

Mapfre, S.A. BME:MAP

FQ1 2014 Earnings Call Transcripts

Tuesday, May 06, 2014 12:00 AM GMT

S&P Capital IQ Estimates

	-FY 2014-	-FY 2015-
	CONSENSUS	CONSENSUS
EPS Normalized	0.28	0.31
Revenue (mm)	21958.05	22408.88

Currency: EUR

Consensus as of May-05-2014 3:07 PM GMT



Call Participants

EXECUTIVES

Esteban Tejera Montalvo

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

Luigi Lubelli

ANALYSTS

Atanasio Pantarrotas

*Kepler Cheuvreux, Research
Division*

Federico Salerno

*MainFirst Bank AG, Research
Division*

**Niccolo Cornelis Modesto Dalla-
Palma**

*Exane BNP Paribas, Research
Division*

Vinit Malhotra

*Goldman Sachs Group Inc.,
Research Division*

Presentation

Esteban Tejera Montalvo

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

Thank you. Good morning, ladies and gentlemen. Welcome to MAPFRE's results presentation for the first quarter of 2014. This is the first time we present results under MAPFRE's new management structure, and I apologize for the inconvenience that the first time [indiscernible] you can have with the new investor information. We have made the best of our approach to facilitate your facts, and I hope that in the near future, we will continue to facilitate your cash [indiscernible] as you look in the ways [indiscernible] -- from the old structure to the new one.

We have organized new information to help the transition outside [indiscernible]. We will explain the main difference with respect to the previous presentation format during the presentation. As usual, I'll give an overview of the results in the main business developments. And later, Mr. Lubelli will explain the financial in greater detail and present the 2013 European embedded value figures. Finally, we will take your questions.

Please move to Slide #3. In the first quarter of 2014, MAPFRE have delivered once again business [indiscernible] growth despite a very strong negative impact from the depreciation of the euro. In fact, at the constant exchange rate, premiums would've grown by 10%, a strong positive [indiscernible] result despite a small deterioration given primarily by what I [indiscernible] explained and economic recovery in Spain. The weather conditions have been very tough, especially in Spain and in the U.S.A., and we see [indiscernible] also a significant growth in assets under management, at 7.7% increase in the managed savings amount EUR 35,614,000,000. Profit fell in this view primarily because of the large extraordinary gains that we recorded in the first quarter of the previous year.

Please move to the next slide. Here you have the highlights of the first quarter results. We have an increase in premiums driven by the business in Spain and Portugal, thanks to the strong growth in Life Assurance and the change in the trends in MAPFRE FAMILIAR. For the first time, we released [indiscernible] a change in the tendency and we can expect growth in the next months. This, along with the business development of MAPFRE RE, MAPFRE ASISTENCIA, offset the impact of depreciation of the euro and the intense competition in commercial insurance in Spain. As I mentioned before, there is an absence of significant extraordinary items in the results in this quarter.

In the same period of the previous year, we recorded gains, extraordinary gains for the sale of our headquarters building in Istanbul in Turkey. We reported also extraordinary gains for the depreciation of the currency in Venezuela and for the setup of Solunion. Excluding this, the attributable result would remain virtually unchanged. Even I must note that, taking into account the extraordinary gains recorded in 2013, profit before tax would grow nearly 9%. The equity has grown by EUR 477 million since the year end 2013. And this is due -- thanks to the result from the period, for the decrease of the spreads in Spain, so the appreciation of the financial investments in Spain and for the appreciation of the Brazilian real during the last quarter when we compare with the final figures of last year.

On Slide 5, you can see the impact of the euro's strength on results. That remains very significant. In this quarter, we have the biggest impact when you compare figures in this year with the previous year due to the devaluation of the figures in profit and loss account. On the year-on-year comparison, we continued to suffer from the depreciation of our main reference currencies. And on a quarterly basis, as I mentioned before, we saw the appreciation change [indiscernible] in rates in Brazilian real, which explains the translation gains in equity.

On Slide #6, we communicate the date of the payment of the final dividend that was approved in the last meeting of the board. This will be paid the 20th of June, and I remember you that the payment is for EUR 0.08 per share, and the total amount paid against the 2013 results amount to EUR 400 million, which represents an increase of over 50% [ph] compared to the amount paid in the previous year.

And this is probably the main big picture results during the period. I will now hand the call to Mr. Lubelli, who will explain the financials in greater detail. Mr. Lubelli?

Luigi Lubelli

Thank you, Esteban. Good morning, everyone. We'll move to Slide #8 and we'll try to, as Mr. Tejera just said, we'll try to explain the results under the new structure in as much detail as we can, and we'll help you out also on the Q&A when we get to Q&A.

The P&L you see on Slide #8 is the P&L you always seen. This is the consolidated figures for MAPFRE, and the important aspect I would like to highlight here is that this P&L does not change. So this is directly comparable to what you've been seeing to date, and the consolidated explanations apply the same way as they did in the past. There's one piece of news that we think will be helpful from this quarter on, is that we will be releasing quarterly results and explanations. On this slide, you will always found the cumulative figures, but on the next slide, which are the [indiscernible] ones we'll be seeing on the -- from Slide 9 onwards, are quarterly figures comparing the year-on-year quarter and this quarter with the previous quarter.

Going to the consolidated accounts. As you can see, in total, premiums went up. You see summing up Life and Non-Life, we have a total increase in premiums, which is mainly driven, as Mr. Tejera just said, by the very strong development of Life in Spain. As you -- I wonder if you have the chance to see that the premiums in Spain in the Life business were up over 30%.

