

Mapfre, S.A. BME:MAP

FH1 2014 Earnings Call Transcripts

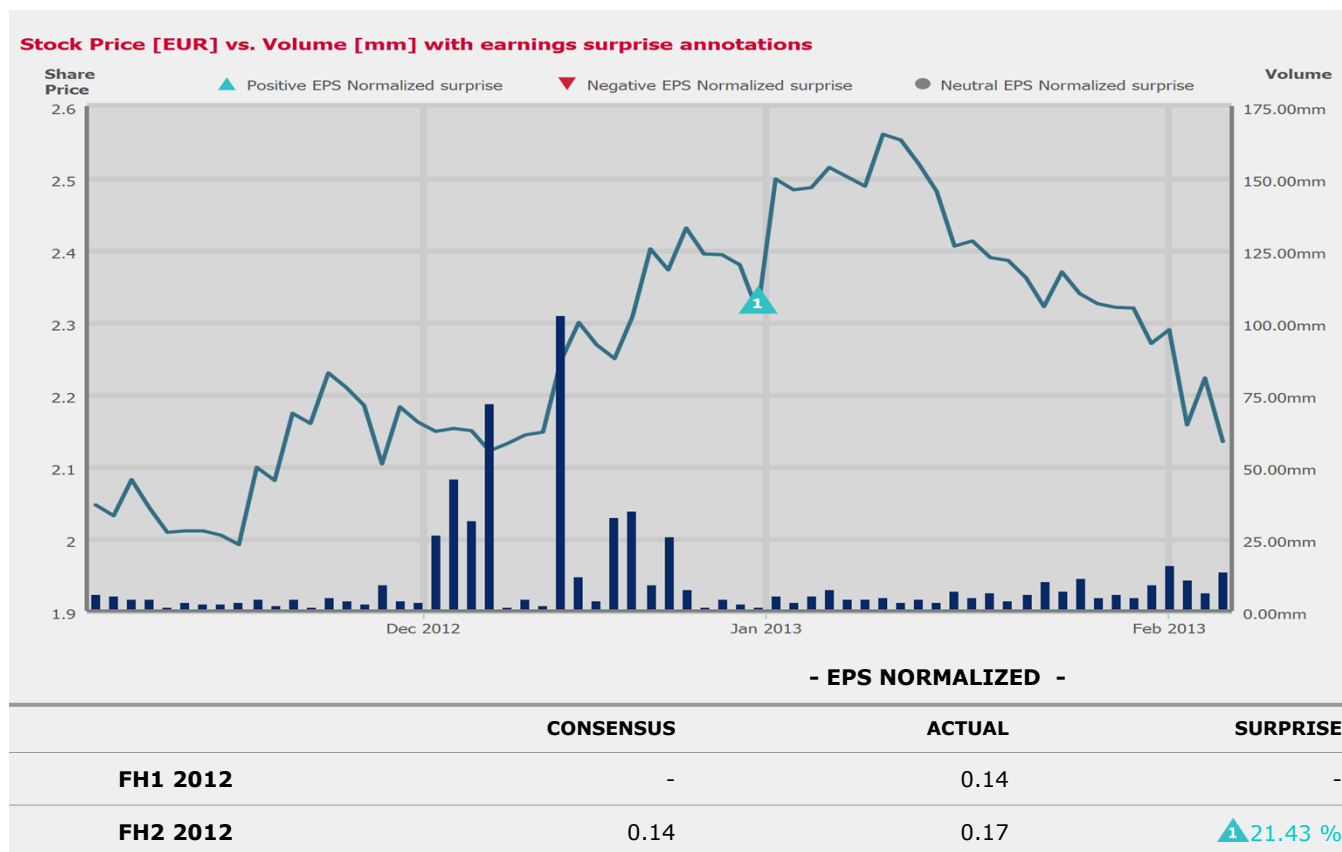
Thursday, July 24, 2014 3:45 PM GMT

S&P Capital IQ Estimates

	-FY 2014-	-FY 2015-
	CONSENSUS	CONSENSUS
EPS Normalized	0.28	0.31
Revenue (mm)	22000.34	23283.27

Currency: EUR

Consensus as of Jul-21-2014 1:31 AM 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*

Avinash Singh

*Nomura Securities Co. Ltd.,
Research Division*

Federico Salerno

*MainFirst Bank AG, Research
Division*

**Niccolo Cornelis Modesto Dalla-
Palma**

*Exane BNP Paribas, Research
Division*

Rodrigo Vazquez

*Alantra Equities Sociedad de
Valores, S.A., 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 afternoon, ladies and gentlemen. Welcome to MAPFRE's results presentation for the first half of [indiscernible] 2014. As usual, I'll give an overview of the results and the main business developments, and later, Mr. Lubelli will explain the financials in greater detail. Finally, we will take the -- your questions.

Please move to Slide #2. In the first half of the 2014, MAPFRE recorded positive growth in local currency in its main markets. Premiums in Euro remained stable, but at constant exchange rates, we'll continue to grow at [indiscernible]. Funds under management grew significantly, thanks to growth in Life Assurance premium in Latin America, the recovery in the market value of investments and the new mutual and pension funds business in the agents' channel in Spain. The combined ratio went up 60 basis points, primarily because of contributions from Spain and domestic and mainly due to the weather conditions in the first quarter of the year. Financial income grew on the back of the recovery in market values, contributing to bringing profits back to the growth then that ran exactly a year ago in the first half of 2013. Equity per share grew strongly, thanks to profits and the recovery in the market value of investments and falling exchange rate.

