

Mapfre, S.A. BME:MAP

FQ3 2015 Earnings Call Transcripts

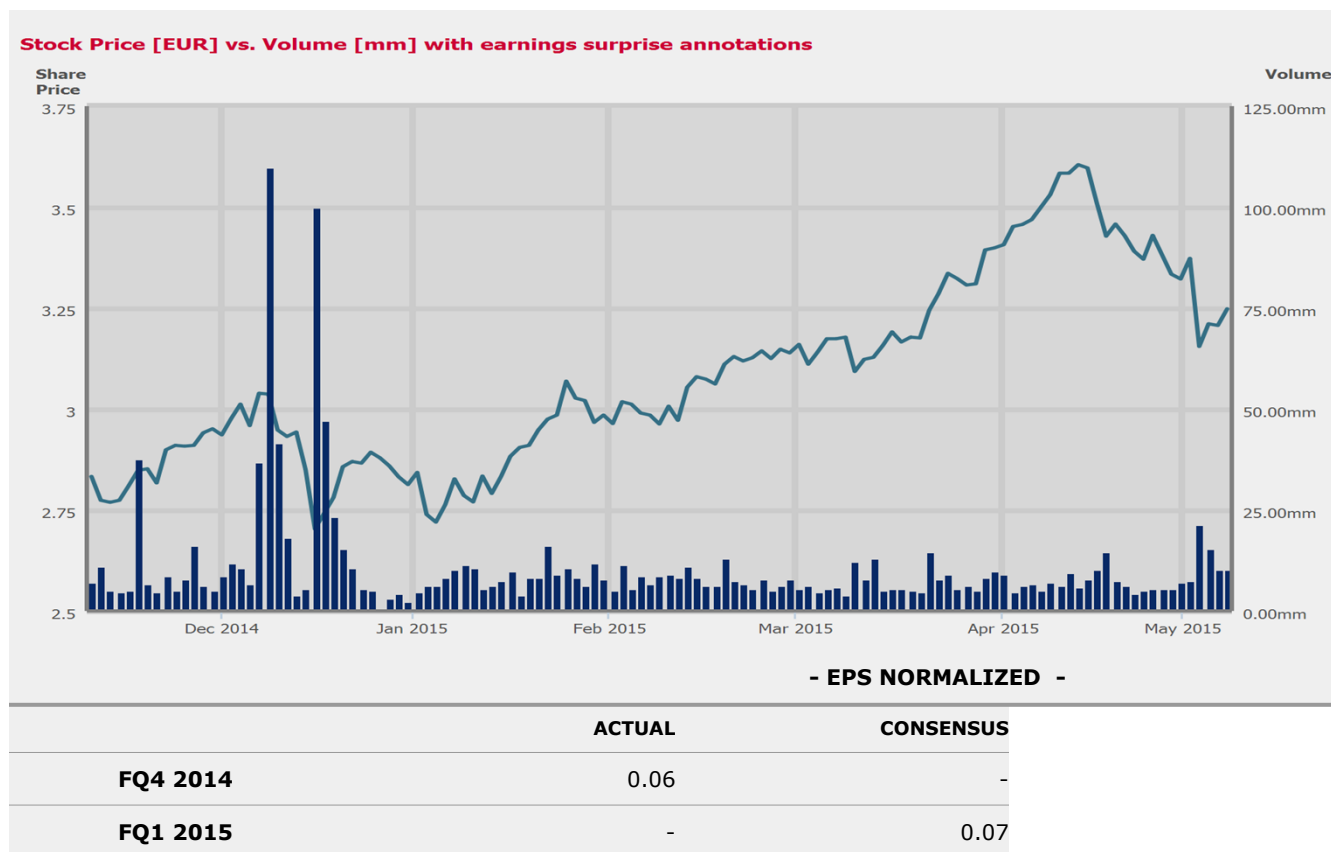
Wednesday, November 04, 2015 11:00 AM GMT

S&P Capital IQ Estimates

	-FQ3 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.11	0.27	0.29
Revenue (mm)	-	22084.94	22891.06

Currency: EUR

Consensus as of Nov-03-2015 12:46 PM GMT



Call Participants

EXECUTIVES

Esteban Tejera Montalvo

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

Natalia Nuñez

Presentation

Operator

quarter 2015 results presentation. We are now pleased to introduce Mr. Esteban Tejera, First Vice Chairman of the group, who will conduct this presentation. Please go ahead, sir. Thank you.

