

# Mapfre, S.A. BME:MAP

## *FH1 2015 Earnings Call Transcripts*

Friday, July 24, 2015 10:00 AM GMT

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### S&P Capital IQ Estimates

	-FY 2015-	-FY 2016-
	CONSENSUS	CONSENSUS
EPS Normalized	0.29	0.32
Revenue (mm)	22633.16	24276.92

Currency: EUR

Consensus as of Jul-24-2015 9:01 AM GMT

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# Call Participants

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## EXECUTIVES

### **Esteban Tejera Montalvo**

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

### **Luigi Lubelli**

## ANALYSTS

### **Andrew Sinclair**

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### **Michael Igor Huttner**

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### **Unknown Analyst**

# Presentation

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## Operator

[Audio Gap] first half 2015 results presentation. We are pleased to introduce Mr. Esteban Tejera, First Vice Chairman of the group, will conduct the presentation. Please go ahead, sir. Thank you.

## Esteban Tejera Montalvo

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

Good morning, ladies and gentlemen. Welcome to the presentation of MAPFRE's results for the first half of 2015. As usual, I'll give an overview of the results in the main business developments and later, Mr. Lubelli will explain the financials in greater detail. We will be happy to take your questions at the end of the presentation.

Please, let's now turn to Slide #3. MAPFRE continued growing in sales primarily to the very satisfactory development of its Non-Life business in Spain and the world as well as the reinsurance business. This year, all our related losses have been essentially large globally, and this has caused the loan ratio to go up significantly in our net profits to [indiscernible].

Excluding them, the underlying performance is in line with MAPFRE's standards, save for a higher frequency in Spain and Turkey.

Gains on financial investments and favorable contributions of exchange rates, especially in the U.S. dollar, helped to make up for the decrease in the [indiscernible] result. The growth in assets under management was broadly affected by the Greek crisis at the end of the semester.

Let's move to the next slide. The main highlights of the results are: In [indiscernible], the Non-Life business is contributing significantly to our top line, especially in North America and here, we give thanks to the strong dollar in Mexico where we are growing organically, and we have reached a very, very [indiscernible] important policy [indiscernible] from [indiscernible] and in reinsurance where the business is doing very well despite the tough conditions of the market.

This growth, along with the MAPFRE to make up for the soft contraction in demand in the Life business in Spain, due to the low interest rate and due to the de-consolidation of [indiscernible] of CatalunyaCaixa.

In Brazil, we suffered also a decline in guidance in Non-Life, especially in agricultural insurance and a slight decline in Life due to the economic slowdown of the country.

As I already mentioned, financial income is helping, thanks to the gains we were able to realize the most in the first half of the year and favorable exchange rates and high returns in Brazil. Excluding there's no strong United States, as the main driver of the deterioration of the results, our combined ratio will be 96.8%. And overall, our [indiscernible] level are not too far away from our target of 96%.

As I mentioned before, the last days of June were not good for our equity due to the impact of the Greek crisis on the market value of the investment portfolio. But most of this impact has been recovered, as we speak now.

On Slide #5, we saw part of the main drivers of our position in Solvency II. We know that you have an interest in our position in Solvency II, and think that now things are mature enough to provide more information about it.

As you know very well, MAPFRE started to impose [indiscernible] because of the -- our very good position in -- under Solvency I, due to the fact that we have composition of the eligible capital that is good in terms of quantity and quality. And we have that very highly diversified [indiscernible] with a prudent investment policy.

Furthermore, we managed the group with the goal of maintaining a capitalization level, consistent with the requirements for a AA rating, which are more stringent than those on Solvency II in terms of the capital requirements and levels of available resources.

Moving to the next slide. And this is a figure that we show for the first time. MAPFRE, according to the report of -- we have delivered to the supervisory in Spain. We have a Solvency II ratio above 160%. Because this is actually several hypotheses, the first one is the current interpretation of the standard formula regulation, application of the matching adjustment and transitional rules on technical services to the Life portfolio in Spain and the grandfathering of the Tier 2 subordinated debt issued in 2007, that amounts to around EUR 600 million.

Moving to the next slide. We know also that the new Baremo is a matter of concern. We will deliver more information about how it is going in this issue. The new Baremo will likely come into force at the beginning of, clearly, 2016 and will clearly cost us price in the severity of the third-party liability claims. But MAPFRE has been regularly updating its pricing at the reserve levels based on our own estimates of the possible impact of this new Baremo.

We will continue to do so now that the actual potential compensation are known, with new look of evolution with our provisions in insurance and evolution of the [indiscernible] premiums we earned. We will see that we'll have a very prudent policy in this area.

