

# Mapfre, S.A. BME:MAP

## FQ1 2013 Earnings Call Transcripts

Friday, May 03, 2013 11:45 AM GMT

### S&P Capital IQ Estimates

	-FQ1 2013-			-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	-	-	-	0.31	0.32
Revenue (mm)	5698.00	5903.80	▲ 3.61	21319.59	22773.48

Currency: EUR

Consensus as of May-02-2013 10:25 AM GMT



# Call Participants

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## EXECUTIVES

**Esteban Tejera Montalvo**

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

**Luigi Lubelli**

## ANALYSTS

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*CA Cheuvreux, Research Division*

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# Presentation

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## Esteban Tejera Montalvo

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

Good afternoon, ladies and gentlemen. Welcome to MAPFRE's First Quarter 2013 Results Presentation. As usual, I'll give an overview of results and then the main business development, and later Mr. Lubelli will explain the financials in greater detail. Finally, we'll entertain your questions.

Please move on to Slide #3. MAPFRE continues to deliver growth and profits despite another challenging environment. The revenues grew 1.6% until EUR 6.9 billion. Premiums grew in the sequential only 0.2%, reaching EUR 5.9 billion. We registered a growth of 9.6% in the managed savings. In this case, we have introduced, for the first time, the funds management managed outside of Spain and this -- the mutual funds. And this represents that if we exclude this, the growth will be 5.7%.

We have improved, again, our non-life combined ratio into 95.1%. And this is due mainly to the improvement, consistent improvement of combined ratio in Latin America, even if we have suffered a lot of the climate, very bad climate conditions in Spain, and the frequency in Spain at recent and also in the U.S.A. due to the snowstorms and the combined ratio is going down. And the shareholders equity per share grew by 12.6% and is now EUR 2.60. Attributable result of EUR 264 million is 2.6% minus in comparison with the same figure of last year.

Let's move on to the next slide, where we can see how the equity has grown by EUR 355 million in the quarter as a result of the benefits of the geographical diversification and the stability of the Non-life underwriting results, which I have mentioned before. And even if we have suffered, not only the decline of the premiums in Life assurance in Spain, not in the reinsurance, but also the completion in Spain. We have, in this quarter, the impact of the depreciation of the Brazilian real, we have reduced our premiums growth by over 2 percentage points. In fact, in Brazil, the domestic growth was 18%, and due to the depreciation of the real, we have to register in euros only 5%. Additionally, in this period, we registered also the sale of the Argentine companies, we're taken away an additional percentage point. You remember, we sold the activity in wage compensation in Argentina in the last quarter of the year.

On Slide #5, we have the recurring results. In this period, we haven't any special extraordinary gains. Only the gain from non-recurring exchange rate and differences of EUR 13.2 million, mainly due to the extraordinary gain reduced in the period due to the devaluation of the bolivar in Venezuela. And we have registered also our capital gain from the creation of Solunion, our merger with Hermes in the credit insurance. The recurring results fell reflecting, mainly, the falling demand in Spain; the weather-related losses in Spain and the U.S.A., I mentioned before; the depreciation of the real; the lower recurring financial income due to the generalized decrease in interest rates and lower recurring Life business volumes and results in Spain and reinsurance. In any case, we are taking initiatives to raise business volumes mainly in Life during this quarter and to increase profitability, which we trust will bear fruit in the remainder of the year and be better [indiscernible].

Please, let's move on to the next slide. Here, we report the final dividend, which was approved in our AGM on March 9. And as you know, the final dividend is EUR 0.07 gross per share. So the outlay against the 2012 results amounts to EUR 339 million. This dividend will be paid on June 28.

On Slide #7 is a snapshot of our portfolio. Compared to the close of 2012, there was a 1.5 percentage points increase in the weight of the government bonds and a 1.1 percentage point decrease in corporate bonds. In the financial institution portfolio, the weight of Spanish bonds fell 1.3 percentage points, primarily because of reinvestment in public debt. The falling interest rates have a significant impact on values compared to year end.

And as usual, I will now hand the call to Mr. Lubelli, who will comment on the financials in greater detail. Luigi?