There's an important element that I'm sure you're bearing in mind. Last year, we have 3 extraordinary items in the first quarter of 2013, which do skew the comparison year-on-year. We had, I'm talking pretax figures here, EUR 22.2 million from the sale of the Istanbul headquarters, EUR 20 million from the gains we recognized on the devaluation of the bolivar because we have dollar-denominated assets and EUR 12.9 million gain from the creation of Solunion. If you adjust for these, you would actually see, as we will see on a later slide, an increase of the Non-Life results and an increase in pretax profits of 8.6% despite the worse underwriting result in the Non-Life business. We also have an especially low tax rate in the same period of the previous year, which contributes to reducing year-on-year profit growth. This year, we have a tax rate which is, as you would say, closer to what we say "normal." So that is something that does affect the comparison on year-on-year.

So on Slide #9, we have the Non-Life result. Here, as is [indiscernible] something you have seen in many years over. In the first quarter, we have the yearly renewals of the commercial, burial and health insurance premiums. So, really, in terms of premiums volume, the first quarter and the last quarter are not really that comparable. The underwriting result is comparable. And in the last quarter of 2013, as you remember, it was negatively affected by the year end review in Spain, the increase in motor insurance loss ratio and the reclassification of the burial insurance business in Brazil, a slight deterioration in -- across Latin America and a higher expense ratio in MAPFRE RE. So you see a combined ratio of 98.7% at year end quarter, which compares with 95.6% this quarter.

The financial income in the last quarter of 2013, as you can remember, benefited especially strongly from the gain that was recognized after the agreement with the Brazilian government, the changes in the tax legislation in Brazil, and that was EUR 34.6 million. If you adjust for that, financial income was broadly in-line quarter-on-quarter.

On Slide 10, we have a more detailed, we hope, description of the variations than we used previously. I would highlight 2 important features of the Non-Life business. Non-Life, wherever you look, if you look in local currency, we basically grew everywhere. There are only a few places where we had a reduction in growth. So that was especially so in Brazil and the U.S.A., in Reinsurance and Assistance, and in the retail business of MAPFRE FAMILIAR in Spain. MAPFRE EMPRESAS actually decreased, but the -- albeit very, very small,; MAPFRE FAMILIAR showed a change in trend in the first quarter of this year. So all of that was positive. The main reason for which the Non-Life premiums fall is depreciation of the euro and, to a lesser extent, is the competition in commercial insurance. You see that in both GLOBAL RISKS and MAPFRE EMPRESAS, especially MAPFRE EMPRESAS but GLOBAL RISKS suffers from that, as well.

We had a combined ratio that was virtually stable and that was because of very good results of GLOBAL RISKS and MAPFRE RE, which essentially offset almost, you can say, fully the impact of weather-related losses in Spain and the U.S.A.

The impact of lower premiums earned in MAPFRE FAMILIAR. When he say that, that is something that is noticeable in the motor business. The combined ratio of the motor business of MAPFRE FAMILIAR suffered from a reduction in net premiums earned. But the motor business being so large at MAPFRE FAMILIAR, it does have an impact on the consolidated figures of the group. And we also saw something we already witnessed in the last quarter of last year, a higher frequency in MAPFRE EMPRESAS, and furthermore, we had some large losses in the first quarter in the commercial business in Spain.

The expense ratio is basically due, on the Spanish side, to different recognition criteria for bonds is [indiscernible] basically in commercial expenses in Spain, distribution expenses in Spain, and the fact that we are expanding the distribution network in the United States. That also had its absorption, and so at the consolidated level, the variation was not too large because of, in percentage, lower distribution expenses in Brazil and higher net premiums earned at MAPFRE GLOBAL RISKS.

On Slide 11, we have financial income. I already said the -- mentioned the gains in the first quarter. If you actually adjust for those gains, the result of the Non-Life account would grow in excess of 5%. So they do have a significant impact year-on-year.

And in addition to that, we have what you can read here, so lower interest rate. MAPFRE U.S.A., last year, paid a large dividend and we paid its bonds, so it has a smaller investment portfolio because of that. And then we have exchange rate differences, which do have an impact, also.

On Slide #12, we have the Life account. We have a -- we already repeated the strong pickup of sales in Spain. That's really the main difference. Comparing with the last quarter, you remember the write-downs, which we had in Spain and Central America. And also in Brazil, we reclassified the burial business and the whole year reclassification was performed in the fourth quarter of the year, so there was a significant impact. And we also recognize a EUR 19 million [indiscernible] gain in euros due to the changes in the tax regulations in Brazil I already referred to.

On Slide 13, we have the -- a more detailed explanation. In the Life business, basically, Life savings business grew across all channels. We saw an especially welcome development at the MAPFRE CAJA MADRID channel, I should say MAPFRE BANKIA now, which also had a large corporate transaction of EUR 75 million. And then outside of Spain, of course, we have the euro, which does have an impact. Furthermore, you will see in the Latin American South line [ph], we had the large corporate contract that was not renewed in Colombia, and as I said before, we have the reclassification of the burial business in Brazil, which clearly year-on-year affects the comparison. The underwriting and financial result was much better, especially in Brazil and MAPFRE RE for the reasons that you can read on this slide.

On Slide 14, we have the other business activities accounts. Here, I'll make reference to the comparison with the previous quarter. As you can remember, in the last quarter of 2014, we had a net balance between revenues and expenses that swung to a loss, and that was because of personnel expenses in noninsurance operation and the operations and expenses due to the start-up of new businesses in the MAPFRE ASISTENCIA, the assistance business. This really does not affect the first quarter. As you can see, the first quarter is almost bang online with the previous year.