In any case, as we have repeated many times, Baremo is a good thing because it updates compensation to take into account social changes and makes our service chain development more predictable. Obviously, price will have to be revised to account for the high [indiscernible] severity, and this is something that we will see very soon in the market and in the MAPFRE's meeting.

On Slide #8, we see this the traditional picture of the diversification of MAPFRE, which continues to increase. If we compare to the previous quarter, we see a fall in the [indiscernible] Iberia over the total [indiscernible] figure, due to a combination of the contraction of the overall business volumes, and that is clear and the consolidation of CatalunyaCaixa closely sustain growth abroad in the consolidation of the guidelines in Italy and in Germany.

In terms of the contribution to profit, the application of the new exchange rate in Venezuela and the weather-related losses in the U.S. have foreseen an increase of the contribution on the regions, including Iberia. And so we can see those figures are going up very well.

MAPFRE RE fell a bit, due also, in this case, to the related-weather losses in the second quarter.

And that's all for my part. And Luigi, you have the floor.

### **Luigi Lubelli**

Thank you, Esteban, and good morning or afternoon, everyone, to [indiscernible]. Can we move directly to Slide 11, where we have the consolidated income statement?

If we compare to what we saw in March, there are a few changes. Basically, as Esteban has just explained, we had an exceptionally large impact from weather-related losses, and that is the main driver of the fall in the pretax profit through the Non-Life account. And we also saw an increase in the tax rate coming from -- early from Latin America. And lastly, a continued growth of the stake of minorities in Brazil.

On Slide #12, as mandated by IFRS, we have to restate our 2014 income statement to show the impact of the consolidation of the joint business with CatalunyaCaixa. If we compare the restated accounts with the non-restated accounts, we see that, basically, all main underlying trends remain broadly unchanged. There is a significant positive in the Life account which, on a restated basis, increases about 10% in its results, and that is pointing to a comparatively better underlying profit development in Spain.

On Slide 13, we have the Non-Life account. We see basically the same robust underlying growth trend we saw in the first quarter and also, a comparable combined ratio.

On the following slide, we begin to dig deeper into that. We see the premiums movement, the cumulative premiums movement on Slide #14.

On a yearly basis, we see a few main trends. We have, as Mr. Tejera has just mentioned, a significant positive impact from the appreciation of the U.S. dollar, that is good for North America, but also for assistance for global risk in RE. We had -- beyond the impact of the dollar, there is good organic growth in North America as well, but also in Latin America, Iberia and Turkey.

You know by now, as we announced in the previous quarter, that the adoption of the SIMADI exchange rate in Venezuela is having a negative impact on premium growth, but especially evidenced in Lat Am south where the subsidiary is located. And the economic slowdown in Brazil is leading to a contraction in premiums.

On the following slide, 15, you have an explanation of the quarterly -- second quarter trends. As usual, we had seasonality in Spain, that's something that is well-known. And then, as was already mentioned, we won a PEMEX contract in Mexico, a very large amount. We consolidated, for the first time, the Direct Line businesses only for a month. And we witnessed a recovery in insurance in Brazil, both in Life and in Non-Life. It was not enough to reverse the trend we saw in the first quarter, but certainly was a welcome development.

On Slide 16, we have the loss experience. By now, I think it is clear that the main driver of the increase in the loss ratio are the snowstorms in the United States. Although it must be said that we had, between the first quarter and the second quarter, weather-related claims in Turkey, in Chile, in MAPFRE RE because of the Nicholas storm in Iberia in June due to strong waterfall. So it was clearly a first half -- there was -- under the sign of the weather basically in terms of impact.

In Iberia, we see an increase in the loss ratio, which is coming mainly from the fact that the Burial technical reserves are discounted at a lower rates and the higher frequency in Motor. The increase that you can see in India comes basically solely from Turkey which is, once again, weather and a higher loss experience in Motor and Health. And all of this was partly offset by Lat Am South, which had a very good performance in MAPFRE GLOBAL RISKS and the direct business compared to the previous year. Because as you remember, a year ago, we had the Iquique earthquake.

On Slide 17, we have the expense ratio. We have an increase of 0.5 percentage points, mainly basically its higher acquisition costs as it was in the first quarter and also lower recoveries of ceded reinsurance commissions in the U.S.A.

Financial income is broadly in line with what we saw in the first quarter. We have higher interest rates in Brazil. We have the, in this case, positive contribution of the depreciation of the euro, except 3 notable currencies: The Brazilian real, Venezuelan bolivar and Colombian peso. And we have larger investments realization gains. We have EUR 91 million this year compared to EUR 50 million a year ago.

