in the same period of the previous year, June 2012, at that time it was negatively affected by exchange rate differences, which magnifies the improvement year-on-year.

Finally, MAPFRE ASISTENCIA recorded organic growth in Europe and Asia, as well as the positive impact on its U.S. business of 2 developments which took place in the second half of 2012: A roadside assistance -- a large roadside assistance contract and acquisition of Century. The combined ratio improved, reflecting the impact of the exchange rate from technical reserves, which was negative a year ago and positive this year.

On Slide 14, we have the remainder of the Non-life account. I've already talked about premiums and technical results. Financial income includes a realization gain of EUR 95 million, of which EUR 22.2 million came from the sale of the headquarters in Istanbul, and EUR 12.9 million from the transfer of -- the assets transfer to Solunion. This compares with basically EUR 140 million of write-downs in the same period of last year. If we adjust for that, we see that the financial income falls year-on-year. And that is due to lower yields basically across the board, and also to the fact that we have negative mark-to-market adjustments in Brazil this year, last year they were positive. So it's a change in certain amounts year-on-year, which magnifies the fall-off [ph] also in this case. In this account, we also have EUR 20 million gains on dollar-denominated assets recorded in Venezuela and coming from the devaluation of the bolivar.

On Slide 15, we have the Life account. Life account changes a bit compared to the first quarter. Spain improved notably, thanks to strong campaigns in the agents' channel and above average market average sales in Life-Protection. The technical financial results improved considerably year-on-year, thanks to the absence of write-downs. While on a quarterly basis, if we look at it quarter-on-quarter, it doesn't show any significant variations.

As I said before, Brazil, last year we classified some business from Life into Non-life, and that is the reason behind its growth, which is only modest. Nonetheless, premiums growth improved as second quarter sales tend to be stronger. Technical financial result is very much in line with the figure we saw for the first quarter of this year, and reflects a fall due [ph] to the reclassification I've talked about already a few times and to negative mark-to-market adjustments.

The remainder of MAPFRE AMÉRICA's Life business goes up strongly, and that comes mainly from Colombia. The falling technical financial results is due to the fact that a year ago, we recorded a gain of EUR 18.3 million in Panama. If we adjust for that, the underlying growth is 7%.

MAPFRE RE's business decreased because of the different insurance calendar in 2013. However, if we compare to the previous quarter, the contraction was much smaller because possessions [ph] from European clients went up on a comparative basis. We had profit in the technical financial results in the second quarter compared to losses in the first, thanks to a much better loss experience. And finally, Middlesea is benefiting -- continues to benefit, we saw that already in the first quarter, from very good growth in the savings business. Compared to the first quarter, we see a contraction in the technical financial results. And that also, in this case, is due to mark-to-market losses.

There's not much more to say on the Life account, so I'll skip Slide 16 and move to Slide 17 directly. Here, we have the other Non-life activities, we see in the development in revenues and expenses that come from the growth of the service businesses in MAPFRE ASISTENCIA and the consolidation of Funespaña, the listed company in which we acquired a majority stake. The net financial income remains negative, we have -- because of the interest payments. We have interest payments at the consolidated level. And we had also realized capital losses of EUR 2 million. Last year, they were EUR 19 million for the impairment of the shareholding in CATTOLICA.

If we compare to the first quarter, we see a decrease in the growth rate of expenses in revenues. And this is due to the fact that in the same period of the previous year, we reclassified some lines into other business activities, and that led to a strong increase in figures a year ago. So of course, on a year-on-year basis, that depresses the growth rate.

On Slide #18, we have the bottom line. If we compare to the first quarter, we see a clear trend reversal with profit growth driven on a comparative basis by the absence of write-downs which we recorded in 2012. We see that the share of minorities goes up, and that's due to profit growth in Brazil.

On Slide 19, we have the balance sheet. We see variations in assets and liabilities that basically reflect 2 drivers: the depreciation of the U.S. dollar and the Brazilian real; and then we have the recovery of values in differential markets, especially when it comes to assets in Spain and the U.S.A. And of course, business growth, which we have seen in the previous slide.

As usual, on half-yearly basis, we have a more detailed breakdown on our investment portfolio, which we begin to cover on Slide 20. We have a breakdown of the investment portfolio the close of the first half. No significant variations, except for a slightly larger weight of government paper and slightly smaller weight of corporate bonds.