On Slide 15, you have the reasons of the variations. We have positive results in MAPFRE INMUEBLES. We had the opportunity to prepay some loans with the gains, and there was -- that is the reason for some capital gains and we had a better performance of the subsidiaries of MAPFRE FAMILIAR and good performance in terms of business development of MAPFRE ASISTENCIA. If you compare the net financial expenses of this quarter with the previous one, you see they are roughly double and that's not due to anything special this quarter but rather the previous one, in which we had capital gains on the equity swaps we have for the long-term compensation packages for management.

On Slide 16, we have the bottom line. Here, you do see a big difference compared to the fourth quarter, and that is fairly obvious given that in the fourth quarter we have the write-downs. And that, of course,

explains why the pretax profit is so much smaller in that quarter compared to the -- to this one. Also, taxes are especially low in the fourth quarter, of course because of the write-downs, because they were tax-deductible and of the -- because of the changes in the tax regulations in Brazil, that does explain, as well, the big gap with the minority interest because part of the gain went to the minorities in Brazil. So you have a twin impact, one on taxes and another one on minorities.

As far as the quarterly figures are concerned, on Slide 17. We have -- we've already seen the reasons for that, the lower results in Non-Life, the impact of the inflation adjustments on the accounts of Venezuela. Last year, we had EUR 2.6 million negative, and this year is basically EUR 16 million negative, so it's nearly multiplied by 7% and, of course, the strong improvement in Life. We see a higher tax rate. The main reason for that are the growing weight of the Brazilian business. As you know in Brazil, the tax rate is 40%, and in Spain is 30%. So the more the business grows, the more the tax rate goes up. And also, we had realized capital gains in Turkey last year, which basically were tax-free. The minorities grow much faster than profits because profits in Brazil are growing especially fast.

On Slide 18, we have the balance sheet. The explanations of the movements in the balance sheet are found on Slide 19. Essentially, we had 3 main variations: A larger business volume, that's obvious; as you can imagine, a very strong impact from the falling spreads we've seen in Spain in this quarter; and, this might be confusing, the appreciation of the Brazilian real. In the P&L, the Brazilian real has a negative impact because we use average exchange rates, but on the balance sheet, we use, according to accounting principles, the previous close exchange rate. So precisely at previous close, the real appreciated against the euro, and that's why we recognize translation gains, which, as we will see later, that doesn't really change that much. The comments on that are referred to the year end, and there's been a modest increase because of some debt usage of subsidiaries, temporary usage and the accrual of interest. Year-on-year, as you know, the main difference is the repayment of the bonds at MAPFRE U.S.A.

Finally, we have the changes in equity. And here, the changes are obvious already, by now. We had the big increase in the value of securities in Spain because of the falling spreads. It's almost EUR 1 billion. And you will see that in Spain because the shallow accounting takes basically 70% of the valuation. When you see such high percentages, it's because the variations in the value of the investments are concentrated in Spain. You will also see what I was referring to about the real, which is EUR 100 million gain, and that's because of the appreciation of the currency at the very end of the quarter.

Distribution of results. We have the dividend approved by the AGM that Mr. Tejera just made reference to, and also the dividends paid by subsidiaries with minority interest. But overall, a very nice increase in the quarter of nearly EUR 300 million in shareholders' equity and nearly EUR 500 million in total equity.

Now we can move to Slide 25. And we'll be explaining to you the information with the new regional breakdown. This slide looks very much familiar. This is very similar to what we had before but the difference is now it is presented in terms of regions. Iberia is different from Spain and -- because it includes Portugal and because it includes the business underwritten in Spain by MAPFRE GLOBAL RISKS and MAPFRE ASISTENCIA. As a rule of thumb, basically, 1/3, 30% of the total volume of business and results of MAPFRE GLOBAL RISKS and MAPFRE ASISTENCIA comes from Spain. That, added to Portugal and added to the developments of the premiums in Spain we saw in the first quarter, means that the total weight of Iberia is about 2 percentage points higher than the weight of Spain 1 year ago. So as you will see, we are not talking about material differences. So it's about 40%, 60%, as you can see there.

In terms of profits, we have Iberia experiences a fall compared to what Spain was 1 year ago, and that is because what we saw, we had a decrease in the technical results of the Non-Life business, especially in motor insurance. And the other regions more or less have the same profit contribution as we had 1 year ago. We had strong profit growth in EMEA and Brazil. And what we do see is a very significant growth in MAPFRE RE, in its contribution to total profits, and that was due to much better underwriting results and larger financial income.

On Slide 26, we have the premiums, and these are now by regional area. And I repeat, for clarity, regional area means whatever you can remember of the past in terms of direct insurance units, plus the business written in those regions by MAPFRE GLOBAL RISKS and MAPFRE ASISTENCIA. So as I explained on the previous slide, Iberia benefit from the strong jump in Life sales, which must be clear by now, and also by

the trend change in MAPFRE FAMILIAR, which had a very modest increase. I think it's more significant because it's positive rather because of its size.

The GLOBAL RISKS business has an impact if you make a comparison between the Spanish business and the Iberia business, and that's because -- was because in GLOBAL RISKS, we had one-off operations in the first quarter of 2013, which were not repeated this year. Just for the sake of clarity, these were special transactions, one-off business, not recurring business from corporate.