On Slide 19, we have the Life account. This is unrestated. If we restate for CatalunyaCaixa, the actual underlying premium fall is 12.9% instead of 20% and the technical and financial result actually grows 10.4% instead of falling 1.1%.

On Slide 20, we have the premiums. It is evident that this year, the contraction in the top line is overwhelmingly driven by Spain. If we leave aside the de-consolidation of CatalunyaCaixa that's basically due to a construction in demand, which is motivated by the low-interest rate environment in addition to one-offs a year ago, but that basically is -- we have a falling demand, which is compensated by the asset management business in terms of funds under management because that funds and retention funds are doing remarkably well.

Leaving Spain aside, we see good business development in Malta, Mexico, Peru and RE, which are partly offset by fall in Brazil and Colombia. Also as I said, on a quarterly basis, issuance in Brazil was stronger and also insurance are better.

On Slide #21, we have the underwriting and financial result. On a quarterly basis, we saw a falling financial income due to the fact of the depreciation in the Brazilian real and the negative mark-to-market in Malta. Aside from that, the main trends are in line with what we saw in the first quarter.

On Slide 22, we have the other business activities. We have here also an impact of CatalunyaCaixa. Based on the results, it would've been EUR 12 million instead of the EUR 15 million that you see here.

On Slide 23, we have the explanation. It's basically that last year, we had some nonrecurring gains with MAPFRE INMUEBLES. And as we saw in the first quarter already, there is an ongoing process of MAPFRE ASISTENCIA by which contracts, which formerly were services contracts, are being replaced by insurance policies. So they leave the other business activities account to move into the Non-Life account.

Financial income improves compared to previous year, that's because it is larger than itself. We are making -- we have a more financial income, and we also have lower costs and impairments.

The bottom line is shown on Slide 24. I think that, by now, the main drivers are clear. So let's briefly look at the description of them on Slide 25. As I say, we [indiscernible] already said, mentioned on the P&L account, what drives the contraction in profits, exceptionally large weather-related losses, clearly most of them in North America; and growing stake of minorities in Brazil because the profitability in Brazil is very, very good, it's doing very well; and we have a new tax in Venezuela and also another tax has been activated in Colombia, and the combination of the 2 makes the rate go up on a quarterly basis.

On Slide 26, we have the balance sheet. If we compare to the end of the year, we see clearly, once again, CatalunyaCaixa is a very powerful driver of all variations. In this quarter, we saw the consolidation of Direct Line. And that in addition to the actual items coming from the accounts, shows an increase in debt because we drew on the syndicated line in an amount of EUR 470 million, plus we used EUR 90 million in cash for the total consideration of EUR 560 that was paid.

We have growth in business volumes. We saw, as Mr. Tejera explained, a decrease in market value, when we took the snapshot of the balance sheet at the 30th of June because of the Greek crisis. We had a significant fall in unrealized gains, most of which has been recovered by now.

And the other driver is the depreciation of the euro. On a positive side, except, as I've said, 3 notable exceptions: Brazilian real, Turkish lira and Venezuelan bolivar on the balance sheet. On the P&L, we also have the Colombian peso.

On Slide 27, we have the breakdown of investments. Clearly, there are no material changes compared to the year-end 2014 portfolio. If anything, there's a 2 percentage points moving from corporate fixed income to public debt. The breakdown of corporate fixed income does change, and that is impacted by a falling market prices due to the Greek crisis. In Spain, the investments of maturing corporate bonds into higher yielding and basically more easily available public debt. We have growth in the asset portfolio in Lat Am, for instance, in Mexico. And the Direct Line brings to MAPFRE a diversified corporate bond portfolio basically European, which changes quite a bit.

On Slide 28, we have the variation of equity. Here, the change is big compared to the first quarter, then we saw an increase of EUR 0.5 billion. Here, we have a total negative change of EUR 600 million, while this, I should be clear by now, we see it on Slide 29, is a decrease in market value of the financial investment portfolio in Europe that's behind us now. But it wasn't behind us when we close the books. And then the adoption of the SIMADI exchange rate in Venezuela, that's an impact of about EUR 270 million. And along with the depreciation of the Brazilian real and the Turkish lira, clearly partly offset by the dollar, which is helping quite a bit as well.

And that's all in my side and back to Mr. Tejera.

### **Esteban Tejera Montalvo**

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

Thank you. Thank you, Lui. Okay, we can start now the inquiry, the Q&A session [indiscernible] for your questions.