On Slide 21, we have the breakdown of the fixed income portfolio. We see an increase in the weight of government paper. That is due to both mark-to-market and also to new purchases.

On Slide 22, we have the breakdown by rating, there's only a small migration from A to BBB, which are basically to downgrades on some of the paper we had. And then we have the breakdown of assets with reserves, about 40% of the fixed income portfolio matches Spanish Life assurance technical reserves.

Finally, on Slide 23, we have the changes in equity. We have a recovery in the market value of investments. Here it is, as you know, usually the shadow accounting is about half the change, but this year they have the same amount. And that's due to the fact that the assets which have the shadow accounting are in Spain. They increased considerably more than that, but we had, as I mentioned before, negative mark-to-market adjustments in the assets outside of Spain. So we have this deviation from normal figures. We did have a major change in translation adjustments and -- which reduced, if we compare to the end of the year, about EUR 450 million the consolidated equity.

The rest is dividends and there's -- it was something known, which we also had in the first quarter. With this, we conclude the results presentation. I will now give you a few seconds to move on to Slide #3 of the European Embedded Value presentation. On this slide, we have a summary of the main figures in our EEV. If we compare to 2011, we see a decrease, which is reflecting lower new business volumes due to lower sales with the bancassurance channel, which were partly offset by strong sales at the agents channel.

Then we have a change in the composition of business. In 2012, we had a greater weight of Life savings products at the expense of Life-Protection, which translated into a comparatively lower margin on new business. And then we had higher lapse rates. As a note, throughout the document compared to the previous years, we now separate more clearly the part that corresponds to shareholders and minority interests.

On Slide #4, we have the main changes in the EEV. The ANAV barely grows year-on-year. It actually decreases in minority and that is simply due as we will see on the rollover to a higher dividend payout. The present value of the in-force shows a decrease. I already explained that, and that it was due to higher lapsation and which also we'll see affects the negative change in assumptions and to lower new business volumes, especially in the Protection business. The cost of capital increased, and that was due to the application of a lower discount rate. And we see that the weight of the same value of financial options and guarantees fell slightly, and that was due to a lower duration of the good profit portfolio that offset the negative impact of lower interest rates.

On Slide #5, we show the breakdown of the VIDA business line and distribution channel. As I explained on the previous slide, the present value of the in-force of the insurance business fell primarily due to higher lapse rates and lower new business volumes. We can see on this slide that the impact of laps-ations affected especially the agents channel, and that explains the fact that the decrease was concentrated in such channel.

The cost of capital increased in Life insurance due to the application of a lower discount rate, but you see that it falls in pension fund and that is because of a reduction in the regulatory capital requirements applicable to this business, which will equalize to those of the mutual fund.

On Slide #6, we show how the in-force breaks down between minorities and shareholders. The figures falls compared to 2011 for the reasons I have mentioned already a few times, that is higher lapse rates and lower business volumes.

On Slide #7, we have the roll forwards, which breaks down the changes in the main components. As each of these changes is explained on the following slides, I will move directly to Slide #8. I already mentioned that we have broken down the minority interests and that's basically a presentation item. We see changes in the model that's basically due to the small amount from the EUR 60 million [ph], if I'm not wrong. And that's due to the usual improvements that are introduced every year. We have changes in assumptions, as I said before. The main one [indiscernible] there is less start [ph] with the lapse rate, because then we have a higher credit risk, which is basically completely offset by the impact of the lower discount rates.

The expected return is the usual story. It's the unwind of the discount rate, about EUR 33 million, and then the after-tax return of the ANAV at the beginning of the year and that's the cost of capital. We see a negative deviation from the actual value -- of the actual value from the expectations, and that was due to the fact that we reported a profit there that was lower than expected and once again, to high lapsation. As I already explained, the time value of financial options and guarantees improved. I mean, it's a favorable impact on the value of in-force because of the lower duration of the -- with profit portfolios.

Slide #10. We have the value added of the business and the margin. The margin has basically fallen back to the levels of 2010. In 2010, we had 5.4, now we have 5.3, after a spike in 2011 and basically by the Protection business. This year, as I said, on the previous slide, on the business mix, we had a higher weight of sales business, which brings in lower margins than the Protection business, as well as higher lapse rates.