Esteban Tejera Montalvo

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

Thank you. Good morning, ladies and gentlemen, welcome to the presentation of the MAPFRE results for the first 9 months of 2015.

As you may already know, we already have led MAPFRE to take on a new professional challenge. Natalia Nuñez has been appointed Director of Investor Relations and Capital Markets. So we will have [indiscernible] today Natalia. As usual, I'll give a view and an overview of the results and the main business developments. And later, Mrs. Natalia will explain the financial data detail.

We will answer the questions you have submitted at the end of the presentation. If there is any further questions during the call, please send them to the specified e-mail address and we will answer them if time permits. Please let's now turn to Slide #3.

As you can see, MAPFRE continue growing, thanks to the Non-Life business both have growth in this space, as well as reinsurance which helped mitigate the impact of the contraction of the Life business in Spain. The combined ratio increased to 98.7%, due to the seasonal snow storms in the United States, which added 1.7 percentage points.

In any case, the combined ratio improves from the figures we released in June. We have also seen strong results in the Life business in Brazil which has helped offset the decline in Spain, due to the environment's low interest rates we have been suffering in Spain. And then in the attributable result of the EUR 591 million grew a net gain of EUR 155 million from the sale of CatalunyaCaixa's insurance business.

Bonds under management fell slightly due this operation but [indiscernible] in the consolidation of ASEVAL and LAIETANA VIDA. Managed savings [indiscernible] will remain stable in the midst of a difficult market environment.

In the quarter, stakeholders -- shareholders equity decreased by EUR 101 million while total equity fell by EUR 622 million, mainly due to the depreciation of the Brazilian real. The sale of CatalunyaCaixa which is a business also led to the decrease in nonconsolidated interest. Finally, MAPFRE's Solvency I ratio as of June 2015 stood a very solid 253, which places us in a strong stocking [ph] volume for the coming of our Solvency II this year.

Please let's move on to Slide #5. As you know, MAPFRE has a commitment of paying out around 50% of the group's earnings, increasing its dividend in line with the earnings growth. Despite the difficult year with extraordinary losses in MAPFRE U.S.A., the Board of Directors have approved an interim dividend of EUR 0.06 per share against the 2015 results, the same as the previous year. The total dividend to be paid in the year amounts to EUR 0.14 per share. At present market price

[Audio Gap]

where we so the moving months in the currency that have continued impacting both P&L and the balance sheet relatively over the last 12 months. We have seen a sharp increase in negative [indiscernible] on our balance sheet during the year due to the depreciation of our main currencies against the euro, the section for the U.S. dollar which gained 8% in the year.

As you can see, the moves have been particularly sharp in the Venezuelan bolivar, due to the application of SIMADI which has lost over 90% in the year, followed by the Brazilian real which has lost 28% in the year, especially in the last quarter. We have also seen strong falls in the Turkish lira and in the Colombian

peso. These currency movements have also impacted the capital loss but to a lesser extent, it takes longer for exchange movement to come to the income statement.

On Slide #7, we can see our diversification in terms of premiums contribution to the consolidated results. You can see, we have a highly diversified [indiscernible] a balance between growing and mature markets. The main variations in the quarter in terms of premium reflect the consolidation of [indiscernible] lines, Italian and German businesses. The sale of CatalunyaCaixa's insurance operations in Iberia has played an important role in terms of profit contribution.

On Slide #8, you can see our diversification in terms of products. As you can see here, motor represents roughly 29% of our portfolio. General P&C insurance, 25%. And it's remarkable to say that Life Protection is roughly 9%, reporting bigger figures in this quarter than Life Savings due to the whole evolution of the Life Savings business in Spain due to the low interest rate environment.

On Page 9, you can see our position in Brazil. We have there, a leading market position and are seeing underlying growth. Even with a tough economic backdrop, we have still seen growth in local currency terms. Life is growing roughly 5%, Motor is growing 3.3% and above the market and total premiums are growing by 4.4% despite the downturn in our insurance stemming from the rebates in the federal subsidy programs. Fortunately, there will be [indiscernible] these subsidies have been restored. And now, we are reporting remarkable growth in the figures of the last quarter in our business.

That allows us to speak about our growth in this kind of division, 2.3% in local currency compared with a decrease of 38% as of June.

On Slide 10, you can see the product mix in Brazil which is quite balanced which helps to ward off downturns in the specific segments like the experience we suffered in the first 2 quarters with the low insurance. Over 1/3 of premiums corresponds to Life [indiscernible] business and I'll remember you that this Life Protection business and another 1/3 comes from Motor. The Life in Agro businesses, mainly [indiscernible] Banco do Brazil and tend to be linked to lending due to the part that we have insurance federal subsidy are mainly channeled through Banco do Brazil. Other P&C is mainly sold through MAPFRE's network, given that this has improved more sophisticated risks as industrial and transportation lines.