## Question and Answer

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### Operator

[Operator Instructions] The first question comes from Zach Murray [ph] from Autonomous Research.

### Unknown Analyst

Just 3 questions, if I may, all related to the Solvency II indication of 160% for full year '14. Firstly, when you state the ratio could exceed 160%, what would be the upper end of the possible range, just to get a sense of where it might sit? And then could you give us a sense of how Solvency II develops in the first half? Then secondly, could you identify the impact of the transitional rules on the ratio overall? And then finally, what is the impact of the sale of CatalunyaCaixa and the acquisition of Direct Line on that Solvency II indication?

### Luigi Lubelli

Zach. This -- the first question, I mean, just as a little bit of guidance. We -- there is a, let's say, a small margin above that. We wanted to give a comfortable figure on what we say. 160% is a solid figure we're comfortable with. There is a margin above that for the moment we decided. More than anything, it's not a matter of not wanting to disclose anything, but still we are subject to some fine-tuning of the standard formula calculations. And so we rather prefer to guide the market to a figure, which we are strongly comfortable with going forward. As you know, we normally have quite strict on not mentioning undisclosed figures. So I cannot mention the impact of the transitional rules alone, CX, CatalunyaCaixa, and Direct Line, because they -- the 2 have to be seen together. Qualitatively, an improvement in the sense that the balance sheet -- the size of the balance sheet will be leading to [indiscernible]. With CatalunyaCaixa, it's about twice the size of the balance sheet that's coming from Direct Line. And obviously, the type of risks that you have in the Life business are more demanding than those that you have in a short-tail Motor business. So qualitatively speaking, broadly positive. I wonder if I'm answering your questions.

### Unknown Analyst

Okay. Just a follow-up then, I mean, just to clarify. Over 160% obviously -- probably don't interpret that as being something 175%. And then in terms of where MAPFRE will manage itself going forward, I think the points on Slide 5 are suggesting you're probably going to try and manage yourself on Solvency II around about 160% to 165%, would that be right?

### Luigi Lubelli

Let's see. Figures vary. I think MAPFRE is known to be a prudent company consistently when it comes to capitalization. Also, I think that the measure and the way we have calculated the Solvency II standard formula, especially when -- I mean, for those who know, especially compared to perhaps internal model approach, it points to the way to certain strength. MAPFRE, traditionally, and we said this on the previous page, is a company that manages itself. But really, we keep a close eye now on Solvency II. But traditionally, the companies manage itself on a rating basis, aiming at a AA. AA is quite more demanding than the Solvency of standard formula, at least as far as MAPFRE is concerned. So I wouldn't point to a percentage that's derived from anything, that calculation you can estimate yourself. But clearly, it does provide the safe margin number of 100% of this year.

### Operator

The next question comes from [indiscernible] from Exane BNP Paribas.

### Unknown Analyst

Two questions from my side. The first one is a follow-up from the last questions. What's all the main outstanding questions you have on your Solvency II model? Do you still have many points of uncertainties and which ones? And the second one is related to Spanish motor. So the combined ratio here is 98.4%. Do you expect, with the implementation of the Baremo, to fully be impacted by -- this Baremo, by 4 to 6



points? So we have the full impact when it's implemented or does it already take into account some small parts of the Baremo?

**Luigi Lubelli**

Okay. I'd say the uncertainty is relatively contained, but there is -- I mean, there is, especially some details on the matching adjustment that are still pending. And then for the moment, the group has not yet applied for equivalence of any country. So this is based on a fully consolidated approach. But that's what I'm trying to say before, we have decided to disclose a figure. We are comfortable with -- in terms of market guidance. So that takes into account those possible uncertainties as well. The indication we gave on the combined -- on the loss ratio is not a MAPFRE-specific indication. It's an indication that's specific to the market at large. That 4% to 6% is increased, and we stress, if I'm not wrong in the text, that, that does not consider price reactions. So certain variables if you don't do anything with your tariffs. That is the impact that the market will have -- the estimated impact that the market will have based on qualified market estimates of the Baremo. Clearly, the -- I wonder if you want to expand on the...