Brazil, in local currency continued to grow around 18%, so a very strong increase in reais, but fell due to the appreciation of the euro. We had especially strong growth in term-life insurance and in agricultural insurance. There are now some incentives that are being granted by the Brazilian government that are promoting the sales of agricultural insurance.

Lat Am South fell only 1.5% despite the appreciation of the euro. We had very strong growth in Peru, Uruguay, Paraguay and Ecuador. The Life business, as I said before, fell considerably due to the cancellation of a large corporate account in Colombia. You will see that on the Colombian figures when you look at the detail in the following slides. Promisingly [indiscernible], the GLOBAL RISKS business did very well because it won a large contract in this quarter.

If you look at EMEA, the premiums fell due to the depreciation of the Turkish lira. Otherwise, the business did pretty well. It was strong growth in motor and fire insurance in Turkey, where premiums are growing around 17% in local currency, and in Malta, both in Life savings and Non-Life insurance.

In Lat Am North, we have depreciation of the euro and the cancellation of a large corporate account in commercial insurance. Excluding that, Mexico did quite well in Life, health and accident insurance.

APAC shows a very good development that's mainly driven by the assistance business and RE is growing beyond 40% [ph]; might be small, but in this market environment is not that bad. That's mainly affected by the strength of the euro, and it reflects what we mentioned in the full year results, it's the good performance in the renewals campaign. At the time, we told you that we were expecting a growth of around 4% in third-party business at constant exchange rates, and that's basically what we continue to expect.

On Slide 27, we have the bottom line. So we see that the profits in Iberia fall. That's mainly driven by 2 elements. On one hand, we have the fact that the MAPFRE FAMILIAR and MAPFRE EMPRESAS businesses fall because -- profits fall because of a higher combined ratio, affected to a significant extent by a smaller volume of net premiums earned in motor and commercial, and also because this is the region -- last year in this region we recognized the gain from the creation of Solunion, and that was EUR 13 million pretax. So it does have a significant bearing on the year-on-year change.

Brazil does very well and, despite the euro, we have, in addition to the strong business development, lower expenses and larger financial income. Lat Am South, once again, we are talking regions. So here, last year, we had the EUR 20 million nonrecurring foreign exchange gain in Venezuela. And this year, in commercial insurance, we had a large claim in Chile.

North America is affected in both years by the winter storms. This year, it's about EUR 10 million pretax. Last year, it was EUR 9 million pretax. And also by a lower financial income due, as I said, to the decrease in the volume of the investment portfolio. Puerto Rico does very well because it exited the Medicare business, so that explains the fall in premiums and increase in results.

The EMEA results contract due to the depreciation of the Turkish lira, the EUR 22 million of realization gains because of the Istanbul building recorded in 2013, and the negative mark-to-market adjustments in the value of Maltese financial assets. If we were to adjust for this, the results actually did well because the technical result in Turkey was much stronger year-on-year.

In Lat Am North, we have a decrease because of higher insurance losses in both Life and Non-Life insurance, along with lower financial income in Mexico.

APAC, as I said, benefits from a very strong development in the assistance business and that -- which means also larger profits and that makes up for the application of the euro and the truing up of the claims from Typhoon Yolanda. As you remember, the typhoon was at the very end of last quarter and, as is obvious, we really have received the claims in the first quarter of this year because of timing. The results of MAPFRE RE improved very significantly, especially in the Life business and its financial income went up because of foreign exchange gains in the quarter.

This, on my side, concludes the discussion of the financials. I'll give you a few seconds to take the embedded value presentation and on that -- the presentation will begin from Slide #3.

Okay, so if you have Slide #3 before you, we see a 7.2% increase in the embedded value figure year-on-year. The main driver of that was the growth in the market value of financial investments. We also see that the present value of the new business sold went up. That's because -- was because of a change in business mix. We had much larger sales of mutual funds and a slight increase in savings products. The main driver were the mutual funds. However, we saw falling sales of new protection business, especially in the bancassurance channel. And this has several impacts on the figure that we see. One is the fall in the margin of the new business, and the other -- so that is slow, that's for the new business. And on the stock, we see a decrease in the value of the business, In-Force. This is because of defaulting [indiscernible] in the new sales of protection, but also through changes in the assumptions on lapsation [ph] and mortality, as well as an upward shift in the discount curve that was employed. So this is a combination and we'll see that in the following slides.

On Slide #4, we have the components. As I said before, the ANAV went up because of the strong exchange and increase in unrealized gains, in both patents [indiscernible] and minorities. The present value of the In-Force decreased because, as I was introducing before, let's say that in plain English, the new sales in protection did not make up for the maturing business in the book of protection. So the combination of the 2 leads to a decrease in value In-Force and also, because of the reducing business, higher mortality assumptions on the residual business. That's because of the aging of the portfolio. This was partly offset by the increase in mutual fund sales, but not fully.

The cost of capital decreased slightly despite of the use of higher discount rates because of the fall in the volumes of the portfolio.

And finally, the time value of the financial options and guarantees fell due to higher interest rates and unrealized capital gains, as well as the lower residual maturity of the portfolio.

On Slide #5, we have the same but broken down by line and channel, and so we get more color. As you can see, the value of the In-Force business fell because of the protection business in bancassurance. And here, we see that both the present value of In-Force of this channel and the Life Assurance line fall, and that's clear on this slide because of that. We also see that the sales of mutual funds were concentrated -- and of savings product, were concentrated in the agents channel, and so that explains the strong increase in the present value of the In-Force of the mutual funds and of the agents channel.