On Slide #11, we saw the excellent levels of line ratio and return on equity that Banco do Brazil has consistently recorded, both boosted by EBITDA growth and the rising focus in improving financial income.

Please let's move on to Slide 12 where we analyze the measure we have undertaking in the U.S.A. MAPFRE U.S.A. is committed to profitable growth. And after the losses we have experienced from the winter snowstorms, immediate actions have been taken to reduce the risk profile. Tariff were raised in homeowner in Massachusetts by roughly 9%, and this was established since the first of July. The insurance protection has been increased which will help to buffer MAPFRE U.S.A. consultation despite the winter weather losses. And these measures were undertaken also at the end of the first half of the year. We have established also high deductibles, especially for [indiscernible] in homeowners and other general deductibles including wind [ph] and risk selection have been fine-tuned.

On Slide 13, we will like to comment on MAPFRE's proven track record on Spanish motor market. In the last 25 years, MAPFRE has doubled its market share from 10% to 20% while at the same time, it has maintained excellence levels of underwriting profits that as you can see on Slide 14, when we compare with the market, we have always competitive advantage in terms of combined ratio when compared with our competitors.

In any case, Spain continues on a path of economic recovery. And as a result, we expect that frequency will be cut. The low interest rate environment in the new environment will also put some pressure on our competitor's profitability with June, but our combined ratio over 100%.

All this in turn will most likely have to raise tariffs and MAPFRE will combine this process. One of our many competitive advantages is our historically lower combined ratio that have the low results to our performing market during the times of economic growth.

A combined ratio that, as you can see on Slide 15, is supported by high levels of efficiency and rigorous underwriting and standards. Our expense ratio released consistently below the market average with 1.8 percentage points advantage according to latest available market data. As to our strict underwriting policies, here, we can see how the average premium, the market declined by 21% since 2007, where MAPFRE from the U.S. average premium only decreased by 9%. And these are the 9 figures of the video.

I will now hand the call over to Natalia for a more detailed discussion of the financials.

Natalia Nuñez

Thank you, Esteban. Good morning, everyone. Please let's move now to Slide #17. Here is our consolidated income statement for the first 9 months of 2015. Financial information as of 30 of September 2014 have been restated CatalunyaCaixa's business as a continued operation. On the following slide, I will explain the figures in more details. Please let's move on to Slide 18 to take a look at the Non-Life account.

On a yearly basis, premiums have grown at a healthy 10%. We are seen the following trends. An increase result in LatAm growth, thanks to the result of the PEMEX policy which was EUR 387 million in Mexico in the second quarter. Growth in EMEA, thanks to the consolidation of Direct Line which posted in premiums EUR 207.4 million, as well as overall good organic growth in North America, Iberia and Turkey, and also in global risk and ASISTENCIA in the United Kingdom. This improvement offset the increases in Brazil due to the slowdown in agricultural insurance and the depreciation of the Brazilian real, as well as a contraction in LatAm South as a result of the application of SIMADI exchange rate in Venezuela.

In Brazil, we are seeing healthy local currency growth which was growing at 3.3% and Other P&C growing at 5.3%. Finally, there has been a positive impact of the appreciation of the U.S. dollar at North America, MAPFRE RE, ASISTENCIA and GLOBAL RISKS.

In the third quarter, premiums fell 12.2% with respect to the previous one, a decrease in LatAm North stemming from the PEMEX policy. A decline in remaining model and commercial lines, partially offset by an increasing EMEA, thanks to the consolidation of Direct Line. Also it has been due to an increase in Brazil -- sorry, has impact heavy offset to by an increase in Brazil in our insurance which was essentially noteworthy in local currency. Of the [indiscernible] in the third quarter alone, MAPFRE Brazil generated around BRL 1 billion in our premiums compared to only BRL 0.7 billion in the first 2 quarters combined. The combined ratio increased from 95.8% to 98.7% due to the reasons we will discuss now on Slide 21.

The claims ratio has increased 2 percentage points in the year to 70% as a consequence of exceptional claims in homeowner insurance in the United States due to strong snow storms. These effects added 1.7 percentage points to the consolidated combined ratio.

In Iberia, there was a large claim in commercial insurance and an increase in Burial technical reserves, our highest frequency in motor, home and commercial general liability segments.