**Esteban Tejera Montalvo**

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

In terms of how we are preparing to the new Baremo, as you know, we had a very prudent approach to this issue. If you look at Page 46 of the presentation, you can see how even the gross written and accepted premiums on motor insurance in Spain, roughly the same that last year. We have publicly released net premiums earned, that is the consequences of the increase in the provisions. And the most important thing is that if we make the calculations of -- even if the loss ratio is high values affecting 0.2%, then 78.6% is reality. The total losses of this year are practically the same. I have built the absolute figures in the losses of the first 6 months of 2014, and was EUR 715.4 million. For this year, it's EUR 720.8 million. And in terms -- and this is the same in terms of the Non-Life expense ratio. We have an increase, but the figures are roughly the same, more or less in the -- since first months of 2014 were EUR 163.2 million and now are EUR 163.6 million. So we are collecting premiums, increasing provisions and increasing tariffs. And I think that the general speaking [indiscernible] that we have delivered evolution on the market, and the evolution of the impact of the -- this new Baremo has to be specifically analyzed for each company.

**Operator**

The next question comes from Federico Salerno from MainFirst.

**Federico Salerno**

*MainFirst Bank AG, Research Division*

Three questions for me, please. The first one, MAPFRE VIDA, we saw pretty steep decline in premiums in the first half. What's the outlook for the second half? Are you hoping to recover the, say, towards the level of the revenues of last year, or it's impossible at this point? The second, on ASISTENCIA, which is doing quite badly this year. Can you explain what's going on, especially in the other business activities line, perhaps? And then, again, last question, on Solvency II. Do you feel like providing some more numbers behind the constituents of the 160% ratio?

**Esteban Tejera Montalvo**

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

Federico. In terms of the evolution of MAPFRE VIDA, well, the environment of low interest rates, that will help the great recovery of the top line figures of the MAPFRE VIDA. But in terms of the quality of the business, we are reacting, and as you can see on Page 48, we are increasing the regular premiums, even if the single premiums are declining very, very fast. So with this environment of very low interest rates, it makes no sense to issue the products of single premiums, and we are launching new products of regular premiums that can amount in the same quantity, but provide more margin. And there is a very, very important thing is that part of the premiums that were single premiums before, are now going to our business of pensions and mutual funds that are not included in the figures of MAPFRE VIDA. Wherein, in mutual funds and pension funds, we register an increase of roughly, 20 -- 12% in the first and 13% in the



second, given the periods for the year. So I think that even if -- we don't -- we won't see an increase in the top line of MAPFRE VIDA, that compensates the decline that we suffer now. We will see an increase in the kind of business that qualitatively is more profitable.

**Luigi Lubelli**

Okay. On your other questions on ASISTENCIA, Federico, the loss ratio is going up in countries such as Brazil or Venezuela due to the high inflation and the impact of the exchange rates in Colombia and we also have in the United States, once again, because of the snowstorms and their impact on roadside assistance. As we mentioned before on the consolidated accounts, what is going on in ASISTENCIA is that contract that -- because the assistance business can be either provided through service contracts or through insurance contracts. So in the case of MAPFRE ASISTENCIA, this has been going on for many years. Now they're undergoing a process of conversion of those service contract into insurance contract. And that is happening, primarily, in the United Kingdom and in the United States. The -- as far as Solvency II, for the moment, no additional disclosure is foreseen.

**Operator**

The next question comes from Michael Huttner from JPMorgan.

**Michael Igor Huttner**

*JP Morgan Chase & Co, Research Division*

I had 3 questions, and I'm new to this, so forgive me if they've been asked, or that you've answered them before. I was a bit surprised by the level of earnings. I thought snowstorm was in Q1, and I wonder if you can give an idea what a sustainable number is. EUR 100 million or EUR 100-odd million seems a bit low. The second thing is the gain on Caixa, where is it, and roughly, how much is it? I couldn't -- it's obviously not in earnings. And then third question is, in terms of Solvency II, what is the next step or the next metric that we'd like you to see?

**Luigi Lubelli**

Okay. Look, it's -- clearly, there are -- I think the clearest exceptional amounts we have there in the United States are the storms, and those basically, in rough number, you can work it back from the figures in the -- we give in the presentation. It amounts to roughly EUR 100 million of claims in the first quarter and EUR 60 million of claims in the second quarter. So it's a total of EUR 160 million, which -- that can help you work back to an estimate of a sustainable pretax profit in this case. The Cx, the CatalunyaCaixa gain is -- our CEO today called a press conference. He's basically given an indication of a figure that should be in the region of EUR 140 million, net of tax. And in terms of -- you asked whether we were going to give any further metric on Solvency II, did you?

**Michael Igor Huttner**

*JP Morgan Chase & Co, Research Division*

Yes, please.

**Luigi Lubelli**

It's basically the same question that Federico answered before, not for the moment. For the moment, this is the disclosure. Until the entry into [indiscernible] of Solvency II, that would be the disclosure we would be giving.