Finally, Slide 11, we have the main sensitivities. As usual, the drivers and directions of sensitivities are basically the same in direction between the in-force and the value of new business. So I'll just explain on this slide. And as usual, also, as in previous years, figures are most sensitive to the variations in interest rates and to the lapse rate. The sensitivity to increases in the probability of default of the Spanish fixed income portfolio falls compared to a year ago when it was EUR 197.5 million, and then basically reflects a lower duration of the portfolio.

And that's all in my side. I'll now give the call back to Mr. Tejera for the Q&A session.

Esteban Tejera Montalvo
Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re
Thank you, Luigi. That finishes our presentation of the results. We have finished our presentation of the results, and now, we are available for your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Niccolo Dalla Palma from Exane BNP Paribas.

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

I would have 2 questions, if possible. So the first one is on your growth rate in Spain, i.e., I wanted to ask a bit more color on the difference in growth between yourself and the sector, and especially if I look at the 3 main lines of business: motor, health and home. So in motor, you're growing -- you're decreasing 3 points more than the sector, at 9.5 versus 6.5 for the sector. In health, you're also decreasing the growth [ph] line, 1.5 versus some growth of 1.5 of the sector. And while in home, it's the opposite. So you're growing more than the sector. So could you maybe give me a bit more color. Is someone behaving irrationally on the motor and health business lines, how do you expect this going forward? And the second question is on Lat Am, and in particularly, the Brazilian combined ratio which was exceptionally strong in this first half. Could you maybe say something about the sustainability of this combined ratio and what drove the 9 points improvement in expense ratio in Brazil?

Luigi Lubelli

Niccolo, thanks for your questions. In motor, look, this is a trend we saw in the first quarter as well. The market is going where it is going. We had other years, other periods in which we had a comparatively worse performance than the market, we had a quarter with better performance. I think the long and short is that we are the largest ones, and we are comparatively more attractive [ph] than other groups. That's part of the game [ph]. I wouldn't say it's anything to worry too much about. It's a -- it's a [indiscernible], it's a tendency in this year. You said irrational behavior, I mean, there clearly are companies that are being very aggressive on prices and that, in the short, term may have an impact for sure. On health, we also explained this in the first quarter, there has been a change in accounting. We brought forward the cancellations of the way that we would record normally during the year, and that continues to affect us negatively in terms of comparison. And also here, of course, there is competition as you rightly are saying. In household, I didn't understand your question exactly. The reality in household, we're actually doing better than...

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

Yes, you're doing better than the market, so just wondering if there was some specific expansion that you're undergoing in some areas or what's driving this?

Luigi Lubelli

No, no, not really, just sales efforts. But yes, we are doing -- that figure is small, but we are doing comparatively better. That's absolutely true.

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

[indiscernible] Before you answer the other question, on the motor part, you had a very strong position outside some of the main cities in Spain. Do you see some changes of efforts made by competitors also there? Or is it still too difficult to compete with your very dense network, which -- I mean, are you seeing differences in competition in big cities than outside big cities, where you're, historically, very strong?

Luigi Lubelli

Look, I don't have figures by province. Now in order to answer your question precisely, numerically speaking. From a qualitative standpoint, I would say that continues to be the case. Also because, let's say, that the most aggressive and most visible competitors normally focus their efforts on the larger metropolitan areas where they can get more bang for their buck. Clearly, they need less sales effort in order to reap a greater increase. So I would say that logically that continues to be an accurate assessment. In terms of sustainability in Lat Am, really, when you say Lat Am, these days it's more and more Brazil. And there, we do have a change. Because a year ago, as you remember, we were still in the transition of -- from the previous business structure to the present one. That's why in my previous comments, I said that improvement in Brazil owes a good part to a greater operational stability, because now the structure is much more defined than it used to be a year ago. There's been several trends. I mean, there's been -- last year, we had expenses from the switch from SulAmérica, which used to support Banco do Brasil to MAPFRE. And that led us to incur some, let's call them, one-off expenses. Then, we have had rate rises in Brazil, market-wise. And that is benefiting the technical results. We, ourselves, have introduced several initiatives in order to control much better the amount of claims, and especially to combat fraud. And then there's a general, let's say, "better behavior" due to more effective policing in the country. So it's a combination of reasons which, I would say, make it comparatively more sustainable than it used to be. Yes, I mean, this ratio reflects more the reality of the company than the one we saw a year ago. I wonder if I'm answering your question?