In Brazil, there was a slight increase in the claims ratio in motor, industrial risks and agricultural insurance, offset by improvements in transportation and mass-market multi peril, and there was also an increase in severity and frequency in motor in Turkey.

On a positive note, there have been lower catastrophic events at MAPFRE RE. The loss ratio has decreased 2.8 percentage points in the third quarter, mainly due to better loss experience in health in Spain and an absence of catastrophic weather-related losses in North America and MAPFRE RE.

Let's turn to slide 22, please. The 0.9 percentage point increase in the expense ratio reflect higher acquisition costs in Spain, Venezuela, Chile, Colombia, Brazil and Turkey. Year-on-year, financial income have increased by 5.3%. The high interest rate environment in Brazil is contributing positively and has helped to offset the negative impact of lower net investment realization gains and deals in Europe, especially in Iberia. The positive impact of the strength of the U.S. dollar on exchange rate gains and financial income, especially at MAPFRE RE, MAPFRE GLOBAL RISKS, MAPFRE AMERICA, MAPFRE U.S.A. and GENEL SIGORTA which compensated the negative impact from the application of the SIMADI rates in Venezuela.

Now let's take a look at the Life account on Slide 23. Despite falling premiums overwhelmingly driven by Spain, the result of the Life business have increased 4.7%. Now I'm going to sum up the main movements. The 9.3% annual decreased in premium volume has been affected by lower issuance in Life savings insurance due to the unfavorable interest rate environment mitigated by 31st month of the 18th channel during the quarter, a contraction in the Life business in Brazil due to the depreciation of the real. This business is still growing 4.7% in local currency.

In LatAm South, the decline in issuance in Colombia to the nonrenewal of unprofitable contracts which was positively offset by improvements in Peru and Argentina and over 55% growth in Life savings products in Malta, a large Life Protection policy in Mexico. In Spain, part of the savings that wasn't captured via Life savings terms was directed to pension funds where funds under management in the agents channel increased by 9.1% compared to the previous year. The 4.7% improvement in the result of the Life business is due to 3 main causes. Price and interest rates and improvement in the underwriting result in Brazil, and a decline in Iberia due to lower net investment realization gains, as well as a decline in yields and a fall in LatAm South due to the nonrenewal of unprofitable contracts in Colombia.

Let's move on to Slide 26 where we will see the results of other business activities. The evolution of the result of other business activities has been impacted by a fall in revenues, mostly due to MAPFRE ASISTENCIA as a consequence of the replacement of service contracts in these insurance policies, mainly in the United Kingdom and North America. And on Slide 28, we will look at the main drivers of the consolidated results. As you can see, there are 3 main causes of the year-on-year contraction in the bottom line.

One, exceptionally large weather-related losses especially in North America; second, the growth of estate of minorities in Brazil, thanks to the very good profits there; and finally, new taxes charges in Venezuela and the application of the new tax in Colombia.

Profit was supported mainly by a strong result in Life business in Brazil, lower losses from the restatement of Venezuela's accounts for inflation due to the application of SIMADI, as well as the EUR 155 million gain from the sale of CatalunyaCaixa which was recorded in the results after tax from discounted operations.

We can discuss the balance sheet on Page 30. In 2015, the main movement of this statement include: the sale of CatalunyaCaixa insurance business; the consolidation of Direct Line; a decrease in the market value of the investment portfolio in Europe as the result of market tensions, mainly during the second quarter of the year; currency movement had a strong impact as Mr. Tejera also already mentioned in the beginning of the presentation.

Let's move now on to Slide 31 to analyze of the development of the equity in greater detail. In the quarter, total shareholder equity decreased by EUR 101 million, whereas total equity fell by EUR 0.6 million. There was 2 positive impacts on equity in the quarter. First, the EUR 155 million net gain from the sale of CatalunyaCaixa insurance business and the improvement in market value of the financial investment portfolio after the market turbulence we experienced in Europe in the second quarter. There were 2 other main changes which especially impacted noncontrolling interest, higher negative translation adjustments, mainly due to the depreciation of the real and the sale of CatalunyaCaixa.

This is all by my side, I will now hand back the call to Mr. Tejera to start with the Q&A session.

Esteban Tejera Montalvo

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

Thank you, Natalia. As you are aware, today, we will answer the questions that most of you have sent us [indiscernible]. If any other issues arise during the Q&A session, please send us an e-mail and we will be delighted to respond if time permits. If not, we will respond through our department of relations with investors. Please, we'll proceed to the questions.