**Michael Igor Huttner**

*JP Morgan Chase & Co, Research Division*

And just -- the gain, when will it come, when? Is it in Q3 then?

**Luigi Lubelli**

Well, it depends because we are pending regulatory authorization. So the conservative estimate is by year-end. Then hopefully, that can come in earlier, but...

**Esteban Tejera Montalvo**

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

Well, now -- when we signed the operation we have to see the conditions that should be complied before closing the operation. 2 of them have passed, and now we are at the end of the period of approvals. And when this period of approvals that finish at the end of this month will be accomplished, the closing of the operation could come very soon, I think. But what is sure is that the operation will be included in the next semester.

**Operator**

The next question comes from Juan Canovas from Fidentiis.

**Juan Canovas**

I have 4 questions. The first one, on your targeted capital structure of AA, I would like to know whether you are already there or whether it will imply some changes, whether it might affect, either dividend policy or anything else, in that sense. Second, I would like to know if you could give us a figure for the impact reserving in Non-Life, this, the one coming from lower discount rates. Third, I would like to know if you could give us also an indication of the levels of profitability of the newly acquired businesses from Direct Line or combined ratio, some sort of metric? And then I'd like to know whether you believe you can pass on the impact of this larger -- large weather-related losses onto tariffs?

**Luigi Lubelli**

Okay. Juan, good afternoon, to you. Let's see, the -- we already are in AA range in terms of capitalization. So at present, there is nothing we need to do on our capital in order to stay at AA. And the dividends we are paying are consistent with the maintenance of that level of capitalization. So there's nothing that needs to be done in order to get there. Does that clarify -- does that answer your question?

**Juan Canovas**

Yes.

**Luigi Lubelli**

The lower discount rate, let's see. I mean, you can roughly estimate, because basically, that's the only element that you have on -- because otherwise, the Baremo insurance business is not -- is doing normally. Let's say, there's nothing which is unusual on it. So if you would bear with me for a moment, on Slide 46, you -- if you calculate the -- you apply the loss ratio to the net premiums earned, you see that basically you had EUR 91 million in claims a year ago and EUR 113 million this year. So let's say, it's in a ballpark figure of about EUR 20 million. Then the figures for Direct Line are disclosed in our half yearly report, which has been filed, I believe, this morning with the CNMV. So you will find it there. You can find it on our web page. If I'm not wrong, it's EUR 58 million in premiums and about EUR 1 million -- EUR 1.5 million in profit. This is what we have recognized in the accounts. If the total cumulative figures of the company are EUR 400-and-something million, let's just -- just bear with me for a moment. It's EUR 416 million of premiums, and a small loss of EUR 4 million in net attributable result. That's all found in the half yearly report. And tariffs, yes, we have passed an increase of 9% in -- that's public information on homeowners in North America, which is on top of another increase of similar amount that was carried out previously. So it's 1.09x 1.09.

**Operator**

The next question comes from Andy Sinclair from Bank of America Merrill Lynch.

**Andrew Sinclair**

*BofA Merrill Lynch, Research Division*

I've got 3 questions for me. Firstly, sorry to go back to Baremo. I've got a couple of questions on that, actually. So firstly, the 4% to 6% impact that you mentioned on the motor, car, from the changes in bodily injury claims, is that covering all the factors in Baremo? Or does that include things like the children under

14, the changes to whiplash rules, or is there anything more that we should be factoring in? Really, what is the overall impact of the Baremo changes? Secondly, just coming back to pricing again on Baremo. So how quickly do you think the market will be able to adjust this pricing? [indiscernible] was said earlier, I missed an element of that. How quickly do you think the market will adjust its pricing to offset the higher costs from Baremo? And how much do you think is actually already in the prices? How much does it move in anticipation? I think you mentioned that you've been updating your pricing for Baremo expectations? And third, and just finally, just on acquisition costs, in Iberia, Non-Life has been a bit higher. Just wanted to know what's driving this? And could you expect this to just to be a new way of life?