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

Yes. I'm particularly curious about the expense ratio because clearly 9 points improvement, as much as you said, all due to the one-off costs? So could we say the 34% expense ratio is the more normal expense ratio? And maybe...

Luigi Lubelli

I cannot tell you exactly the figure. I mean, what we hear from our management is that these results, this combined ratio reflect much better, much more accurately the items of the business than what we had a year ago. I cannot pinpoint specifically the amount of expenses. But let's say that this is a more reliable picture.

Operator

Your next question comes from the line of Michael van Wegen from Bank of America.

Michael van Wegen
BofA Merrill Lynch, Research Division

Mike Wegen from Bank of America Merrill Lynch. Three things that I want to check. First of all, on your investment result in Non-life and the performance there, Q2 I think has been affected again by mark-to-market negative impact from your Brazilian bond portfolio. Can you quantify the impact on Q2 specifically? Or otherwise, can you confirm that the impact is around 50% higher than you've seen in Q1? That's question #1. Question #2 is on your, again, on Brazil. Your Non-life premium growth in Q2 seemed to have accelerated a fair bit compared with Q1. Can you talk us through the drivers for that? And then finally, you show on one of the slides how your shares [ph] equity and your liabilities have grown in the quarter, and amongst others, you cite currency impacts. I think that your equity went up 1%, your liabilities went up 30%. That suggests that there has been a negative impact on your solvency ratio. Can you talk about the development in your solvency ratio Q2 versus Q1 and how much of that is due to currency moves?

Luigi Lubelli

Let's see. First question. We didn't give an exact figure, but you can take as a rough rule of thumb, the mark-to-market would equal more or less 10% of the pretax profit of Brazil. So let's say, in rough terms, the pretax profit of Brazil would have grown twice as much as it did had we not had the negative mark-to-market, as a rough rule of thumb. The acceleration of premium growth in Brazil in the second quarter is basically the way it works. You have to understand that somehow, the holiday season in Brazil is more skewed towards what -- it is winter for us. Their business activities tend to accelerate in the second and third quarter, unlike here. So that's basically seasonal impact. It happens every year. The valuation in equity compared to provisions is due to the fact that it is in -- let's see, we've had several mark-to-markets. Those mark-to-markets were positive in Spain, which benefits the technical provisions, which -- because they are the only ones adjusted for that. And it was comparatively negative outside of Spain, in the U.S.A. and rather Latin America. So the negative adjustment goes on to the equity and that is why the equity grows less than the technical reserves. Solvency-wise, I wouldn't worry too much because it may be a quarterly negative variation, but year-on-year, you will see that the equity is about EUR 0.5 billion larger than it was a year ago. So in terms of the actual amount of capital available, the group is developing okay. Does that answer your question on solvency, does it not?

Michael van Wegen
BofA Merrill Lynch, Research Division

Yes. I guess so. And maybe going back to the second question though on premium growth in Brazil where you indicate that Q2 is always strong because of seasonal impacts, I was talking about growth rates year-over-year, so that should capture or should neutralize that seasonal impact, I would say, so still wondering why Q2 saw an acceleration in growth?

Luigi Lubelli

Well, we have a good performance in agricultural insurance year-on-year, and that may be a reason for which we have this volume. As I say, that is one of the businesses that works on [indiscernible] so that has an impact on Non-life year-on-year.

Operator

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

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Just on the commercial portfolio in Spain, now, the motor book has been seeing some from pressure, and it was expected probably, but the commercial lines also contracted quite sharply, and is there something that -- was a one-off large contract or is it a trend there? That's the first question. And second thing is that, on this entire Brazilian mark-to-market, I think Slide 20 has sort of pointed out to me has EUR 2.2 billion on the fair value to P&L. I just wanted to clarify because this question had come up in the last months, as you can imagine. The annual report did have a fair value to P&L BBB bond level of only EUR 100 million. So was this EUR 2.1 billion reclassified? Or is it something that we should have known, which I didn't know so I apologize. I just need a clarification.

Luigi Lubelli

Okay. I will almost start from your last question. So what you are saying is that we have -- find [ph] EUR 2.2 billion of fair value through P&L [ph] in Brazil, and you're comparing that with the figure of BBB bonds?

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Yes.

Luigi Lubelli

And what is it that it does not check?