You will see a valuation year-on-year. And we have a private wealth management business. Last year, part of that business was classified as pension funds. This year, we decided to classify everything as mutual funds and that explains the majority of the increase in the present value of the In-Force of the mutual funds, and likewise, explains a significant proportion of the decrease in the pension funds.

The cost of capital has fell, although less than volumes, because of the increase in yields I just referred to.

On Slide #6, we have the VIF attributable to MAPFRE VIDA. If you compare it with the figures of the year ago, basically it's the same figure. Last year, it was 1,229, and this year is 1,222. And that's because the fall in value was concentrated in the bancassurance channel. So what we retain basically did not fall significantly.

Slide #7, we have the roll forward. As usual, compared to the previous year, we have a significantly larger negative impact of changes in the model, a lower value added by new business, large positive change in the deviation of the actual value from expectations, and the significant positive contribution from the value -- from the fall in the value of the time value of financial options and guarantees. Put together, these

variations explain an increase of 360 basis points in the return on embedded value, and together with smaller dividend payments, the EUR 190 million increase in the EEV.

Let's move to Slide #8 for a more detailed description. The changes in the model, which are so significant, are the inclusion of business that previously was not modeled, which you have the detail there. We have, in the accidents portfolio, MAPFRE FAMILIAR and the new group annuities portfolio. Changes in assumptions are big. And this is assumptions, I highlight. So claims and expenses, as I say, the mortality, the also is a [indiscernible] different breakdown of the expenses as well as the higher lapse rate. This was partly offset by the positive impact of higher financial margins because of the higher yields. There you have all the figures that explain the variations. The expected return is the usual unwind of the discount's rate and the return on the [indiscernible] the beginning of the year.

On Slide #9, we have the deviation of the actual value from expectations. We have the higher market value of the investments. And in addition to that, we also had the fact that, in last year's projection, we anticipated, because of the higher default assumption, some credit losses which eventually did not materialize. And so that is the main explanation. And the time value of financial option and guarantees I already explained, higher yields, higher unrealized gains and lower residual duration of the portfolio.

On Slide #10, we have the value-added by new business and the margin. We have a decrease that's significant year-on-year. I imagine by now, this should not come as a surprise given the lower volume of new protection sales, which, as you know, carry a higher margin. We have much larger sale of mutual funds but they do not make up any impact [indiscernible] for the fall because they carry a lower -- a comparatively smaller margin. And in addition to that the -- we have higher lapsation [ph] assumptions.

Lastly, on Slide #11, we have the main sensitivities here. Every year we repeat the same. Our business continues to be most sensitive to the same reasons which are old factors, I should say, which are variation in interest rates and in lapse rates. Clearly, there is one that is larger than the other. The very largest one is the sensitivity to default rate, the amount of the sensitivity's basically unchanged year-on-year. Last year, it was 1 70 and this year, it's 1 65. So there's not a major change.

That's everything on my side. I now hand back the call to Mr. Tejera for the Q&A.

Esteban Tejera Montalvo

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

Thank you, Luigi. While in this occasion the presentation was larger than usual due to the embedded value presentation but we are now available for you for questions.

Question and Answer

Operator

[Operator Instructions] Our 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 have a couple of questions. Before that, however, just a follow up on the disclosure because it's great to see you're gradually moving to the -- to align the structure of the disclosure to the new management structure. I just had a couple of questions to make sure that we are doing things in the right way. Just to make sure, in the future, will you be giving the information that we had in the past in appendix on the new basis so we'll have all the detailed investments, investment yield and combined ratios for Iberia, Lat Am North, Lat Am South, et cetera? Will that be the case just to know how we can -- we will have to model going forward? And if so, when do you expect that to be available? And moving to the real question, on the outlook, Mr. Huertas, in the press release, mentioned that you see some green shoots in the insurance sector on the retail level. During the call you just mentioned, again, that you're seeing MAPFRE FAMILIAR moving to growth. Just maybe you could follow-up with -- expanding on this, whether you see this just related to Health and Life or whether you see also the motor and other P&C lines moving back to growth, at all? And secondly, on the -- more accounting-wise. On Slide 10, you mentioned there are some changes to the recognition for commission expenses -- for commercial expenses in Spain. Is this bigger or smaller? Could you quantify this at all? And instead on Venezuela and impact on the devaluation on your accounts, which exchange rate are you using at the moment? I would guess it is the official exchange rate and not yet the auction rate, which is also official but it's a different one. Just -- it's a bit -- different companies in different sectors are using different approaches here, so if you could clarify how your -- which exchange rate exactly you are using in the case of Venezuela?