Please move to the next slide. As I mentioned before, sustained growth of the international business, along with the positive impact from the economic recovery on the domestic business, is a key of the evolution of the figures. Clearly, I would like to remark that the change of the dependency [ph] in our domestic business. For the first -- in the quarter, we have -- in the 100 [ph] figures of the -- in a half year, our situation were -- we are in the same position as the rest of the market in terms of deploying [ph] of the multi [indiscernible] insurance premiums. Then in the overall market, we are making better than the market and we [indiscernible] 3-point percent of the advantage over the market in the growth of the -- in the Spanish market as -- it's usually in this time of recoveries after figures [ph] for the crisis. The main driver of the evolution of the revenues is also -- and the premiums is the evolution of the exchange rates. At constant exchange rates, the premiums would grow 8%, as I mentioned before.

The combined ratio remains average [ph] levels, the 95.3% (sic) [95.7%]. Even if these figures are -- it's like deterioration of the -- this combined ratio, which is usually [indiscernible] condition resulted mainly in the first half and a slight increase in the expense ratio in Spain that is due to different accounting at [indiscernible] and [indiscernible].

Q2 results resumed their growth and, at constant exchange rates, would increase -- would have stood at 7%. And equity grew dramatically by nearly EUR 820 million since year-end 2013, thanks to the result for the period, the falling spreads [ph] in Spain, the appreciation of the main exchange currencies that we have [indiscernible], especially the Brazilian real and the U.S. dollar and the Turkish lira.

In terms of the -- on the next slide, you can see the indicators of the -- how the Spanish economy is going better and now than in the previous quarters. There are plenty of signals about the recovery [indiscernible] country, which are translating into falling unemployment. We have the -- known today, the [indiscernible] for the first half of the year, and we are better than expected.

And in terms of the consumer spending, in the new car registration growth that are very, very relevant from the kind of view of the evolution of our business, you can see in the slide how the situation is improving quarter-by-quarter. And in the car registrations, in the first half of the year, we're up by nearly 18%, which is very remarkable. And gasoline consumption is going up also. So these are signs -- clear signs of a recovery that could improve our figures in the next quarters.

On Slide #6, we show as -- usually, in the last quarters, how we are more efficient than our competitors in terms of the combined ratio of motor insuring. And they explained that the -- that provide us in terms of taking advantage of business in a situation of the economic recovery, increase of the frequency in motor

insurance and a possibility from competition our -- in our market where there is a new market, has a combined ratio that is nearly 100%, and we have adapt that [indiscernible] for more than 3 points.

Well, these are the main case of the [indiscernible] in the first half of the year. And as usual, I will now hand the call to Mr. Lubelli who will comment on the results in greater detail.

Luigi Lubelli

Thank you, Esteban, and good afternoon, everyone. We are -- this is a message for the operator, we have been told over the Internet that perhaps the audio signal from us is not as strong. If you could perhaps raise it somehow for the benefit of everyone. Thank you.

Let's move to Slide 8. On Slide 8, we have the consolidated accounts. I will first speak about the cumulative figures and then in the -- on the next figures, I will go deeper into the quarterly movement.

Year-on-year, we have Non-Life premiums basically in line with the figures that we had for June 2013. Although as Mr. Tejera just said, at constant exchange rates, we would have grown 8%. The main drivers of that were the good business development in Spain; Latin America, especially Brazil, which had an absolutely exceptional performance, I'll refer to that later on; and also, the Assistance business, which is a -- has a smaller contribution, but nonetheless, positive to the overall growth.

We had a combined ratio of slightly higher due to a larger expense ratio in Spain and a higher loss ratio in Brazil, as well as a contraction in net premiums earned, which was mainly due to issuance timing differences in the insurance business. The financial income increased substantially in Spain and Latin America, and it's more than made up for the lower returns of MAPFRE U.S.A., which simply has a smaller investment portfolios here than it used to have a year ago.

Going to the Life account, we see premiums growth, which came mainly from this quarter but also, at cumulative level, new business in reinsurance. Growth in Spain, we have very good development in the bancassurance channel. And in the last quarter, we have a good performance by the agents and Brazil, which stayed exceptionally well this quarter. If we look at figures at constant exchange rates, premiums would've grown 8%. The technical financial results grew significantly, and that was due primarily to higher interest rates and no negative mark-to-market in Brazil, as well as positive mark-to-market in Malta and in Spain.

The other business activities, basically, there's nothing to report. The figure is the same. Unfortunately, we do have a much larger inflation adjustment in Venezuela, which is EUR 30 million larger than it was in June 2013.

Notwithstanding this greater charge, we consider profits resume their growth trends, as Mr. Tejera pointed out. We have a slightly lower tax rate and we can see that the retained profit gross less than the gross profit because it has to be said the loss of the profit growth came from the bancassurance activities in Brazil and Spain. If we look at constant exchange rates, profits would grow 7%.

We just made reference to the fact that the pretax profit is one, and will mention that, today, earlier on, it's the largest ever recorded by MAPFRE. It increases 45% since June 2007. The bottom line is relevant to report as well. Compared to the beginning of the crisis in June 20, 2007, we now have a bottom line, which is 36% larger, and we've had consistent growth since June 2012. So we have growth June 2012, June 2013 and June 2014. So it's -- considering the environment, we see it as a very good trend.

On the next slide, #9, we have the Non-Life account now. We're moving to the quarter. We -- as you know, in Spain, we have some lines which are commercial barrier on health, which issue most of their yearly production in the first quarter of the year, actually on the first day of the quarter. So that basically makes it very difficult to compare the first quarter with the second quarter. Notwithstanding that, after we said that we had very good growth in Brazil in industrial risks, in global risk, which was mainly due to seasonality, but also I'd like to highlight motor industrial risk in Mexico and third-party liability in Spain in MAPFRE EMPRESAS.

We had a loss ratio of basically unchanged to quarterly level. At company level, it was a strong improvement at MAPFRE EMPRESAS, which was affected by a series of large claims in the first quarter, and at MAPFRE FAMILIAR, which in the first quarter had to withstand bad weather and also had to recalculate the burial insurance liabilities with a lower discount rate. This improvement and this company's FAMILIAR and EMPRESAS offsets the impact of the Chilean earthquake, which was about EUR 40 million before tax.