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Maybe I'll take it off-line. I just want to see if there's any -- because the number on the annual report was rather small, EUR 100 million or so, on the fair value line. And probably that is, again, I apologize, I can ask IR off-line.

Luigi Lubelli

Perhaps. Because I'm seeing the figure of the trading portfolio which was about EUR 4 billion in the annual report for 2012, so this one would...

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Sure. But the credit risk -- and I remember the page because I was speaking to many people about it. But Page 155, the credit risk description suggested that Brazil might be a very small number, but it's probably more for the...

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

Yes. Perhaps, it is best to take this off-line, yes.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Yes. All right. Sorry for that.

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

Okay, and then -- no, no, [indiscernible] that's no problem at all. No, it's just because that is going to be a bit tedious to go through all the figures. You were saying why commercial insurance, you were talking about MAPFRE EMPRESAS, right?

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Yes, yes, yes.

Luigi Lubelli

And you are referring to the top line or the technical results? I see that is [indiscernible].

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Top line, top line. So in today's presentation, it's on slide...

Luigi Lubelli

The top line, if you look at the entire sector in Spain as of June, it is falling 8%, 8.2%. So I'm afraid there's a decline in the market at large, and we are the largest player in the market, so it does affect us as well. And then, we have in agricultural pool in which we operate in Spain, of which we recognize the premiums in the first quarter. And then on a quarterly basis, it depresses the comparison. And there's a decline also in third-party liability. Competition is especially intense in third-party liability in Spain.

Operator

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

Maciej Wasilewicz
Morgan Stanley, Research Division

It's Maciej from Morgan Stanley. So I have essentially one question, but kind of it might be a bit of a long one. In terms of -- if I'm looking at Slide 25 of your presentation at the normalized combined ratio in Spain, year-on-year, the movement is from 89.7% to 91.5%. Most of that, in fact all of it is in the loss ratio. You did flag that there were catastrophes in the quarter in Spain, particularly flooding. So I wanted to see whether or not you can give us an idea of how much of that deterioration in the loss ratio, that

2.1% deterioration, how much of that is just from the flooding? And depending on how you answer that, I'd like to also know on Page 27, we can see a nice breakdown of your entire portfolio. It looks ostensively that you've held back business in order to be able to keep your margins. I mean, if you look at the sort of premiums versus where the combined ratios have gone. But the combined ratios in pretty much every single line have deteriorated nonetheless. So I'm wondering are any of these lines -- I guess, some of these lines wouldn't have been impacted by the catastrophes. And is that a genuine sort of just reflection of the current conditions in the market in which to sort of flow that forward if nothing changes from here?

Luigi Lubelli

That's a pretty articulate question, Maciej. Let's see. I cannot tell you exactly. I mean, that is not a figure we have given and now I would have trouble telling you exactly how much money we have lost during -- to floods and rain. On a quarterly basis, it is evident on the loss ratio in [indiscernible] the rough figures on the household, we've gone up 2.3 percentage points. So as of March, we were going up 4 percentage points year-on-year. And now, here, we're going up basically 5.3. So I mean, as a guesstimate, something like 1.5% to 2 percentage points could be attributed to that, but this is a rough estimate on the spot. I just want to draw your attention on the fact that on a quarterly basis actually, the combined ratio did improve quite significantly in motor. It was pretty good. So it's not all bad news. In motor, we perhaps may have deteriorated on the growth side, but not on the underwriting side. [indiscernible] we had 94.6% combined and we've fallen 3 percentage points to 91.5%. Actually, we had -- we've actually improved also overall as of MAPFRE Spain, we have a narrower gap in the combined ratio year-on-year as of June than we did as of March. So actually -- I mean, my impression is on the underwriting side is we actually did better in the second quarter than we did in the first one. In the first one, we were 2.6 percentage points up year-on-year, and now we are about 1.8 percentage points up year-on-year. So we're actually doing better.

Maciej Wasilewicz
Morgan Stanley, Research Division

Okay. So that's great. So you're up 1.8 percentage points and included within that 1.8 percentage points, is Spain as a whole, is some kind of a weather loss, which...

Luigi Lubelli

All right, exactly. And that's because motor has improved quite a bit on quarter-on-quarter.

Maciej Wasilewicz
Morgan Stanley, Research Division

And is that motor trend you pulling back from the market? Or is it a market-wide trend? Is it frequency? Is there any color on what drove that improvement?