## Luigi Lubelli

Thank you, Esteban, and good afternoon to you all. Please let us move to Slide #9. On this slide, we show the new operational structure. As you might remember last year, we announced that in order to maximize synergies, we were going to introduce some organizational changes. That is, that Portugal is now part of the Spain and Portugal insurance division and MAPFRE Puerto Rico will report to MAPFRE INTERNACIONAL. And as Esteban just said, we also sold 2 Argentine subsidiaries. Therefore, the accounts of MAPFRE AMÉRICA, and I'm referring now to -- in order to all the figures that I've shown in this document, the accounts of MAPFRE AMÉRICA no longer contain those Argentine subsidiaries and Puerto Rico. The accounts of MAPFRE INTERNACIONAL contained Puerto Rico and excludes Portugal, and Portugal is included in the accounts of the Spain and Portugal division. And therefore, the figures for Q1 that we are presenting in this document reflect these changes.

I must stress that these changes reflect the way the business is managed. From a legal standpoint, for the moment, there is no change. The accounts remain as they were. But the way they are presented, the aggregation of the company's changes and that is reflected in this document. In the appendix, you will find the like-for-like first quarter 2012 and first quarter 2013 under the new operational structure.

On slide #10, we have the breakdown of premiums and profits by line of business and basically, Spain and non-Spain. And unsurprisingly, our activities abroad continue to gain weight in premiums and results, contributing the majority of both. A year ago, the foreign business contributed 62% of premiums and 45% of profits. Therefore, what we have seen this year is an especially strong jump of nearly 10 percentage points in the contribution to profits, which is the most remarkable change.

On Slide #11, we get a more granular look at these figures. We see that Spain's weight fell in both premiums and profits. And as I just explained the contribution of our foreign business activities was especially notable in profits. The activities of MAPFRE AMÉRICA outside of Brazil recorded a major progress, which was driven primarily by foreign exchange gains in Venezuela, but also a profit growth in Mexico, Colombia and Chile. Brazil contribution fell because of the depreciation of 10.7% of the real against the euro, which Mr. Tejera just cited. The 300 basis points fall in the SELIC rate and the higher tax rate on account of a lower amount of deductible tax credits. If the exchange rate had been stable, premiums would have grown as was just said about 18% and profits roughly 10%, I'm talking Brazil. MAPFRE GLOBAL RISKS benefited from foreign exchange and realization gains. The profit in MAPFRE U.S.A. fell primarily because of the snowstorms, that also were mentioned, and of a higher tax rate. And finally, we see that the contribution of other countries went up significantly and that mainly comes from Turkey, where we sold a building, the headquarters.

On Slide #12, we have a breakdown of the Non-life results. In Spain, the premiums fell moderately. And that reflects primarily a market-wide fall in the motor business, which is -- perhaps does not come as a surprise, it's due to the fact that people buy cheaper covers because the available income is falling, and because the car fleet is aging. The higher loss ratio, along with the lower net premiums earned led to a decrease in the underwriting results. Nonetheless, the combined ratio remains at levels which are exceptionally low and quite good by industry standards.

Brazil, on the Non-life side grew, thanks to the reclassification from Life to Non-life of some lines of business, which as you can remember, we carried out in the last quarter of 2012, and to organic growth as well. The underwriting result improved notably, thanks to the reclassification I just talked about, but also thanks to a decrease in the expense ratio. We have a fall in MAPFRE AMÉRICA's non-Brazilian business, but that's only apparent, and it is due to the sale of the Argentine subsidiaries and to the transfer of the Puerto Rican business. If we adjust for that, the underlying growth was strong at 11.7%, thanks to growth across the board and especially, Mexico, Colombia, Chile and Peru. The underwriting result reflects the sale of the Argentine businesses, as well as several initiatives to improve underwriting and risk selection.

MAPFRE RE's premium grew basically because of internal contract with MAPFRE Spain covering the retail business. If you exclude that, they would have been roughly flat in line with the previous year. The combined ratio fell, thanks to a better loss experience. And then MAPFRE U.S.A. grew, thanks to rate increases in all states and to the appreciation of the dollar. The loss ratio, as I already said, increased because of the snowstorms. MAPFRE GLOBAL RISKS shows a contraction in premiums that's mainly due to 3 reasons: One is the change in the issuance date of a last contract was normally issued at the beginning

of the year, will be issued later on. The transfer of the credit business to Solunion, the JV we have with Euler Hermes. And some cancellations, which shouldn't come to us a surprise, as a result of the cuts in the company's ratings. The combined ratio increased due to the impact of the dollar's appreciation on the liabilities denominated in this currency. And to higher insurance cost -- reinsurance cost.