Luigi Lubelli

Niccolo, the question on the green shoots, I'll leave Esteban to answer your question. Thank you for the first question because I think it's very important and very relevant for everyone listening. Here, there are -- firstly, we no longer have MAPFRE INTERNACIONAL and MAPFRE America. These entities continue to exist legally. So when you will see our full year accounts, you will see that the entities show up but the reality is these entities are basically staying on as books. I mean, they are companies, but the management is now organized along the lines of the regional areas that we are reporting. So we are reporting according to the way -- as it should be, by the way, according to the way our business is actually run. So let's say that MAPFRE INTERNACIONAL and MAPFRE America continue to exist for legal and administrative purposes, but they no longer are run as companies. And that is the reason for which we no longer give you the figures. What are we giving you to help you make the transition? The figures the you find in the appendix, you will find figures from MAPFRE FAMILIAR, MAPFRE VIDA, MAPFRE EMPRESAS, MAPFRE U.S.A., Brazil, RE, et cetera. They are the same that you had in the previous accounts. So those are exactly identical to those you had. And of course, the consolidated figures are the same, as well. So if you look at those accounts, you will find no difference. Those figures are exactly the same you've been adding quarter-after-quarter in the past. Whenever you see differences, they are really in few instances. You will see that mostly, if my memory doesn't fail me, in Lat Am North and APAC and perhaps Iberia. It's because in those regions, either GLOBAL RISKS or ASISTENCIA have some gains or insurance variations which are relevant. And also to help you smooth the transition also because of the matter of scale, mostly, when you see differences between the region and the company's because of GLOBAL RISKS, because GLOBAL RISKS has the biggest swing in both premiums and profit. So just to give you an idea. I wonder if this clarifies your question -- answers your question, Niccolo, otherwise, please ask because I think it's for the benefit of everyone.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Yes, it does. And just also one more part. So for the future, if I look at, for example, Slide 35, which is the complete P&L for -- on the new structure, are you going to give granularity in the same way today you get from MAPFRE FAMILIAR, i.e. we have expense ratio, [indiscernible] loss ratio then the pool of investments for the financial investments, et cetera?

Luigi Lubelli

Possibly, yes. I mean these are quarterly accounts, also. And these are not half year or full accounts, so it's likely that we will be giving more details on half yearly and full yearly. These are quarterly figures so -- and also they are initial. But yes, of course, going forward we'll give more information on the regions as the business progresses. So on the -- I will finish with the "technical question," let's say, and then I'll leave to Mr. Tejera your second question. On GLOBAL RISKS, your question was the expense ratio? Do I remember it well?

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

On Slide 10, you mentioned that you have changed the recognition criteria for the commercial expenses in Spain?

Luigi Lubelli

Yes. Yes, it's not commercial insurance, it's distribution expenses. It's just that we decided to anticipate the recognition of some commercial expenses in full in the first quarter. So what you will be seeing is a gradual dilution of this impact as the year progresses.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Is it very big in terms of or -- what kind of numbers are we talking about?

Luigi Lubelli

I mean, as I was not given precisely the figure, I cannot tell you. But it's mostly -- let's say most of the increase in expense ratio in the Spanish Non-Life operations comes from that. It's the main component. And as far as Venezuela is concerned, you're absolutely right. We continue to use the same exchange rate as we did before. So for those in the business, it's not SICAD I or SICAD II. We are discussing this with our auditors and we anticipate that we will be reaching some sort of decision soon. But as we are yet discussing this with them, we decided not to make any recognition in these accounts, the first quarter accounts.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Okay. And if there was a recognition, there would be some one-off gains? Although that would be partly eaten up by the inflation later in the year, right?

Luigi Lubelli

One-off gains and one-off losses. I mean, it's a combination of the 2. Yes, but you -- I mean you understood the mechanics but it's good that you ask, and that will be for the benefit of everyone. As you know, in Venezuela, we have a significant proportion of the portfolio that is dollar-denominated. And that is the reason why, 1 year ago, when the same happened basically, we had one-off gains that we recognized as basically some sort of hedge, which flows through the P&L and compensates for the losses in equity. So if that's all on the technical side, Niccolo, I'll pass the questions to Esteban.

Esteban Tejera Montalvo

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

Niccolo, well, the situation in Spain -- the economic situation in Spain is -- they are improving. And I think that this will impact in the growth of our businesses. It's true that usually, there is a delay of

several months before this occur but this is happening. In terms of the motor insurance, even if the gross or written [indiscernible] premium will continue to decrease in the sector as a whole, but the figures now are smaller than before. So there is a change of tendency. We can see how another branch is like [indiscernible] is growing. We have grown more than 6%. In home, it is starting to grow. So I think that in Spain, the situation is improving in terms of the growth. It's true that when this happen, usually the frequency, especially in motor insurance, will grow also but I think that our new policy of being very prudent in terms of the technical reserves will work well in this environment. In the other countries in Latin America, especially in Brazil, in Turkey, where there are worries are about the evolution of these countries, I think that our positioning there is very strong and the demand for insurance programs for particular will continue to grow and our figures show that. We have grown in Brazil roughly 18% in local currency, and more or less is the same in Turkey. The growth of the middle class there and the high demand for insurance will continue and we'll have very good position there. So I think that we are in some kind of recovery in general. And the main concern now is the appreciation of the euro will continue or not and to what extent, I think [indiscernible] this very fast movement of the currency changes will improve our figures in the near quarters dramatically.

Luigi Lubelli

Did we answer your questions, Niccolo?

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Yes.

Operator

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

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

I have a few questions. First one, on the motor business in Spain. I saw that your report today is still a decrease of 4% in both premiums and vehicles insured in your motor insurance in Spain. And I wonder if you can give us some more color because I expected to see some pickup in the number of vehicles insured and maybe also on the premium income? And also if there is any impact of claim frequency driven by some increase in the economic activity in Spain? Second question regards the Non-Life investment income. And then, Slide #22, if you can give us also the figure for both the first quarter of 2014, 2013, or the impact of mark-to-market securities? So what is the impact due to the variation of interest rates in your financial income, as you provide us in the previous quarter? And finally, one question, expense ratio in the Life business because I saw a good trend in the first quarter compared to the previous quarter. If you can -- I guess it is mainly driven by the business in Lat Am, maybe driven also by ForEx, but also if there is any other impact on this improvement?