Luigi Lubelli

Honestly, no clue. I don't have figures for the market as of June. I would be surprised if the market improved because of the competition level we have on pricing. But I mean, this is only my smell test. Really, I don't have any figures to back it up.

Operator

Your next question comes from the line of Avinash Singh from Nomura.

Avinash Singh
Nomura Securities Co. Ltd., Research Division

My question, first question, and more macro in nature. I mean, we are seeing a tough market condition in the economic environment in Spain. We are seeing growth slowing down in Latin America and in U.S.A., we are seeing a kind of slowing down of increasing primary P&C rate as well as kind of a negative movement in reinsurance rate. So I will be more concerned that -- how do you see your profitable growth over the next 1 to 2 year from where the growth is going to come? And so this is my first question.

Luigi Lubelli

Right. Yes. Well, Mr. Tejera commented in his section of the presentation about the projections. I mean, as you know, we lost our crystal ball a long time ago, so it is difficult to tell you exactly what the trends will be. We can only tell you what we see. And as far as forecasts are concerned, we can only base ourselves on those carried out by more qualified people than us, which is the IMF. I mean, there are several -- I mean, this is a longstanding question. We receive this question many times by investors and analysts alike. It's impossible to tell you exactly what the growth of the countries will be and how they will develop. However, they will develop. However, it does seems to be -- there do seem to be strong reasons for which the countries in which we are based should maintain a positive GAAP [ph] compared to our home country, which is Spain. And so, that is what we're seeing. And then, even though the deceleration on an economic front is taking place, we are not seeing that in insurance sales. That might be a bit disconcerting, but especially in the case of places like Turkey and Brazil is due to the fact that the GDP per capita and the development of the middle-class have reached a point in which there is not a massive but certainly some disconnect between the GDP and the growth in insurance.

Avinash Singh
Nomura Securities Co. Ltd., Research Division

Okay. My question was more on your growth rather than -- I mean, I just kind of outlined the economic environment, because I mean for the last few years, I mean your bottom line had been kind of a cost and due to various different reasons, not just one reason. So I was more concerned [indiscernible] I see that's the case in Western markets are going to be [indiscernible] this year or next from where do we see profit increase? Because I mean for the last few years, your bottom line has been kind of constant.

Luigi Lubelli

Right. But we do not only have emerging markets in our profit base. We also have Spain. So I mean, we have 2 drivers in our bottom line. Precisely, the element of strength that we have shown in MAPFRE over this year was the fact that thanks to the development of growth, we could actually offset the negative impact on the economic crisis in Spain that was so pronounced. So actually the fact that the bottom line is as you referred to is stable, it's actually a pretty good achievement compared to other listed companies in Spain. I'm afraid that's where things stand. However, as I say, also in Spain in terms of profitability, the technical profitability in Non-life as I was saying in Spain and this quarter actually improved and Life certainly did much better compared to what it was a year ago. In Latin America, saying that the important elements we bring into this results presentation for the first half is the fact that we not only have top line, but what is much more important, we have a technical profitability that have improved considerably. And that does give a shock absorber even in terms of supposedly falling top line. As we are seeing the case in Spain, Spain was doing well because in the face of a falling premiums, we continue to maintain a very strong technical result.

Operator

Your next question comes from the line of Sami Taipalus from Berenberg Bank.

Sami Taipalus
Berenberg, Research Division

First of all, and this is a slightly long-winded question, I'm afraid. Has there been a significant change in your cash position in the Spanish -- sorry, in the holding company and the Spanish Non-life company? The reason I'm asking is because in Q1, you gave us one of the reasons for the formalization of the reinsurance contract, that you wanted to improve cash, the cash position in the Non-life company. And the second reason is that you increased your credit facilities in the second quarter. Although if I remember correctly, you said in the past that you actually wanted to reduce reliance on these going forward? And the second question, I'm afraid, goes back to the Spanish Non-life business. There seem to have been very little money made outside the motor line in Q2, and in particular the burial line seems to have been quite weak. Is there anything particular that's driving the combined ratio upwards there?