And finally, MAPFRE ASISTENCIA recorded very strong growth, thanks to 2 business development that took place in 2012, the acquisition of a company in the U.S. called Century that operates in warranty extension insurance; and a contract, also in the U.S., in the roadside assistance, a large one. The combined ratio remained broadly stable.

On Slide 13, we have the explanations of the Non-life account. I've already talked about premiums growth and underwriting results. We see the financial income, that was impacted primarily by falling rates with the special mention for the 300 basis points in the SELIC. We also have a larger realization gain, EUR 51 million this year against EUR 24 million the previous year. Nonrecurring exchange rate differences of EUR 20 million. When I say nonrecurring, that is in Venezuela, because in the country we have dollar-denominated assets. And because of the devaluation decided by the government, those assets led to a gain, which was recognized in the company's account.

On Slide #14, we have the Life account, where we see a fall in premiums and results. In the case of Spain, the decrease was due to a focus of sales campaigns on mutual funds. The technical financial results in 2012 contained a EUR 7 million realization gain, which we don't have this year, and that affects the comparison. And furthermore, this year, a decrease because of the lower business volumes.

Brazil falls, as I said before, we reclassified some lines to the Non-life account. Even excluding that, we would still see a contraction in premiums and results, which would be due, in that case, to the depreciation of the currency. The remainder of MAPFRE AMÉRICA's Life business grew strongly and that was due primarily to the business in Columbia. MAPFRE premiums decreased because the issuance calendar changed in 2013, some premiums which were issued in -- well, accepted, I should say, in the first quarter of 2013 this year will be recognized later on. The technical financial result decreased because of a higher loss experience. And finally, Middlesea is benefiting from very good growth in the savings business and larger financial income.

On Slide 15, you have the explanation of the Life account, but really there's nothing significant to add with respect to what I just said, so I'll move on to the next slide, 16, the other activities. Here, we have the explanation, they don't really change with respect to previous periods. And the bottom line has barely changed year-on-year. So if you'll allow me, I will also skip this page.

On Slide 17, we see the net attributable result, which decreases, what I just said already, by 2.6%. That reflects, in addition to all the business and financial income trends, a lower tax rate and comparatively slower profit growth at life bancassurance in Spain and the growth in which we have minority interest.

Slide 18, we have the balance sheet. Here, we have the appreciation of the U.S. dollar and Brazilian real, which increased the value of the assets abroad, and had an upward impact on intangibles and investments. Investments also went up because of the very business growth, of the reinvestments of part of the liquid assets and which was an especially significant phenomenon in the first quarter. And if things stay as they are, could be also in the second, was the recovery in market prices.

On Slide 19, we closed with the statement of changes in equity. We had a significant increase in asset values of about EUR 274 million. And we saw that we had shallow accounting absorbing about 72% of that, which is higher than average share. And that was due to the fact that most of the appreciation took place in Spain. The assets, Spanish assets, were those that appreciated the most. It is also worth noting the positive impact of the appreciation of the U.S. dollar and real. As you know, a very significant proportion of our total equity is invested in these currencies.

And finally, we have, in the movement of equity, the dividends, both those approved by the Annual General Meeting and those paid by subsidiaries with minority interest.

That's all of my side, and I'll now hand the call back to Mr. Tejera for the Q&A.

**Esteban Tejera Montalvo**

*Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re Operator, we can...*

## Question and Answer

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### Operator

[Operator Instructions] Your first question comes from the line of Vinit Malhotra.

### Vinit Malhotra

*Goldman Sachs Group Inc., Research Division*

I think a few very small quick ones. You mentioned on MAPFRE FAMILIAR that better cost and unfavorable underwriting. Could you just comment on -- if it was -- what's the number there? Second thing, just staying on Spanish insurance. The commercial lines, obviously doing much better, even on the growth side. And if you could just comment on why the economic slowdown is not impacting that? Just one clarification. You mentioned EUR 22 million capital gains on the Turkish building insurance -- on the Turkish building sale. And it's not adjusted for in the recurring results slide -- is it because most of it is going to policyholders? Then on Brazil, there is a 1.2%, I think, in the fourth quarter from this classification positive impact. Is it the similar magnitude even now in the first quarter?

### Luigi Lubelli

Can you just repeat your last question. I was taking notes of the first previous ones and I wasn't able to...