The expense ratio was basically between the reading for the previous quarter and the same quarter of the previous year. Compared to the first quarter of this year, we see a much better ratio at MAPFRE GLOBAL RISKS, which had larger net premiums earned and lower acquisition costs, as well as [indiscernible] winnings at MAPFRE EMPRESAS and MAPFRE FAMILIAR due, as we announced, in the first quarter to changes in the criteria for the recognition of commercial expenses.

There was a strong improvement in financial income, which came mainly: from Brazil, which benefited from higher rate yields and no negative mark-to-market; from Venezuela, which have better financial income; and from MAPFRE FAMILIAR, which had larger elevation gains.

I think this covers most of the main variations quarter-on-quarter. So with your permission, I will skip the next slide and will direct you to Slide #12, where we have the Life accounts. We have a -- once again, a negative comparison with the first quarter because -- simply because the timing of sales campaigns this year is different from what it was a year ago. This year, we had most of the sales of the agents channel in the first quarter. Last year, we had it in the second quarter. So net -- out of necessity, this year, on a quarterly basis, it looks worse.

Excluding that, it actually was a pretty good quarter. Brazil did very well with products coming -- with sales of products linked to loans in the Banco do Brasil network. We had, as I said, new business in MAPFRE in significant amount. We had larger retail sales in Colombia. And Spain, it did not do that well on the premiums, but it did quite well on funds. And they had falling surrenders compared to the previous years, fewer maturities and quite a good development in mutual and pension funds.

As I already mentioned, the technical financial results improved significantly against both the first quarter of 2014 and the second quarter of 2013, thanks to higher interest rates and no negative mark-to-market in Brazil and accompanied by, in this case, positive mark-to-market in Malta and in Spain.

Let's now move to the other business activities on Slide 14. Really, there is not much to say, as you will see, we didn't even write comments this quarter because the figures are basically the same as they were in 2013. On a quarterly basis, we have some differences but they mainly come from reclassifications. So there's really not much to report.

On Slide 16, we have the bottom line. As I already mentioned, the inflation adjustment in Venezuela doubled compared to the previous quarter and tripled against the same period of 2013, and it clearly takes away from profit growth. But even with that, we had a strong profit growth, thanks primarily to the larger financial income in Latin America and Spain.

We can see a falling tax rate, in the tax rate, the average tax rate compared to same period of 2013, which came primarily from Brazil GLOBAL RISKS and RE and offset a slight increase at MAPFRE FAMILIAR in the second quarter of this year. As I already mentioned, minorities are up strongly as profits are growing comparatively faster in the Brazilian and Spanish bancassurance businesses.

Let's now move to Slide 17 where we have the balance sheet. We have an increase compared to the close of 2013, the investments, shareholders' equity and reserves, due to larger business volume. Business is growing, as we said, in Spain and abroad; a strong decrease of spreads in Spain; and now on the positive side, the appreciation of the Brazilian real, the U.S. dollar and the Turkish lira at the end of this quarter, which have more than offset the impact of the depreciation of the Venezuelan bolivar.

We had, as we saw in the first quarter, basically, the figures are the same, a modest increase in debt due to some usage of credit lines at subsidiaries and the accrual of the interest of the -- on the financial debt of the holding company. And finally, you will see a large movement both in deferred tax assets and liabilities, and that is because of the increase in unrealized gains, which has a matching component in

deferred tax assets -- coming from shadow accounting. That is from the crediting of those gains to the policy holders.

Let's move to Slide 19. We have the breakdown of the investment portfolio. If you compare this investment portfolio with the one we showed you in the first half of 2013, we see a smaller weight of bond issued by financial institutions, which was matched by an increasing public debt. We see a higher weight of European, and especially Spanish paper, due to both depreciation of the euro, which reduces the weight of bonds, especially from Latin America, and the falling spreads, which increase the value of the Spanish and Italian paper. We have a slightly larger amount investment in equities due to, mainly, the price appreciation, the market prices have gone up and, to a lesser extent, new money. And then you will also see, compared to the same period over the last year, a decreasing amount invested in real estate, and that reflects primarily the depreciation of foreign currencies from asset sales, we sold a few buildings, and the write-down. If you can remember, we did some write-downs at the end of 2013.

From Slide 20, we find the statement of changes in equity. I'll move to Slide 21 for the explanations. We -- I think, by now, Mr. Tejera already explained what were the drivers of this. We had an increase in the value of the Spanish portfolio because of falling spreads, most of which was taken away by shadow accounting. But still, we have a net positive contribution of about EUR 100 million. We have a positive impact of translation adjustments from the real, the dollar and the Turkish lira, and they more than made up for the Venezuelan bolivar. And then, of course, we have the dividends paid.

On Slide 23, we begin to look at the regions. And as usual, we begin with the breakdown of premiums and results according to the regional structure. If we compare to the previous quarter, we see that Spain falls considerably. In the first quarter, we had a contribution to premiums of 40% and now we have 34%. And that -- this is due to the fact that in the first quarter, we had a very large issuance of Life premiums, which was not repeated in the second quarter. And this was matched by an acceleration of growth in Latin America, especially Brazil and LatAm North, so that reduced the weight of Spain. It must be said that Spain weighs the same it did a year ago in June 2013. At that time, we also had, according to the new structure, a weight of 34%.

In terms of contribution to profits, there was a minor increase in the weight of Iberia, which has gone from 43% to 44%, thanks to a better combined ratio and larger financial income this quarter. However, if you compare to a year ago, the contribution of Spain had fall to about 5 percentage points because of lower profits in MAPFRE EMPRESAS, especially, and profit growth in other region, especially MAPFRE RE.