### **Luigi Lubelli**

I like the new way of life thing. Look, thanks for asking these questions. I mean, I wish to stress something. I mean, we appreciate all the interest, show of concern about Baremo. But please, all of you, take this as an estimate. We don't know how many people are going to get injured. We don't know if they get injured or damaging, what kind of people and in what kind of categories of the new Baremo they will fall. And so this is a very rough estimate, based on the best available market intelligence on the increase in tariffs and the kind of structure of the third-party liability claims that the Spanish motor insurance industry has. So the answer to your question is it does factor in all the increases in Baremo, but it does factor in an estimate of the likely or possible, rather than likely, of the possible impact of the update of Baremo on the cost of claims. So taken as a ballpark, but nothing -- it's not precise science. It's rather an idea of what could be the impact on the market. And once again, and you correctly pointed out in the second part of your question, is that this contingent of what companies are doing with their tariffs. We can speak from MAPFRE, and MAPFRE, in the press conference, the CEO said, "MAPFRE is the permanent technical writer." So we are adjusting our tariffs to what we foresee and to what we experience. And so if a certain rise is warranted, then it will have to take place. On the industry, there is a question mark. What we can tell you are that the industry, as of March, which is the latest available figure for the industry's technical account, it has broken 100% in combined. It was already a combined ratio of 100.8%, which one would think, especially, in the current interest rate environment, plus, the Baremo coming on top of it, you would expect companies to adjust to that. To what extent and how will they do so, I'm afraid, we cannot say. In terms of acquisition costs on the Non-Life, it's basically business mix. I wouldn't say it makes me smile, the new way of life. I don't think it's a new way of Life. It's just -- it comes out that way because that's the mix of products we're selling this year. I mean, it's not anything terribly dramatically and dramatic either. We're talking about 50 basis points on the expense ratio, so it's variations that happen based on the profile of sales in a given year. Did we answer your questions?

### **Operator**

The next question comes from Silvia Rigol from BBVA.

### **Silvia Rigol**

*BBVA Research SA*

I have 2 questions, if I may. The first is regarding motor insurance premiums. My question is, why your payments have declined in the second quarter by 1.3% when the sector, as a whole, has increased their premiums by 1.2%? The second question is regarding financial results in your international unit, because in the second quarter, the financial results has accounted for only EUR 7 million. And I can see that this is not any soon booked in commerce. And I would like to know what happened there. And my third question is regarding Direct Line, because looking at Direct Line Group and all accounts, I can see the business in Italy and in Germany, on a separate basis. And I am really -- I see really strange that the insurance rate that the company has is very high. It's around 41% in 2014. And I would like why -- and I would like to know if -- what would be the insurance policy that you will maintain in Direct Line?

### **Esteban Tejera Montalvo**

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

Sylvia. In terms of why not really growing so fast than the rest of the market, well, I think that the main reason is that we had established a very, very strict criteria of underwriting, especially, in the underwriting of tariff rates. And this could be the difference. We have canceled several collective policies that were

[indiscernible]. But I think that the main trend of the market is that the market will continue to grow, and we will continue to grow with the market, but without relaxing our underwriting criteria. This is the reason.

### **Luigi Lubelli**

Regarding your other questions in international, the fall comes from Malta. It's because Malta has only some investment portfolio at fair value, which changes through P&L. So in the first quarter, it had a big increase because of the asset appreciation. As we saw, we also had it on our equity. And for the same reasons for which we've seen fall in the mark-to-market in our equity, they saw it in the P&L. It's the same reason, and like in the group at large, it also has been largely reverted by now. With regards to Direct Line, you have to appreciate the fact that we've basically only been managing this company for less than 2 months. We did say that when we acquired the company, that reinsurance was one of the areas where MAPFRE saw that it could add more value. MAPFRE has a reinsurance company in its fold, and Direct Line group does not. So clearly, that contributes to the possibility of a different approach in reinsurance in Direct Line. But for the moment really, there's not much more that we can say, because basically, we have just begun. It forms part of the overall review process that is going on in the management takeover.

### **Operator**

The next question comes from Avinash Singh from Nomura.

### **Avinash Singh**

*Nomura Securities Co. Ltd., Research Division*

Two questions. One is regarding your U.S. business where I mean, there have been large losses continued in Q2. Can you just elaborate around that? And what's your kind of ongoing normalized expectation of cat losses? And secondly, regarding -- I am just struggling to understand your ROE calculations for the segments. I mean, if I look, for example, Slide 50 where you have MAPFRE AMERICA ROE, your net results have increased but ROE is less than half. Similarly, in certain segments, your net earnings have gone down, equity has increased, still ROE is up. So can you just help me understanding that calculation?