### Vinit Malhotra

*Goldman Sachs Group Inc., Research Division*

I'm sorry about this. Sorry for this too many questions. In the Brazilian combined ratio, the reclassification had led to a 1.2 points of improvement last quarter. And is it a similar magnitude even now or is it -- or is there no impact this time around?

### Luigi Lubelli

Okay. I would -- well, first good afternoon and thanks for your questions. The Brazilian combined ratio, I wouldn't compare the 2 quarters, because in the last quarter of 2012, we basically adjusted the whole year backwards. So I wouldn't take it as a comparison. I don't have the exact features, but I would say I tried to convey that in my speech. The reduction is, let's say, there's a reclassification element, which is the larger one. But even without the reclassification element, the combined ratio would have fallen and -- Jesus, I've got it here, we would have fallen below 100% as well because of expenses. You remember last year, we had -- we still were absorbing many one-offs due to the very creation of the joint business, which we no longer have, and then somehow lifted the expense ratio. And we don't have that this year. To your next question. I don't have the precise figure for the impact of the weather. It's primarily impacted household insurance, but also motor and also communities, we call it communities, which is basically buildings. And it was, basically, bad weather in Andalucia. But that's all I can tell you qualitatively, I don't have the figure. The commercial lines went up primarily because of agricultural business. The company -- there is a, say, public-supported scheme for agricultural insurance in Spain, and our company increased its share in this sort of a pool. And that is what is reflected in the first quarter. We don't necessarily expect that to continue in the coming quarters, but that's the primary reason for which you saw this increase in this quarter. And you're right, the capital gain in Turkey on normal conditions would have been reflected by the factors that you had a similar magnitude increase in the appropriation to loss reserves for underwriting. And basically, as the 2 amounts erased each other, we saw it wasn't necessary because the net amount is less -- the amount would have been left on a net basis would not have been significant for the consolidated account.

### Vinit Malhotra

*Goldman Sachs Group Inc., Research Division*

Okay. So it was policyholders then mostly?

### Luigi Lubelli



Have I answered your question, Vinit?

**Vinit Malhotra**

*Goldman Sachs Group Inc., Research Division*

Yes, very much.

**Operator**

Your next question comes from the line of Atanasio Pantarrotas.

**Atanasio Pantarrotas**

*CA Cheuvreux, Research Division*

I have 3 questions. The first one is on the Non-life financial income. If I look at slide number 40, in which you put the Non-life financial income, it seems that the ordinary financial incomes, so excluding realization gains and ForEx impact, went down materially in the first quarter 2013 compared to the first quarter 2012, more than 30%, and I wonder how this is possible. I agree to the fact, that today, there was a slowdown in interest rates. But if I remember well, your duration is at around 4, 5 years in Non-life, so I expected to see a milder decline of the ordinary financial income. The second question is on your capital position. How comfortable do you feel after the healthy recovery of the especially Spanish government bonds and also corporate bonds in your portfolio? And if we can expect to see an increase in your dividend and your payout in line with the past year, so excluding the last ones, so until 2011. And finally, one question on the motor Spanish business. First of all, I saw there was a sharp decline, if I understand well, of the motor premiums. And I wonder if this is due to lower volumes, mainly, or lower tariffs? If you can give us more color on this.

**Luigi Lubelli**

Atanacio, thanks for your questions. I know it may come as a surprise, but that's the reason. The financial income went down because rates fell down. And the only thing that I would think, perhaps, complements it a bit, I don't recall the figures of every single company, but I would imagine that the investments also in some cases may have fallen due to a lower amount of business, so that compounded a bit. But really, the reality was that the rates fell, you have to think that for instance, in the case of Brazil, we are talking about 3 percentage points. We don't just have Spain in the accounts. So all these figures compound each other and lead to that effect. But that was the explanation, that was the main explanation. Yes, the yields fell. The capital position surely has improved. I mean, I mentioned about that. We clearly, and especially after the close of the quarter, I would say, because the main impact we are experiencing right now, the spread on Spanish government, that has fallen remarkably since March 31. So if things remain the way they are now, the impact in June would be likely immaterial on equity. And then it depends how the euro will behave against the dollar. But if we had a scenario in which dollar appreciates against the euro, we could also see that. However, as you can imagine, here, we're running a ship we cannot change our policies so quickly. Firstly, it's a decision of the board, and the board will take that decision towards the end of the year. And a lot of time has to pass and many things can happen. And secondly, we said in the fall of last year that MAPFRE, for the moment, and that moment has not changed yet, we still are in a situation that it's broadly comparable to what we saw last year. We think that we have to be comparatively more liquid and more capitalized than we used to be because the business requires so. So for the moment, nothing to report on the dividend's standpoint. But most importantly, because as I say, the Board of Directors is yet to make any decision on that. And finally, well, the motor business, thanks for asking the question, because I think it's an especially relevant one this quarter. I mean, simply, it's the fact that it's both, essentially. You have to think that -- today, actually we had the first news that car sales have picked up for the very first time in a long, long time. But they may be due to a government support scheme. But otherwise, car sales have fallen. People's income has fallen, frequency has falling, and the car fleet is older. So all of that leads to both a fall in demand and a fall in average premiums, because people are buying simpler covers for older cars. So it's a combination of the 2. But the whole market fell very significantly, I have to say, it was a significant fall in this quarter.