On Slide 34, we delve deeper into the premiums by regions. On a quarterly basis, we can see that Iberia is growing in Non-Life retail lines, so -- sorry, Non-Life retail lines was -- on a full year basis. In the second quarter, we saw improvement in motor line and growth in third-party liability insurance at MAPFRE EMPRESAS, as well as seasonality impact at MAPFRE GLOBAL RISKS, which brought a contribution of about EUR 45 million extra compared to the previous quarter. As we already said, we had a different timing of Life Insurance save campaigns in the agents channel, which affects negatively the quarterly comparisons.

Notwithstanding this, we have to highlight the fact that the bancassurance channel is doing very well. Year-on-year, we have a 15% increase, it was 10% in the first quarter. It's gone up to 15% this year, so we are quite pleased with that. And if we compare to previous quarter in Spain, we also have the seasonality I already referred to in burial, health and commercial insurance, which makes it appear as if the performance was worse in the second quarter, which was not the case.

Brazil deserves special attention this quarter. We had significant growth in commercial, life and motor insurance, and also, we had some recovery of the real. But I have to say that the performance of our business there was nothing short of spectacular, given that MAPFRE -- we -- I have figures as of May from Suzette [ph], the supervisor at that time, which is broadly similar to June. MAPFRE was growing 20% while the market was contracting 0.8%.

And we had very strong performance in motor, we had 8.4% compared to 5.4% of the market. Life and personal lines which grew nearly 11% while the market grew 2.4%, so basically, 4x faster. And property growing 61% compared to 11% for the market. This property includes the industrial risks I just referred

to, plus agricultural. So as I said, spectacular growth, very good development. As you know, we benefit from a relatively under-penetrated customer base in the country, and here, you can see the results of that. And as an outcome of this, the market share has gone up from 7.4% to nearly 9%, which is a very remarkable increase.

LatAm South did well in the quarter. There was a pickup of sales in Life Assurance in Colombia, as well as notable growth in motor insurance in Argentina, Peru and Venezuela. North America did well, too, in the quarter, it had a good homeowners' growth in the U.S, health and accidents growth in Puerto Rico and industrial risk growth in both countries. EMEA covers -- they suffered a contraction in the second quarter, primarily due to a slowdown in Turkey, caused by a falling consumption and strong price competition across all lines. There was an especially strong increase in Mexico as well, in motor and commercial insurance. It really turned around compared to the first quarter and moved the year into positive, as well as good business development in Honduras and in Dominican Republic. APAC is small and basically remained unvaried compared to previous quarter, and as I already mentioned, MAPFRE RE benefited from new Life business within the quarter.

On Slide 25, we have profits. Here, we saw a general decrease in the loss ratio in the quarter, especially motor, general insurance and TPL line, as well as an increase in the expense ratio. As we already explained in the first quarter, we have a change. We're basically front-loading the recognition of commercial expenses for the year. We had larger financial income in Spain, primarily due to the elevation gains. And remember, this is a region we had a reduction of the profits of MAPFRE GLOBAL RISKS in this region, not because it was especially bad, but rather because it was exceptionally good in the second quarter of 2013. So on a comparative basis, it'd be worse.

Brazil had a better technical results in the Life business and large financial income, which more than offset a slight upturn in the loss ratio in motor, I'm talking quarterly. LatAm South show a very considerable improvement in the underwriting result in MAPFRE Peru, that's true, there was a regulatory change, and larger financial income in MAPFRE Venezuela and MAPFRE Colombia. The Chilean earthquake, of course, weighed negatively on the results of this region because it had -- this region reflects the loss of both markets, Chile and MAPFRE GLOBAL RISKS, so both are recognized here.

North America improved significantly against the first quarter. But nonetheless -- I mean, it had fewer weather-related claims, more than it did in the same period of 2013, because of the heavy rainfalls that we have this year. Puerto Rico saw a better technical results and larger financial income.

In EMEA, we saw contraction in profits, primarily, once again, due to GLOBAL RISKS and to the fact that there wasn't -- it wasn't anything special, simply that the loss experience this quarter was normal, and in the first quarter of this year, it was exceptionally good. Results are also -- EMEA are also negatively impacted by weather-related claims in Turkey. And finally, EMEA, on a positive note, recorded larger positive mark-to-market adjustments in motor.

LatAm North benefited from a very significant improvement in the Non-Life underwriting result in Mexico, which drive its growth. And APAC wasn't very [indiscernible] in terms of results in the quarter.

Finally, as we look at MAPFRE RE. MAPFRE RE had a significant growth -- a contraction in profits in the quarter because of capacity claims. You will see that the contraction in the topic is quite material. That was probably offset by realization gain of about EUR 5 million.

And now that's all on my side, and we are handing back the call to Mr. Tejera for the Q&A portion.

Esteban Tejera Montalvo

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

Thank you, Luigi, and as well [indiscernible], clearly, comments about the results. And now, we are able to get to the question session.

Question and Answer

Operator

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

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

A few [ph] questions on my side. The first one is related to the BBVA takeover of Catalunya Banc, if you could explain what the implications are on your side and, perhaps, also comment on the number they gave in their conference call where they mentioned the EUR 320 million that [indiscernible] could potentially pay to you. Could you clarify what is this exactly? Is this just -- is the pure penalty? Or is this the potential buyout of their side of the embedded value? So this is question number one. And the second question for Luigi, if you could maybe help us understand for the coming quarter how we should think of the mechanics of the impact of the -- in Venezuela from inflation and devaluations. If you just could help us around the mechanics here?

Esteban Tejera Montalvo

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

Okay, thank you. In terms of the BBVA takeover, well, it's very early to know certainly what we think will -- we have congratulated our [indiscernible] BBVA for the success in their process, and we had to wait to know exactly where we are in the -- we want [indiscernible] about the development of the bank itself. And according to that, what I can say is that our -- in this context, we have a [indiscernible] to continue the business. It is the purpose, how to make the [indiscernible] this is, is their opinion. And in case, [indiscernible] I suppose after [indiscernible] in the placements of the Catalunya Banc, but we've had to wait until, I suppose, several months until the people of BBVA express their opinion on this [indiscernible].