Luigi Lubelli

Okay, Sami, let's see. On the first 2 questions, I think there might be a bit of confusion. There wasn't a cash need per se at the Non-life company. Oh, let's see, there was a cash need in the sense that there was a need to fund the growth of the new operations of the company. So instead of deploying the cash that was in the accounts of the company, we used reinsurance to, let's say, use capital more efficiently within the group. But it wasn't actually any movement in the cash. Now I don't have the figure for cash analyzed. The most I can do is to compare the investment figure for MAPFRE FAMILIAR quarter-on-quarter. That it has several things. It's investments in cash. There's reduction of EUR 40 million. I mean, a 1% reduction quarter-on-quarter, which can be due to anything. So there wasn't really -- wasn't a matter of cash availability, it was just a way in which capital was deployed and cash was used. But nothing more than that.

Sami Taipalus
Berenberg, Research Division

Okay. And on the credit facility?

Luigi Lubelli

Yes, I was going there. Well, the credit facility really is an exercise I would say in liability management that is stemming from a strategic decision. If you can recall, when we released the results for the third quarter of 2012, our board decided that it was appropriate for MAPFRE to be more liquid. And so, we started working on both our liabilities and cash. As you know, we have, on one hand, slightly reduced the dividend, the dividend payments, and then we worked on our liabilities. We issued a bond, a EUR 1 billion bond in November, which matures in 2015. And then we had 2 syndicated facilities. One -- both were repaid with the bond. One was canceled immediately. And then the remaining one we have decided to replace with this one, obtaining a significant extension in terms, because the previous facility matured in 2014 and this one matures in 2018. And it is also for a larger amount. So we have a greater financial flexibility. And we also have spread out our financial obligations. I mean, they redeem the redemption of our financial obligations much further out in the future. It really is a financial liability management exercise. And if I'm not wrong, you are talking about the other line in Spain, correct?

Sami Taipalus
Berenberg, Research Division

And well that one, too, but I guess I was specifically referring to the burial line, where I think the combined ratio actually deteriorated in the second quarter?

Luigi Lubelli

Right. What happened is that, this line of business is a bit peculiar, not only for its name. The way it works is that reserves are made [ph] at the beginning of the year. So what will -- what happened was that -- and that is, in turn, linked to interest rates. So last year, we had interest rates [indiscernible] calculation of reserves and a fall in reserves, which was a positive impact on the loss ratio. This year, the revision of rate has not produced the same impact. So it's not actually as if we had -- I mean this is classified as Non-life, but this really behaves as Life-Protection. So last year we had a falling reserve, positive impacts on claim. This year, there wasn't really any need to change the amount of reserve that much. So on a comparative basis, it looks as if the claims ratio has gone up. But that wasn't the case.

Operator

Your next question comes from the line of Atanasio Pantarrotas from Kepler Cheuvreux.

Atanasio Pantarrotas
Kepler Cheuvreux, Research Division

I have 4 questions. The first one, first, if you can quantify what was the impact on mark-to-market on the Brazilian bonds in your portfolio, which affected negatively the results, especially the Non-life financial income? The second question, a clarification about the positive effect of around EUR 20 million due to the currency that I imagine that you put in place to hedge your income against the volatility of the Lat Am currency? The third question is on capital and dividend, if you can give us an update on how confident you are on your capital position currently? And if we can expect to see a better interim dividend compared to the past year in the next quarters? And finally, if you can quantify what was the impact on the change in Lat Am of some business, which was classified -- reclassified out of Life into Non-life, the positive impact on combined ratio, so if I just wonder if there is some positive effect on your very good results in term of combined ratio in Lat Am?

Luigi Lubelli

Atanasio, let's see, I will take 3 questions, one will be taken by Mr. Tejera. We did not give precisely the figure, but just to guide you, the MTM [ph] in Brazil was roughly 10% of the pretax profit. So the pretax profit, let's say, instead of growing 10% would have grown 20% year-on-year without that. The second question, I didn't really understand. I think you're referring to the EUR 20 million that shows up in Non-life account, is it so?

Atanasio Pantarrotas
Kepler Cheuvreux, Research Division

Yes. I mean, because you've mentioned in the presentation there was a positive effect due to currency.