**Operator**



Your next question comes from the line of Maciej Wasilewicz.

**Maciej Wasilewicz**

*Morgan Stanley, Research Division*

It's Maciej from Morgan Stanley. I've got a couple of questions, if you don't mind. The first question is just whether or not you can give us any update at all on the Aseval or the Bankia overhang issues? I'll group them as one because you might well say that there's just nothing to say. The second thing is on MAPFRE RE, you mentioned in your presentation that the loss experience that led to a fall in profitability and also, that the premiums falling 20% was something that was due to a delay in recognition. I guess a lot of people that I speak to think that perhaps the MAPFRE RE business is under a lot more pressure because of the rating situation, Spain more broadly, but you guys in particular face. I'm just wondering, would expect a stable volume year-over-year in MAPFRE RE based on what you've said. And also, within that loss experience, what have other reinsurers had a good loss experience. I know your business mix is probably a bit different but perhaps, you could trash out a little bit more why the experience was as it was.

**Luigi Lubelli**

I'll take the first question on MAPFRE RE. I think perhaps the fact that I've spoken very swiftly and there might have been some confusion. No, what happened with -- you're talking MAPFRE RE, right?

**Maciej Wasilewicz**

*Morgan Stanley, Research Division*

Yes, yes.

**Luigi Lubelli**

So MAPFRE RE actually had an increase in premiums, which was essentially due to an internal contract that it signed with MAPFRE FAMILIAR. If you exclude that the premiums were actually flat. And which is something that we already said in the full year results after the renewal season had concluded, that we broadly were expecting figures to remain stable throughout the year. So that remains the indication and that is what the results for this quarter point to. And actually, no, the loss experience in MAPFRE RE improved. We had a better non-catastrophic loss experience with a lower frequency.

**Maciej Wasilewicz**

*Morgan Stanley, Research Division*

You know what I've done, I think I've looked at Slide 14 and I've gotten confused, sir. Actually, you're right...

**Luigi Lubelli**

There could have been a confusion. So that's the figures for MAPFRE RE, I think you're referring possibly to MAPFRE GLOBAL RISKS.

**Maciej Wasilewicz**

*Morgan Stanley, Research Division*

Yes. I think you're right. MAPFRE RE, actually, flat premiums and margins are good, actually. It actually makes a lot of sense.

**Luigi Lubelli**

So that's the outcome.

**Esteban Tejera Montalvo**

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

Yes. And regarding the agreement between Aseval and Bankia, they had to reach an agreement in order to buy the percentage Aviva had in Aseval. So they are in the process of acquiring this percentage. Regarding

us, we keep in the same position we had before. We had the old agreement with CAJA MADRID that includes part of the network of branches in the current Bankia network of branches. So from the point of view of our agreement, we remain in the same position as before. And well, I suppose that in the months coming, we will see how to continue with our agreement in maintaining the same position that we have now or I don't know. It depends of the -- but they would finish that now, and you can look at the figures of the evolution of the business of MAPFRE CAJA MADRID VIDA that is our JV with Bankia, is working very well in this quarter. So we'll continue working, launching products and commercial campaigns. And what changes the situation is that now Bankia has -- at the end of the year, I suppose, they can have the 100% shareholding of Aseval. What they plan to do with the whole participation they have, I don't know yet. I suppose that in the future we can agree with them for a future development of the business. But it will depend on all of the themes, and the future of the network of Bankia is one of the key elements to take a decision. And this is now something that is in the process of the restoration. So unfortunately, we must wait and see again.