Luigi Lubelli

And as far as Venezuela is concerned, Niccolo, we gave the figure. We've moved through an exchange rate that is now variable. It's called CICAD, C-I-A-C-A-D, C-I-C-A-D 1 (sic) [SICAD 1]. The detail of that you find on Slide 30[ph]. We exchanged -- as of the close of this period, we used an exchange rate of VEF 10.6 to the dollar, which, if I'm not wrong, it was VEF 6 previously. So that's kind of the evaluation. And here you have 2 different impacts. As you know, we have an average exchange rate for the P&L and the close-of-period exchange rate for equity. So in equity, we recognized in this quarter, as is described in the quarterly -- in the half year report, a loss of EUR 173 million. As a matter of fact, if you move to Slide 20, you will see that in the shareholders' equity side, we had a translation adjustment. You will see [indiscernible] adjustment is positive, but it has at shareholders' equity side, which is negative. And that's because the EUR 173 million I recorded there. So that is in. The rest, it's been difficult for me to guide you, basically. The next quarter will all come in at the new exchange rate, and it will be averaged out with the first 6 months, which have been done. I think we only had one month at this rate in the first half. So at the close of September, you have -- you will have 5 months' exchange at, say, 6-ish and 4 months' exchange at 11-ish. That's kind of the guidance that I can give you. It all depends, unfortunately, how much premiums and profits are recognized in the -- in this coming quarter, in the third quarter. Because if we have little premiums, a little profit, it will vary the situation less. But if, say, the issuance of profits in Venezuela were to accelerate in the third quarter, it would drive down faster the average exchange rate for the year. Have I confused you? Or have I clarified your doubts?

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

That's very clear on the exchange rate side. But for the inflation side, is there further adjustments to be expected in the coming quarters if inflation remains [indiscernible].

Luigi Lubelli

I'm afraid so, yes, because we have an inflation of 73% -- make it 75%. So yes, I'm afraid so.

Operator

Our next question comes from the line of Federico Salerno from MainFirst Bank.

Federico Salerno

MainFirst Bank AG, Research Division

A couple of questions, please. On financial income, I noticed that return on assets seem to grow from 5% to 9% at MAPFRE AMERICA, while financial income was down 16% at MAPFRE INTERNACIONAL. Can you say what's going on in here, please? And then do you have a number for the cost of Chilean earthquakes before retrocession?

Luigi Lubelli

Okay. Federico, and -- let me see. Before retrocession, now as -- I'm starting from the last question. I'm afraid we can only give you the figures that were published. So all we can give you is the figures on Slide 10 for the Chilean earthquake. As far as Europe, I'm not sure I understood your first question. Can you repeat it again, please?

Federico Salerno

MainFirst Bank AG, Research Division

Sure. At MAPFRE AMERICA, if I did the numbers correctly, financial income was 5% of the investments in the first half of last year, while it was 9% this year. So there has been a major improvement, which is well above what you would think is consistent with the increase in interest rates in Brazil. I was just wondering here what's going on. Then the other thing I noticed is that MAPFRE INTERNACIONAL financial income is down 16%, and I was wondering why.

Luigi Lubelli

Okay, let's see how we can reconstruct that. As we told you, we have higher interest rates in Brazil. So let's look firstly at the MAPFRE Brazil figures, which are on Slide 49, and you'll see that financial income is much, much larger. There, you have, clearly, the impact of higher interest rates. I'm looking at realization gains, but there's really nothing to [indiscernible].

Esteban Tejera Montalvo

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

[indiscernible] of this year with the previous year. In the previous year, in the financial income, we had the impact in the profit and loss of the mark-to-market products in the financial investment, which was about EUR 50 million. Thank you.

Luigi Lubelli

Yes, yes, there is a -- so basically, you will have to compare in Brazil a figure of EUR 100 million with a figure of EUR 143 million. And that's what drives most of the change. Venezuela had a significant improvement in financial income this quarter to the extent that it's accounted as -- you have to take the so-called exchange rate impact. But because it's average, it still does have an impact on the full figures. And Colombia also had some realization gains in the quarter. But clearly, Brazil is really is what moves the numbers for MAPFRE AMERICA at large. And in case of MAPFRE INTERNACIONAL, you can say MAPFRE U.S.A. If you look at Slide 51, you can see that the volume of investments is about EUR 200 million lower this year than it was a year ago. In between, this company has repaid a bond of which it had \$170 million of spending, and it paid dividends to MAPFRE, an extraordinary dividend of about the same amount. So they actually sold investments in order to raise about \$350 million, which, of course, has led to a fall in their investment portfolio. That's the main driver because, otherwise, in the INTERNACIONAL -- in what used to be MAPFRE INTERNACIONAL, you have the positive mark-to-market in Malta, which actually grew from this perspective. And on the negative side, you have the devaluation in Turkey, which reduces the contribution of financial income from Turkey.

Federico Salerno

MainFirst Bank AG, Research Division

Okay. Can you say on -- sorry to go back on the retrocession, can you say at least if it was a large number or not?

Luigi Lubelli

Honestly, Federico, I do not have the figure for you. I -- the figure I have is what is published here. Surely there was. Actually, it was coming -- surely it was a larger amount. But to tell you how much larger, I cannot. Even when we had the largest earthquake, the one in 2011, we always gave the net figure of that. I don't -- I mean, somehow, you can see that but only to some extent from -- we can get it. But from the movement in the balance sheet, it wouldn't be an accurate estimate. You have -- just bear with me.

Federico Salerno

MainFirst Bank AG, Research Division

Okay, don't worry. I mean, I can come back to you.