Luigi Lubelli

Yes, correct. That's something that unfortunately, and I say unfortunately because the country regularly suffers devaluations. It is something that we have in Venezuela. Venezuela has dollar-denominated assets. So you are right. They work as a hedge. Whenever the currency devalues, this company records gains through the P&L. Then when they go to equity, they basically balance out the negative impact of the devaluation. So the impact this year because of that was about EUR 20 million, and that's entirely recognized in the Non-life account. That's something that, let' say, has happened in previous years. I cannot tell you exactly what the impact of the reclassification on the combined ratio of Brazil, because as I said, you may not have heard it. As I said before, the combined ratio does not respond only to that in Brazil. It also responds to higher tariffs. Tariffs are going up in the country, generally speaking. It also responds -- and more to that than to other reasons to the fact that last year, we did not yet have a mature operational structure. We still -- we had to withstand expenses for the transition. This company used to be managed by SulAmérica and that the management of the company switched to MAPFRE. And we had to incur some expenses this year which we do not have this year -- last year that we going to have this year. And then we've also introduced improvements in the handling of claims, which have benefited us. So there's many reasons going into that. Of course, in addition to the fact that the business there was [indiscernible] was quite profitable. So I don't have any precise -- to tell you exactly how much came from there, I cannot. On capital and dividends, Mr. Tejera will take your question.

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

On capital and dividends, even if it's still very early in the year to know exactly what would happen at the end of the year. I think that's how our position now is more and more comfortable from the point of view of capital and liquidity position and financial flexibility now than a year before. If we continue in this way, we will continue with our traditional policy of having the purity of maintaining our solvency and our capital position as comfortable, return to shareholders the most we can within this policy according to the profitability of the business, that this year, I think, will be better than the year before. And the only thing I can say to you, I can tell you because, as you know, these are decisions that are taken in the meeting with the board that usually make these decisions in the last quarter of the year for the interim dividend. But my feeling is, as I mentioned, very positive according to the evolution of the year until now.

Operator

There are no further questions at this time. [Operator Instructions] Your next question comes from the line of Katia Bernaj [ph] from Bankia Bolsa.

Unknown Analyst

My first question is regarding -- if you could give us some light about which will be the tax rate for the rest of the year? And the second question is regarding about minorities. I have seen that has increased something like 16%. I'm not sure where the increase comes from, as the pretax profit increases something like 5.1%. So if you could give us some light about this, please, I would appreciate it.

Luigi Lubelli

Right. Let's see, the tax rate -- it will be difficult to make a forecast on that. I mean, our main rates, I mean those that most affect our accounts are 30% in Spain; 37%, if I'm not wrong, in the U.S.; and 40% in Brazil. So depending on the relative weight of these profits, they will drive our accounts. This will be somehow diminished probably once the material effect by the fact that we now have some companies that could be accounted such as Solunion, but that is not material. So depending on how these profits pan out, clearly, we have a comparatively faster growth in Brazil. So we'll have -- we may have, I don't know, 1, 2 percentage points addition to the tax rate. But really it's a guess in the dark, the tax is based on so many elements, deductions and calculations. There's really only when a precise calculation is made by the specialists. We can give you the rate. It's impossible almost to forecast. And minorities are going up because of Brazil. Because the profit in Brazil is growing, especially -- and it's growing especially strongly in the business where Banco do Brasil has a 75% stake. And that is why the minority is growing much faster than the net profit before minorities.

Operator

Your next question comes from the line of Valeka Lakane [ph] from Citigroup.

Unknown Analyst

I just had a quick question about in terms of rates on your balance sheet. I know that we've seen a bunch of, I guess, banks and broker-dealers with some [indiscernible] securities on their balance sheets giving us an impact if the rates were to rise 100 basis points. How much do you stand to take a hit? And unrealized, of course.

Luigi Lubelli

I am afraid I did not catch the first part of your question. You were talking about Greece?

Unknown Analyst

No, rates, interest rates.

Luigi Lubelli

Oh, interest rates.

Unknown Analyst

If interest rates were to rise, what would be the impact on your balance sheet?

Luigi Lubelli

Right. Let's see, I mean, you have a proxy for that in the account. I mean, we do have [indiscernible]. Duration is about 6, so if you apply that to our fixed income portfolio, you should have a rough guess of the impact of 100 basis points change on our portfolio.

Unknown Analyst

Do you disclose a VaR at all?

Luigi Lubelli

Not on a quarterly basis. We give a VaR figure at the year end in the consolidated account.

Operator

We have no further questions. Please continue.

Esteban Tejera Montalvo
Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re
Okay. Thank you. If there's no more questions, I would like to thank you, again, for being with us for the quarter. And I expect we need to follow the next presentation in 3 months. Thank you.