Luigi Lubelli

Let's see, one important element, which does have a certain impact on the motor business, although it seems weird, but this year in Spain and also in Latin America, it does matter, is the fact that Easter this year was in April, last year it was in March. So it does have an impact on both issuance and of claims. So in the Easter week, there is less issuance but also less claims. So this year, when you compare the 2, you have more issuance and more claims, let's say, in the first quarter of this year compared to the first quarter of last year. It may seem irrelevant but it actually does have an impact. Let's say, in terms of -- and Mr. Tejera can elaborate on this in terms of the trends. What we are seeing basically is that, as the year progresses, we are seeing, let's say, what you would expect from an economic recovery. So we are seeing some pickup in sales and we're also seeing a pickup in frequency. The fact is on the motor side, we have that more towards the end of the quarter, rather than the beginning of the quarter. So let's say that the quarter in motor insurance maintains the trend we saw in previous quarters, but empirically, we are seeing an improvement that we understand, "hope or trust" will be stronger in the second quarter of this year compared to the first one. It is true that vehicles fell, but it's also true that vehicles fell half what

they fell, on average, in the previous year. So last year, we were about 80,000 vehicles, and this year, we have 40,000 vehicles. So I'm wondering if I'm conveying to you what we see. So let's say it's not yet in the figures but the figures are less bad than they used to be because of this change in trends we are seemingly experiencing in the market. Does that answer your question?

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

Yes.

Luigi Lubelli

The question on the financial income was not clear to me. I've got Slide 22 in front of me, and exactly what is your question?

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

No, because I remember that in the past quarter, you provided the impact of the rising interest rates, particularly in Lat Am, on your security classify in the [indiscernible] value to profit and loss. I remember that there was a particularly tough impact in the full year 2013, of minus EUR 49 million, due to this. And I wonder what was the impact during the first quarter 2014, if any?

Luigi Lubelli

Right. I am comparing to -- the fact is that this is a quarterly comparison. We did not give that figure in the first quarter of last year. So that's possibly the reason why we have -- qualitatively, there is -- let's say, the main impact last year was in Brazil on the negative mark-to-market. What has happened from then on is that, as it matures, the portfolio that we first previously had at fair value to P&L now is increasingly at fair value to equity. So if you look at the year-on-year variations, the mark-to-market has less of an impact because basically, we no longer have investments at fair value, at least in the same proportion. The proportion but certainly [indiscernible] straight answer to your question is that the proportion of the portfolio fair value to P&L has fallen dramatically in Brazil. That is one. And also in Malta, the variation was comparatively smaller, if my memory [indiscernible] of less than the fair value [indiscernible]. Okay? And let me see -- because I had somewhere, your question -- what expenses in Life?

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

Yes, I mean, I saw that there was an improvement in the total expense in your Life business?

Luigi Lubelli

The expenses, where do you see the expenses of the Life business?

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

I mean your reclassification of your accounting, i.e. the net operating expenses were 245.

Luigi Lubelli

I see, I see.

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

Some EUR 20 million less compared to the past year despite that the volumes are larger?

Luigi Lubelli

Of course. Yes, yes, yes, this is Brazil.

WWW.SPCAPITALIQ.COM

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

Impact to the ForEx...

Luigi Lubelli

No, no, no, it's not ForEx. Last year, in the Life account, we had the burial business. If you remember when, in the last quarter of 2013, we reclassified the burial from Life to Non-Life, you saw a big increase in the combined ratio in Brazil on a quarterly basis. And this is because the burial business in Brazil has comparatively larger expenses. So last year, you had the burial in Life and that is the reason for the difference in expenses year-on-year.

Operator

[Operator Instructions] Our next question comes from the line of Federico Salerno from MainFirst.

Federico Salerno

MainFirst Bank AG, Research Division

Just a few things. First question is on MAPFRE EMPRESAS. I think you mentioned some large claims in the first quarter. Could you quantify that in terms of impact on the loss ratio maybe? That's the first question. The second is on embedded value. You mentioned higher assumptions for lapses because of the economic environment. Could you expand a little on that, say, which products were affected most maybe? And then the last one is on MAPFRE U.S. The loss ratio stayed quite high. Could you explain why, what's going on and what's the outlook for the remainder of the year?

Luigi Lubelli

Okay, Federico. We cannot quantify the losses that -- because we actually have not disclosed it. What I can tell you is that -- let's see. Let's skip to Slide 39, where we have the figures of MAPFRE EMPRESAS. Here there is some impact from the net premiums earned. That is something that you have to bear in mind in the loss ratio. So in terms of the actual losses, you had basically EUR 27.6 million of losses 1 year ago and EUR 31.5 million losses this year. So the difference is -- doesn't get to EUR 4 million year-on-year. I have arrived to these figures by multiplying the -- sorry, my mistake, sorry I got confused. Forget what I just said. I have multiplied the expense ratio. Let me -- I'll make the calculations again, my mistake. Okay, sorry for that. So we had EUR 69 million, in terms of cash, of losses last year, and we have EUR 79 million. So it's EUR 10 million more. This I arrived by multiplying the loss ratio times the net premiums earned. So the increase is about EUR 10 million. What has happened is basically we have a frequency impact. We have a higher frequency in EMPRESAS. I cannot tell you exactly. And then we had a few claims in fisheries. We had some boats that sunk.

Esteban Tejera Montalvo

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

I think that, Federico, that there is a major claim in special operations. I think -- unfortunately, I can't give you details now but I think that tomorrow we will have the details for the -- if you wanted special operations enterprise [indiscernible] loss.