Luigi Lubelli

You have 200 million increase in assets from insurance and reinsurance operations on the balance sheet. That does include the amounts owed by reinsurers. But of course, it includes also amounts owed on transactions, which do not have anything to do with the Chilean earthquake.

Operator

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

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

I have some questions. First one is on the motor Spanish business. I saw by the market data that there was a pickup in the claim frequency in the first quarter of the year. And I wonder, what are the trend that you are seeing more recently? And what are your expectations regarding the trend if some economic recovery is driving also some increase in the claim frequency and what could be the amount? And also, if you have any update on the Baremo, on the motor business. Second question is on financial income. I just wondered, if I look at Page 55 of your presentation, if the financial income due to the realization in mark-to-market is -- in the Non-Life business at least, is included in this slide. So just to be sure, what is your -- what is the impact on the financial income driven by the movement in interest rates and what is the ordinary income in your P&L? Third question is on the Brazilian Life results, which is particularly brilliant. I saw in the Slide #49 that there was stronger results and the rise in financial results in the Life business in Brazil was in excess of EUR 200 million despite the unfavorable ForEx, up more than 50% year-on-year. Given that, also in the past, there was some volatility in this result, I just wonder if you can provide a sort of guidance what could be the margin of this business going forward? And finally, the taxation on the -- the corporate taxation in Brazil. I don't know if we can assume that the lower tax rate introduced this year could be, I mean, a level, which is likely to remain also in the next future.

Luigi Lubelli

Okay, Atanasio, many questions. Let's see. The first one, did I get it right that you asked us what's the trend in motor insurance in Spain. Is that...

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

Yes.

Luigi Lubelli

We have figures that have released today by the insurance association, and I have to say, it's a pity that we could not include them in the presentation, but you can find them from the insurance association in Spain, which is called, ICEA, I-C-E-A. And there's a -- I mean, graphically, you can see very clearly that Non-Life sales are picking up. And what is interesting in motor insurance is that there's a very clear trend in the recovery. For instance, we had -- in June 2013, motor premiums were falling 6.6%, while in June 2014, they were falling 2.3%. And this 2.3% in June compares with 5.5% in December. These are monthly percentages, which means that come 2014, there's clearly been a very rapid acceleration in the recovery in motor insurance, which is consistent with what Mr. Tejera pointed out during his part of the speech. That trend can be seen in many lines. For instance, multi-peril, they ended the year negative and it turned positive in June. Health grows 3% in June 2014 and was growing 1.8% in June 2013. The annual Life lines were -- a year ago were falling 2%, and this year, they are flat. So it's generalized, all the Non-Life business. Non-Life overall was basically flat as of June 2014, and it was falling 2% in June 2013. So we clearly have a very pronounced favorable trend in the insurance of Non-Life. As I said, these figures have hit the screen this morning. Does that answer your question, Atanasio?

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

Yes. Also in the claim frequency?

Luigi Lubelli

We don't have figures for the market at large. I would say that generally speaking, we maintained what we were telling you in the first quarter and year end. It's really we are seeing more frequency because of the greater economic activity in the country.

Esteban Tejera Montalvo

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

[indiscernible] the second quarter in our company, we've had an improvement in the loss ratio. It is due to the seasonality also because the Easter this year was in the first quarter. But it's true that the forecast have increased in the frequency [indiscernible] at this moment.

Luigi Lubelli

Your second question was on Baremo. On Baremo, we do not have more news compared to what we already told you in the first quarter. So we know that it's basically finalized. We know that it will be known by year end. We anticipate that it will actually come into force as law in 2016. However, being known by the end of 2014, we expect that the judges will try to stretch as much as possible the compensation, the awards under the present Baremo to the levels that would be allowed under the new Baremo. So you can take it as the first impact on the claims ratio of Baremo will begin to be seen next year, in 2015. That is what we told you in the first quarter, and we have no [indiscernible] to report on this. Then the third question was on the financial income. I think it was Slide 55. So Slide 55 basically tells you what's there in net realization gains. Bear in mind that we showed the realization gains and really what the way that counts from a bottom line perspective, which is net of write-downs. So we showed you the figures. I was wondering, did you ask about Life? Do I remember well?

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

No, no, I just wondered if these figures include also the mark-to-market on the Spanish govies.

Luigi Lubelli

No, no, this is actual sales of bonds. The mark-to-market on Spanish govies is mostly also equity. We had some impact, but it was rather on swaps through the P&L. Our accounts, we have fair value through equity, mostly, for the Spanish bonds.

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

Sorry, the part of the swap affected mainly the Life business?

Luigi Lubelli

Correct. There's another slide, which helps your interpretation, which is the slide right before, which is Slide 54, which tells you on -- but on the Non-Life side. Actually, on the Non-Life side, you'll see that net realization gains are actually smaller this year than they were a year ago on a net basis, net of impairments. So it's actual underlying financial income. Bear in mind that they have a big swing in Brazil for the lack of negative mark-to-market and the higher interest rates. And that is the main reason that gives the answer to your last question because, of course, the account where you have -- MAPFRE Brazil is on Slide 49. The account in which you have most mark-to-market adjustments is the Life accounts. So in the swing there, you have the impact of that in the technical financial results. In addition to that, they had a better underwriting result. Bear in mind that MAPFRE Brazil mostly have term Life. And to a good -- so basically, it kind of has a combined ratio because it's kind of business is closer to a Non-Life business than it is to a Life business. It's just protection. So it actually had an underwriting result and it did better this year than the year ago.

Operator

Our next question comes on line of Avinash Singh from Nomura.

Avinash Singh

Nomura Securities Co. Ltd., Research Division

It's Avinash Singh from Nomura. Two questions. First, you used to provide earlier on the growth in underlying earnings after adjusting for one-offs. Could you please provide the same figure for first half '14 versus first half '13? And my second question would be in terms of -- in Brazilian markets, can you provide some figures in that what's the combined ratio for the market and what is, I mean, the difference between your combined ratio and the market, if not for the entire P&C for motor at least?