### **Luigi Lubelli**

Okay. Look, obviously, we cannot foresee and hope not to have to mention future cat losses in the United States. The -- those related to the snowstorms, to our -- in our understanding, are mostly through. The -- what is going, what has been done with that? As we said, tariff increases, portfolio diversification, changes in underwriting criteria for household policies and reinsurance. But this basically -- and also in revision of deductibles on the accounts. Those are the measures that we -- that were taken. In terms of the ROE, we acknowledge the fact that it might be confusing. It's a fact that we try to estimate an annual ROE. So it takes this quarter and the previous 3 quarters. So the profit that's used is the sum of the previous 3 quarters, and it's divided by the average of the equity during these 4 quarters. So that is why, if you see an ROE that goes down when the profit goes up, it means that in one of the -- or more of the previous 3 quarters, the profit fell more than it has increased in this quarter. And the comparable changes happen with respect to equities because of the way it's calculated. Does my answer clarify your question?

### **Avinash Singh**

*Nomura Securities Co. Ltd., Research Division*

Partly. Not fully, because I mean, like MAPFRE America is -- still remains confusing from 13% to 5%. I mean, there has not been such massive fall in profitability in the past, I mean. So it is still, I mean, looks a bit confusing. I mean, from 13% to 5%, it looks a massive change. So few of the changes, yes, I can understand given by your explanation. But this MAPFRE AMERICA seems simply beyond...

### **Luigi Lubelli**

I'm sure -- what I suggest is we might take that offline. Because I'm sure if we look at the quarter-by-quarter profits and the quarter-by-quarter equity, we can get to an easy explanation on that. It is just the number crunching.

### **Operator**

The next question comes from Mary Ojeda from JB Capital Markets.

**Maria Paz Ojeda Fernandez**

*JB Capital Markets, Sociedad de Valores, S.A., Research Division*

I have some questions regarding the United States, because on your speaking, it seems that you are going through a complete restructuration [ph], or complete review of the portfolio of the company, [indiscernible] increases, portfolio diversification, underwriting criteria, review, et cetera. So I don't think it's -- the net losses we have seen in the first half of the year should be attributable only to the net weather-related [indiscernible], or are there more to come? I'm thinking in, maybe reserved increases, or reserve reviews. That's the first one. The second one relates to the goodwill in the United States, because you have a new auditor this year. I don't know if you have discussed so far with them, the potential impairment in the goodwill coming from the United States, or if you could elaborate on that? And the third one regards also the investment portfolio in the U.S. I want to know if you have any kind of exposure to Puerto Rico government?

**Esteban Tejera Montalvo**

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

Well, in fact, in terms of the explanation about the evolution of the losses of the -- coming from the weather conditions in -- as you said, these losses are especially not only in the quantity, but also in the quality. We have suffered worse than traditional snowstorm that has very high impact in a short period of time. [indiscernible] drop-off in snow during more than 1 month, that was piling up on the top of the roofs of the houses. And it produces mainly ice lumps that cause damages that were seen later, mainly through leakage of the water as the ice was melting. This includes 2 characteristics of the losses. First of all, the event [indiscernible] continues more than a month, but the recognition of the losses and the presentation of the claims came later and was not abused [ph] at the beginning. So we received part of the claims during March and April, but we continued to receive until mid-May part of the losses and the quality of the losses were usually totally different than the losses that occur in very short than with hyper intensity. So it was really difficult to, first of all, have all the claims in a reasonable period of time because we were alone and so not presented. And second, the kind of the losses were different, in terms of the -- not improving, mainly, crackdowns of the roofs but leakage of the water that cause a lot of claims. So it's a climatological event that has been totally different and higher than any losses of this kind in the region. For the historical data collected, it was impossible to foresee and to provide the traditional calculation of the provisions. Second, from the point of view of the revision of the [indiscernible] of these losses and evolution of the profit and loss in the U.S.A., they have revised. They are obviously aware of what is happening. But they have stated that this evolution, medium and long-term, what drives their opinion of the evolution of the consolidated company of special loss. And in terms of this position to Puerto Rico, we have a very, very small and tiny risk that I don't remember now, that was less than \$15 million.

**Luigi Lubelli**

It's very small relative to the group of volume, very small.

**Maria Paz Ojeda Fernandez**

*JB Capital Markets, Sociedad de Valores, S.A., Research Division*

But in terms of the investment portfolio, we are talking?

**Luigi Lubelli**

Yes, yes.

**Esteban Tejera Montalvo**

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

No. In absolute terms, it's, for sure, less than the \$20 million.

**Luigi Lubelli**

And the goodwill, what you asked about, the accounts have been revised by the auditor just now and there were no observations on the goodwill.

**Operator**

There are no more questions. Thank you.

**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 hope that we will meet again in 3 months and the news we will deliver will be by far better than the news we have delivered now. And I will see you [indiscernible] holidays. Thank you.

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