Luigi Lubelli

But also I mean, [indiscernible] in terms of the boats, it may sound strange but if you can remember, both Spain and the U.K. has had very bad weather and very bad sea. And that led to some losses in marine, which affected this line. Lapsation [ph] in the embedded value was -- the impact was primarily on protection business. That was the business that was most affected. But these are assumptions, change-in-attribution assumptions. And your third question, I'm sorry, could you please repeat your third question?

Federico Salerno

MainFirst Bank AG, Research Division

Sure, it's on the loss ratio in the U.S., basically it stayed flat, if I'm correct. I was expecting some improvement. Can you say what's going on and what the outlook is for the rest of the year?

Luigi Lubelli

The first quarter, as you know, it's winter [indiscernible]. So -- and you're right, they are somewhat larger, they're not much larger. So one of the reasons is that the winter storms are a bit larger. Let me just get the figures in front of me so that I can -- so that is the -- I mean, the loss ratio in this U.S. is not that different, really, from 1 year ago. We have 0.2 percentage points difference. So it's -- I mean, we have EUR 1 million more of -- roughly, of losses. What that affect, as I said before, is that we are expanding our distribution network in the United States and that, of course, is leading to larger expenses. What really drive the increase in the combined ratio is that, as you can see on Slide 45.

Federico Salerno

MainFirst Bank AG, Research Division

Do you still think you will get to 100 at some point in the next few quarters or it's out of reach?

Luigi Lubelli

That's certainly what we always strive for. Just see -- I'm just trying to recall because I cannot keep all the figures in my head, but 1 year ago, we ended the year at 100.5. We began the year last year at -- well a bit better than this. So hopefully, we do have these expenses but certainly, what we are aiming for, we always do, we are aiming for a technical profit, an underwriting profit.

Operator

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

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

This is Vinit here, from Goldman. Just on the Spanish commercial insurance, if you just focus on that, please. The first thing I wanted to understand is, is the frequency uptick, is it in line with what you were mentioning in the last quarter's conference call? So in other words, you'd already indicated that the frequency is up-ticking in commercial lines. Is it just the same trend in line with expectations or is it much worse than what you were indicating? Secondly, you also mentioned competition. Is that a major portion of the reason for this slight miss in earnings or is it more driven by this frequency and large loss phenomena?

Luigi Lubelli

Okay. I would say that the answer to the first question is yes. Very much so, I would say, also. Let's see, the loss ratio in commercial in Spain, most of the increase is claims, not frequency. It's the corporate claim that Mr. Tejera was referring to and the claims in marine I was referring to. There is an uptick in frequency but let's say that, that was not the main element in this quarter, frequency-wise. In commercial, let's say it's a trend that we've seen a bit everywhere because we've seen that in -- it's perfect [indiscernible]. In Spain, we have 2 main variations because one we've seen in MAPFRE EMPRESAS and the other one is seen in GLOBAL RISKS. In MAPFRE EMPRESAS, we actually have U.S. competition. We have these corporate contracts are often contracts which are EUR 10 million or EUR 20 million piece. So if you have a contract which is not renewed, it's EUR 10 million or EUR 20 million that go. And so that is something that creates a swing in your premiums figure year-on-year. And we have instances like that in Spain but also in Mexico, also in Lat Am South. It's been let's say a generalized trend, which is just the market is soft and very competitive. In GLOBAL RISKS in Spain, which is reflected in the Iberia figures, it's simply that last year, we had one-off operations. I mean, just to give you an idea, one of them was the launch of a satellite. Clearly, you don't launch a satellite every year in the first quarter. So we insured that 1 year ago and we did not insure that any longer this year. So this is the kind of variations that we have. Am I answering your question?

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Yes. If I can just ask one thing quickly on Brazil. The 93 combined ratio -- this is a third point, just to clarify. Yes, the first 2 are clear enough. Just a third question, if I can squeeze in. The Brazil 93 combined ratio, is that something we should note in that? I mean, you probably mentioned it and probably the line wasn't clear, so I apologize if I'm asking something you mentioned.

Luigi Lubelli

No, it's all right. In Brazil, there's 2 elements. Non-Life, you're talking, right?

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Yes, the 93.1 combined ratio in 1Q.

Luigi Lubelli

Okay. So here, we have 2 drivers. One is a negative one, which is the burial business, which last year wasn't in Non-Life and this year is in Non-Life, in the Non-Life. That has a negative impact on the -- had a negative impact last year. So that explains to you the fall in the expense ratio because this year you don't have the burial income -- the burial business. This year, you have a higher loss ratio because the burial business has a lower loss ratio and also because, especially in motor insurance, we are seeing an uptick. What compensates for the 2 is the fact that the business mix was geared towards business with cheaper acquisition expenses. So on average, the acquisition expenses have fallen. But naturally, you have 2 [indiscernible]. Yes, so the expenses you have 2 reasons for the decrease. One is that you no longer have the burial business, which is more expensive; and two, that what you have sold has had on average a lower acquisition cost and lower commissions paid on it. On the loss side, you no longer have the burial business, which has a lower loss ratio, and the claims have gone up in motor insurance. And also in agricultural insurance, we have drought. Sorry, now I've recalled it. We also had a drought, which has an impact on agricultural insurance.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Okay. So the 93 combined is strong because of expenses? Okay.

Luigi Lubelli

Yes.

Operator

There are no further questions.

Esteban Tejera Montalvo

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

Okay, if there is no more questions, thank you, as always, for attending our conference call. And I hope to see all of you tomorrow in London, and I hope to take the opportunity to deliver the figures for the next quarter, as always. Thank you.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.

The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.

THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.

© 2017 Capital IQ, Inc.