Luigi Lubelli

I must say, Avinash, that your sound comes across very, very poorly. So we almost couldn't understand what you said. I understood that your second question was on Brazil but the first one I almost missed out on entirely. Can you do something with your mic so that we can discern you more clearly and please repeat the question?

Avinash Singh

Nomura Securities Co. Ltd., Research Division

Sure. My first question was on underlying earnings development, which -- the data you used to provide the underlying earning changes after adjusting for one-offs. Can you please provide the same on development in underlying earnings during first half '14 versus first half '13? The second question was -- yes?

Luigi Lubelli

Yes. Okay, if I understood, you're asking us about the reconciliation table that we used to give away in nonrecurring. Look, we have not reported it this month because we had items, but it was a matter of debate that some would consider them as nonrecurring, some others would not. So we prefer to give them to you. You will find them -- given to you. You will find them -- for instance, on Slide 10, you will find the Chilean earthquake. On Slide 11, you have the realization gains on the Non-Life accounts. On -- nothing here. And then when you go to the regions, in every country -- or in every region, I should say, we give you all the items, which are there, which may be considered nonrecurring or not. So basically, you have a menu of items, and you can choose how to recognize them in the profits.

Avinash Singh

Nomura Securities Co. Ltd., Research Division

Okay, okay, we had your selections anyway. Second question was on Brazilian market. As you are gaining market share there, so I was interested in knowing if you can provide that combined ratio for the market and your combined ratio, so I mean, the difference between the 2 numbers.

Luigi Lubelli

I understand that we're gaining market share and your question is -- I'm sorry, it's very -- the line is very poor. You're saying we are gaining market share, so what would you like us to compare?

Avinash Singh

Nomura Securities Co. Ltd., Research Division

Like in -- still you have advantage in terms of combined ratio in motor. Can you provide a similar difference between the market combined ratio and your combined ratio in Brazil?

Luigi Lubelli

If you're -- really, I can't hear clearly, but if you're asking us how our market share lead in motor compares with the market, are you asking me that?

Avinash Singh

Nomura Securities Co. Ltd., Research Division

I am asking the combined ratio, your combined ratio versus market combined ratio in Brazil.

Luigi Lubelli

The combined ratio compared to the market, I don't have that figure.

Avinash Singh

Nomura Securities Co. Ltd., Research Division

In Brazil?

Luigi Lubelli

No, I don't have -- I have the combined ratio figure for Brazil, but I don't have it for the motor line and I don't have a comparison with the market, I'm afraid.

Operator

Our next question comes from the line of Rodrigo Vazquez from N+1.

Rodrigo Vazquez

Alantra Equities Sociedad de Valores, S.A., Research Division

First one, I would like to -- if you could provide us a little bit more color on the evolution of MAPFRE U.S. With the combined ratio still about 100%, what's the right rationale to expand operations over there when the business has not stabilized on a stand-alone basis? And then second question, if you could remind me the [indiscernible] and duration of the Spanish Non-Life portfolio. And I didn't get very well the answer related to the CatalunyaCaixa, BBVA agreement, if you could repeat it for me, please?

Luigi Lubelli

Okay, Rodrigo, let's see how we'll approach your question. The first one, in terms of mainly the numbers, MAPFRE U.S.A., as I already said before, improved quite considerably in the second quarter compared to the first one simply because storms had a much smaller impact in the second quarter than in the same thing -- the first quarter. Said that, it was not an easy quarter because it did have some significant claims coming from heavy rainfall. There were rainstorms in the Northeast, which affected the claims ratio. That will become apparent if you compare the results for the second quarter of this year with the results for the second quarter of the previous year. So it varies on the loss side. In terms of sales development, it actually did pretty well. It had good growth in motor and especially good growth in homeowners insurance

plus the expansion into other states other than Massachusetts. From a sales standpoint, the company is doing quite well. I wonder if Esteban wants to add [ph].

Esteban Tejera Montalvo

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

[indiscernible] income point of view of the loss ratio impact in the first quarter is more than normal in the second quarter due to the rainfalls. But as Luigi said, from the point of view of sales, in motor, we increased by 2.6%, and homeowners, 9.6%. We have started operations in [indiscernible] now and the poor evolution of the commerce in the last year is tied mainly to the weather conditions in Massachusetts. So we're growing out of Massachusetts and [indiscernible] distribution is our main driver now in order to compensate these -- the weather conditions as possible. We have improved also in the terms of the reinsurance protection in order to avoid the impact of the snowstorms also. And in terms of the BBVA, I'll remind -- BBVA acquisition of the Catalunya Banc, I said that we congratulated our friends from BBVA yesterday. And now we must wait on what they want to do with the bank in terms of integration or not and in terms of how to operate in the insurance with the branches that we will share in the future. In this -- in our agreement, in the contract we have, we have the specifications for both continuing the business of [indiscernible]. But it's very early to talk about the deal because we have very good relations, commercial relations, in several countries with the BBVA, including Spain. And I think that they will communicate with us on what they are thinking about the development of the business. In both cases, the impact for MAPFRE will be [indiscernible]. We will continue with them. The possibilities [indiscernible] are every interesting in this environment of growth in Spain. And finally, if they decide to go alone, I suppose we will see the -- it will be convenient for both parties. But it's very early to speak about this.