**Maciej Wasilewicz**

*Morgan Stanley, Research Division*

And what about the overhang? Is there any sort of -- has there been any development whatsoever about Bankia's intentions as to the timing of the sell down of the MAPFRE stake or is that as it was last quarter, basically unknown?

**Esteban Tejera Montalvo**

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

We'll remain in the same situation like we have before. We know that they have to sell in a period of time that spans to 2017, and -- but there is no news.

**Operator**

[Operator Instructions] Your next question comes from the line of Michael van Wegen.

**Michael van Wegen**

*BofA Merrill Lynch, Research Division*

Michael van Wegen, Bank of America Merrill Lynch. First of all, I want to go back to the investment results for the Non-life business. I understand the comments that you've given. But nevertheless, it looks like the running yield for your Non-life business in Q1 was around 2.8%. Even if you were investing in Spanish 3-year sovereigns or 5-year sovereigns, you would have made more than that. And given your business mix shift towards Latin America, for example, I would expect that to be a fair bit higher. So are there any funnies in that number that we should be aware of? Do you think the 2.8% going forward is the right level of yield we need to think off? And are there any further pressures at play that might actually bring that number further down from here? And I guess, related to that, if you have interest rate decline in Brazil, your bonds there are worth a lot more than they used to be. Are you willing to realize some of those gains to compensate the pressure on the running yield? Then the next question that I have is on your Spanish Non-life business. You talked about the sort of volume developments and clients or customers taking, let's say, the cheaper products. Your combined ratio, so far, is holding up reasonably well in Spain. What's the outlook there? Are you able to sort of still keep prices reasonably okay even though they takes simpler products or should we also start to expect the further deterioration in the claims ratio there?

**Luigi Lubelli**

Michael, look, the only thing we can think off to explain your doubt is the fact that the -- I mean, in the financial income, many things go and one of them is mark-to-market. So you have to appreciate that with falling rates, as you rightly say, in some countries where we do accounts that way, you have gains slowing through the P&L which raise the yield. So that can be an explanation. But once again, I repeat, I know this is a large group, so it includes several companies. But the downwards trend was plainly, simply justified by the falling rates. And as far as whether we -- we normally do not realize those gains to compensate for yield. I mean, gains are realized whenever we need to sell those assets for other purposes. But usually,

we tend mostly to hold our assets to maturity. In terms of Spain, I don't -- first, have we answered your question on financial income?

**Michael van Wegen**

*BofA Merrill Lynch, Research Division*

Yes, I'm not quite sure that I understand this answer though. Because in the sense that fair values run through it, if interest rates come down, if anything, your fair value changes are positive rather than negative. So it should have an upward impact on your financial income in Q1 rather than the negative, so if anything...

**Luigi Lubelli**

That would compensate, that would explain -- because your question, I understood, was that you think our running yield is too high.

**Michael van Wegen**

*BofA Merrill Lynch, Research Division*

No, no, no. As far as I'm concerned, I think, it's surprisingly low what you achieved in Q1. 2.8% for the Non-life business seems low, given where Spanish bond yields are and your mix geographically.

**Luigi Lubelli**

Right. But you're talking -- if you're talking Non-life, Non-life is mostly towards the low, the short end. And then they also have cash balances, which don't yield that much. Honestly, I'm sorry, but there's really not much more I can tell you. That really is what flows through the accounts. And in terms of Spain, one thing is not necessarily related with the other. I mean, we try, and our track record is a testimony to that, is to price each cover according to its risk. The fact that you are selling simpler covers doesn't mean that those simpler covers are mispriced. So they -- it's just perhaps -- no, simply, that doesn't make any difference. Each cover, so the fact that liability cover has a price, which is and the bodily damages as well, damages to the car as well. So depending on the products, you have a certain pricing. But it doesn't mean that it necessarily has to do anything with the loss experience. Really, what we have is we continue to have a very benign frequency. And simply people who can afford less to pay more expensive policies. But that doesn't necessarily have an impact on the loss experience. The frequency does, but the fact that the covers are simpler, doesn't necessarily have to have an impact on the loss experience.

**Operator**

Your next question will come from Niccolo Dalla Palma.

**Niccolo Cornelis Modesto Dalla-Palma**

*Exane BNP Paribas, Research Division*

I've got 3 questions. The first one is on the health insurance in Spain, which is a significant chunk of the Spanish premiums and especially in the quarter. And just the combined ratio, at 107%, I just wanted to check if this is a one-off increase or if there's any worrying trend in this line of business? The second question relates to what you said regarding the reasons why you did not include the -- adjust for the Turkish building sale in the normalized profit. But you said there's an appropriation on loss reserve for underwriting. Is this the same kind of appropriation of reserves you did at full year and then talking about the EUR 54.6 million net of tax that you highlighted in your slides at the full year, is this the same type and is this appropriation of loss reserve specific to Turkey or is the general provision for the entire group that you can use anywhere? And then the third question is, is just to ask if you did consider investing in the IPO of BB Seguridade directly, you clearly have a JV with one of the companies owned by this just listed company. Just wanted to know whether you had considered or were considering an investment in the, say, in the holding company, which is now IPO-ed?

**Luigi Lubelli**

Niccolo, the health insurance in Spain, the claims ratio is basically rather than from the claims it comes from the net premiums earned. We changed the criteria for the accrual of the provision for the amounts to be paid by policyholders, depending receipts from policyholders. And we have changed the policy on the recognition of cancellations, and we brought them forward to the first quarter of the year. So that has led to a contraction of the net premiums earned, and that has increased the loss ratio.

**Niccolo Cornelis Modesto Dalla-Palma**

*Exane BNP Paribas, Research Division*

Okay. The denominator, not the nominator.

**Luigi Lubelli**

Yes. The Turkish gains, as we said, we sold the headquarters of the company. And the appropriation doesn't have anything to do with anything else, it's 100% Turkish. It's because the business is growing and, let's say, there's a certain market-wide situation by the supervisors to be prudent on that. So the company have to somehow align to that. It's not exactly a law, it's just a recommendation that comes from the supervisors. And finally, no, we did not invest in the BB Seguridade and we are not planning to.

**Operator**

Your next question comes from Maria Ojeda.

**Maria Paz Ojeda Fernandez**

*Banco de Sabadell. S.A., Research Division*

I'm Maria from Banco de Sabadell. I have 2 questions. One, regarding the reinsurance agreement between MAPFRE FAMILIAR and MAPFRE RE. Can you elaborate a little more about what are the reasons, which is expected impact both in MAPFRE RE and MAPFRE AMÉRICA in the time frame. And the other question relates to MAPFRE Brazil because according to my estimates, you are just -- in Life insurance, you are just growing at a pace of 10% to 13%, no more than that. And last year, you were growing at rates above 20%. So this slowdown is here to stay or just one -- a thing that has happened this quarter and we are just -- we are going to recuperate your trend in the next quarters in local currency?

**Luigi Lubelli**

Is that all, Maria?

**Maria Paz Ojeda Fernandez**

*Banco de Sabadell. S.A., Research Division*

Yes.

**Luigi Lubelli**

Basically, the agreement with FAMILIAR and RE is the fact that the 2 companies were looking for certain solutions for their development needs and they eventually got to an agreement in between them. In the case of FAMILIAR, MAPFRE FAMILIAR, as you know, has fast growing businesses. And one of them is VERTI and then there's other businesses they have invested into recently. So there is a need to provide capital for the growth of this cadence. And clearly, there is a willingness not to impact the flow of dividends to the parent company. So the reinsurance contract had this benefit, has the benefit of freeing up capital to support this growth. On the other hand, MAPFRE RE -- for MAPFRE RE, it is quite beneficial to diversify from a capital management standpoint. It's acceptance is with a business like MAPFRE FAMILIAR, which is kind of very stable recurring low-loss experience. So basically, we had 2 companies inside the group which had needs, which could be met internally through reinsurance. So we basically moved capital in the roof in order to support different needs using our insurance contract and mostly keeping the profits of those businesses in the house. So that was the reason for which we did it. Was it clear or. . .

**Maria Paz Ojeda Fernandez**

*Banco de Sabadell. S.A., Research Division*

Yes, yes. It's perfectly clear.

**Luigi Lubelli**

And the slowdown in Brazil. Well, I wish our business in Spain slowed down to 15% growth. I mean, it's simply, Brazil is -- the country itself is not growing as much as it did in the past. But you have ups and downs, but frankly, 13% is all right.

**Maria Paz Ojeda Fernandez**

*Banco de Sabadell. S.A., Research Division*

Yes. But you were growing at a much more faster pace and do you take your Non-life insurance in Brazil...