Luigi Lubelli

And regarding your other question, Rodrigo, I'm afraid I don't have public figures to answer your question because we do not provide durations on the half year accounts. And even in the full year accounts, we only give them for the entire portfolio. We do not break them between out between Life and Non-Life. Perhaps you can try to get hold of the MAPFRE FAMILIAR [indiscernible] reports of the information, which is in there, which perhaps can give you some information. Bear in mind that our companies -- the duration in the Non-Life business has a relatively limited relevance. We are a mostly short-term company, and we use bonds rather for the liquidity than, of course, for the yield. But let's say that we sell those bonds fairly rapidly because most of our claims are paid -- property claims, which are paid within a year. So we normally invest them in bonds, which are short term and can be sold safely without great liquidity risk. So clearly, there is a sensitivity to duration also in the Non-Life business. But I wouldn't say it matters that much.

Rodrigo Vazquez

Alantra Equities Sociedad de Valores, S.A., Research Division

Okay, and another question, if I may. I heard that you mentioned the increase in profits of MAPFRE group since 2007. Will you have a similar figure for the comparison of Spain for the business within Spain? What's the drop in net profit 2007 versus 2014 or 2013?

Luigi Lubelli

I don't have the figure for you. But I think it's a matter of grabbing the presentation, which are available on the web page, and making those calculations. That's how -- that's basically how we did the calculations for group level. So I think anyone can do them by basically simply taking our presentations from the previous years and comparing them with the current year. Of course, I would say, I mean, intuitively, it has to be a smaller increase because MAPFRE had -- most of its development over its last 7 years had been outside of Spain because of the investment we've made there and because of the fact that the economies abroad have performed much stronger than Spain in this while. So I would imagine that just speaking logically, the increase in profits in Spain has been smaller.

Operator

[Operator Instructions] Our next question comes the line of Vinit Malhotra from Goldman Sachs.

Vinit Malhotra*Goldman Sachs Group Inc., Research Division*

This is Vinit from Goldman Sachs. Just 3 questions, very quick ones, I promise. In the motor Spain, just to clarify, the better combined ratio in 2Q versus 1Q, as Mr. Tejera was saying, it's purely seasonality or is something offsetting the higher frequency? That's the first question. Second question is staying in Spain. The EMPRESAS, one of the things mentioned in 1Q was increasing competition besides the large claims. But has it just gone away? Because everywhere, we hear a lot of the industrial risk being growing. I know it's not in Spain you mentioned. But generally, has the EMPRESAS facing lesser competition or is that not a topic at all? Lastly, is there anything on discussion with the Banco do Brasil, particularly regarding the -- what I understand from my limited knowledge of banking, the rules in the new Basel III or in Brazil regarding nonbanking operations? If there's no conversation, that's fine. I just wanted to clarify quickly.

Luigi Lubelli

Vinit, let me just see. The first question on the combined ratio in motor. To my understanding, the combined ratio in motor should have improved in the second quarter compared to the first one where only because of the -- let's say, I don't exactly have now -- let me just see the figure for the quarter per se. I mean, you had 2 impacts in the quarter. You had the losses per se, which were better. I mean, we spent less money in the second quarter than we did in the first one. We had better weather. And generally speaking, it was a better loss experience. On the other hand, because the business is resuming growth, we had -- it might be the case that we have smaller net premiums earned in the second quarter than we do have in the first quarter and that would amplify the loss ratio. But from my recollection, the underwriting results in motor in the second quarter should be better than in the previous one. Do you have a different view?

Vinit Malhotra*Goldman Sachs Group Inc., Research Division*

No, no, it is better. It is better. But I'm just wondering if frequency is supposed to have increased.

Luigi Lubelli

I think it's more than frequency. In this case, it was weather because the weather was better than in the first quarter and it was much better than the second one.

Vinit Malhotra*Goldman Sachs Group Inc., Research Division*

That's fair. That's fair.

Luigi Lubelli

And EMPRESAS, you're asking whether competition has gone away. Competition, unfortunately, never goes away, but what has come is economic growth. So what we saw is simply a pickup in demand for the products of MAPFRE EMPRESAS in the second quarter, which was especially noticeable in third-party liability products. So...

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

You must take into account that the economic growth compelled and the growth of premiums keep on having the same portfolio due to the fact that part of the capital issue is related to the activity.

Luigi Lubelli

So can you repeat your third question, Vinit? Because I'm not sure I understood it well.

Vinit Malhotra*Goldman Sachs Group Inc., Research Division*

Okay. And then I was just hearing, and this is -- pardon me, you can tell me that it's not the right question. But I was hearing that in Brazil, there is a -- the regulatory recently came up with a banking regulation, some version of Basel III, which would penalize banks. So Banco do Brasil might stand out as -- if it -- I mean, in current situation might not have enough and the insurance JVs would be the next topic. Has this come up in your conversations with Banco do Brasil at all? Or is there just nothing to do, there's no change, there's no update, there's no conversation?

Luigi Lubelli

Honestly, nothing that I can report on in terms of the direct manifestation from Banco do Brasil to MAPFRE. There is actually nothing that we -- where we should report here. I mean, intuitively, and I don't mean to -- and I don't want to speak on behalf of Banco do Brasil, but Banco do Brasil does have a recall [ph], which allows it to control the equities, which it invests in the insurance business, which is BB Seguridade. So if there were a need, Banco do Brasil could simply sell on the market part of its stake in BB Seguridade, and that would reduce its capital consumption coming from insurance. I mean, I'm saying off the top of my head that wouldn't change our ownership in the businesses that we have with them because that will remain unchanged. The MAPFRE will not be affected. But it comes to my mind that there is a possible way in which Banco do Brasil can control the equity it has in this business. But as I say, I'm speaking on their behalf, and I shouldn't do it. I don't know whether they consider that to be a way or not.

Operator

[Operator Instructions] There are no further questions.

Esteban Tejera Montalvo

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

Well, if there is no more questions, I would like to thank you for attending our conference call, and I hope to see you again for the next quarter results. Thank you very much, and [indiscernible] happy holidays [indiscernible] -- it could be happy people that are really able to have holidays now. Thank you.

Luigi Lubelli

Bye.

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.