**Luigi Lubelli**

Well, but also the economy was growing at a faster pace. I mean, it's coming and -- it's coming and going. But by and large, the business is doing well. The agreement with Banco Brazil is developing very well on both accounts, and we do have growth. I mean, we actually -- we have actual growth. If we did not have the devaluation, the growth would be 18%. Of course, you can do better, but 18% is probably all right.

**Maria Rivas Rodriguez**

*CM-CIC Market Solutions, Inc.*

Yes. No, I agree with you on the whole company. But at the end, we are growing at, I don't know, maybe 15% or 20% in Non-life, but you are growing much less in Life insurance at the end of the...

**Luigi Lubelli**

Yes. I mean, Life I explained it in the speech that the fact that Life is growing less is because of the transfer of some lines of business to the Non-life business and also because of the devaluation. The whole group grew, in local currency, 18%. And 18%, I mean, I can imagine that you would like to see faster growth, and we would like to see faster growth, but 18% is not something that I would complain about.

**Maria Paz Ojeda Fernandez**

*Banco de Sabadell. S.A., Research Division*

By the way, have you disclosed the currency rates that you are using? Because maybe I have another ones, but in my estimates, the Brazilian real has decreased 10%. And according to your numbers it's much more close to 13%, 14%.

**Luigi Lubelli**

Well, we normally don't disclose those rates. I mean, we can think about that, but I think it would be perhaps overkill for most cases. You have to bear in mind that there is some confusion with the real in these accounts, and it's due to the fact that this profit and loss, first quarter 2012 and 2013, reported at the average exchange rate for that period in both years. While the equity, we are comparing figures close for the full year 2012 with period close March 31, 2013. And the behavior of the currency has been different. If I'm not wrong, on the P&L we see a depreciation and on the equity, we see an appreciation. So there causes some differences. The average exchange rate on the accounts is a bit difficult to reproduce, while the balance sheet is period close, so it's much easier.

**Operator**

Your next question comes from the line of Vinit Malhotra.

**Vinit Malhotra**

*Goldman Sachs Group Inc., Research Division*

Sorry, I didn't capture something, I wanted to understand more. The reinsurance fee that you just mentioned, just a quick follow-up. Was that already in place with the other reinsurer or -- because that would be different motivations on how that capital is being managed, right?

**Luigi Lubelli**

As you know the -- in MAPFRE, the companies, with few exceptions for the [indiscernible] business in Latin America, normally cede to MAPFRE RE. The contract was with MAPFRE RE. It had a different size, and for instance, VERTI before was ceding to MAPFRE FAMILIAR itself, not to MAPFRE RE. Now it's become part of an agreement with MAPFRE RE. But everything is in the house. It's just that the volume and companies involved that's changed, but everything was in the house before as well. And then, of course, as you know, all the internal business gets to MAPFRE RE. MAPFRE RE keeps a slice of that and then it retrocedes the group business out because of safety and prudence reasons. The business coming from inside is dealt with differently than the business coming from third parties.

**Vinit Malhotra**

*Goldman Sachs Group Inc., Research Division*

Sure. So the VERTI used to reinsure to FAMILIAR, but now VERTI reinsures direct to MAPFRE RE?

**Luigi Lubelli**

Yes. From the consolidated standpoint, it doesn't really make a difference.

**Vinit Malhotra**

*Goldman Sachs Group Inc., Research Division*

But it makes a difference of where the capital is. It's a fundability thing here or...

**Luigi Lubelli**

No. It's not fundability. The capital stays where it was. But the fact that the risk is ceded to a greater extent to MAPFRE RE means that part of the risk of MAPFRE FAMILIAR is now supported by the capital of MAPFRE RE. So there's less -- the capital at MAPFRE FAMILIAR can be employed for other purposes because part of it is supported by MAPFRE RE.

**Vinit Malhotra**

*Goldman Sachs Group Inc., Research Division*

Okay. But the group level capital-wise, no issues, no changes?

**Luigi Lubelli**

No. No, changes. It's just a redistribution by a means of reinsurance.

**Operator**

[Operator Instructions] There seems to be no further questions at this time. Please continue.

**Esteban Tejera Montalvo**

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

Okay. If there is no more questions, I would like to thank you for attending our presentation of the results. And I hope to be with you again for the next presentation. Thank you for attending the call.

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