Question and Answer

Operator

The first set of questions come from Niccolo Dalla Palma from Exane BNP Paribas. In motor, your net premiums were down 0.8% and insured cars down 0.4%, so average premiums are still down 0.4%. Why aren't you more aggressive in increasing prices ahead of the Baremo implementation? Axel [ph] reported recently a mass reduction in the number of contracts to achieve price adjustments, why are you not doing the same?

Esteban Tejera Montalvo

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

Niccolo, well, MAPFRE is already implementing pricing and tariffs to offset the impact of the Baremo. But the translation of this increases to the net premiums comes through in the period due to the [indiscernible] of the premiums. In any case, it's not only increasing tariffs. We are increasing tariffs but we also are reducing our exposure to special prone to losses to insure people. This is possible due to the knowledge we have of our portfolio, and that will allow us to implement the increase of tariffs according to the personal records of everyone. In any case, an increase, a general increase of the tariffs in order to offset the Baremo is on track, and we will see the tabulation to the figures in the future.

Operator

Why is your combined ratio in MAPFRE EMPRESAS 15.4% in the third quarter of the year? Some volatility is normal but that's a big jump.

Natalia Nuñez

Leasing prices remain to higher frequency and third party liability in this segment. This is the most significant in MAPFRE investment business. And also, there has been additionally, a large claim in the third quarter corresponding to investor multi risk, but we can -- this claim is a one-off, so we become the second half to recontinuing.

Operator

On same Life, what is to the breakdown of gains from the sale of CatalunyaCaixa's insurance business in MAPFRE VIDA and MAPFRE FAMILIAR?

Natalia Nuñez

This is a very important question and we receive that from most of you. Thank you for doing that because we would like to clarify these bond tariffs. It's very easy to see more or less in our accounts. In MAPFRE VIDA, we gained EUR 175.9 million of gross benefits and EUR 133.9 [ph] billion of net profit. In MAPFRE FAMILIAR, the gross profit was EUR 28.3 million and the net one was EUR 21.3 million. The total realization gain in LatAm was EUR 155.3 million, as what we have shown on the presentation, but it's important to clarify these numbers.

Operator

The next question comes from Niccolo Dalla Palma as well, and it's about Brazil. Margins hold up well but isn't the top line growth in local currency at 4.4% on Slide #9 actually disappointing, given an inflation greater than 9%?

Esteban Tejera Montalvo

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

Well, you saw that inflation is greater now in Brazil than before but in any case, I would like to remark that more than 1/3 of our premium income is coming from Life Protection. In Life Protection, that is the most profitable business we will have in the entire market as it's not affected by inflation as it is the Non-Life business. It's true that increase is a concern but it's also true that we are selling, especially

motoring insurance more obviously just our competitors and in real terms. If there is a decline, we have outperformed the market.

Operator

The next question is on USA. Tariff increases 8.9% in homeowners but the course of business is motor insurance. What tariff increases are you achieving in motor insurance in Massachusetts? Additionally, could you explain what you have changed in the insurance program?

Esteban Tejera Montalvo

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

Yes, it's true that we have revised the figures for core motor because it's the most important terms of the impact we have suffered from the snowstorms in Massachusetts. But in any case, we'll have also raised tariffs in motor insurance. The amount is roughly 5% during the period but we reported in the homeowners because we consider that in relationship with the main drivers of the increase in the losses in Massachusetts will be the most relevant. In terms of reinsurance, we have changed our insurance program. The new program is increasing, the quarter shared program. And we have also established a partnership with our reinsurers that allow us to include part of the risk that housing a new risk in the snowstorms of last year. Just in the same way as we have changed the coverage of our policies. And so in terms of the reinsurance, having that protection in terms of quarter share program and improvement of the contracts of reinsurance.

Operator

Could you update us on your Solvency II ratio? Is it still above 160% and by what margin?

Esteban Tejera Montalvo

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

Well, the exact clearance for Solvency II has not been calculated yet on the period. But in any case, what we can say is that we are in a comfortable position and our risk appetite that is in terms of arithmetical terms, close to a AA rating model according to our model is that just in the good part for having this target. You have to take into account that this will have, in the new figures, will have a decline on the requirements of capital due to the exit of the CatalunyaCaixa and an increase due to the incorporation of the subsidiaries of Direct Line. But the deduction that incorporates in the exit of CatalunyaCaixa is a visible [ph] card that increased due to the inclusion of Direct Line.

Operator

The last question from Niccolo Dalla Palma is about the dividend payment. Is the intention to pay 50% of earnings unchanged? Can you commit to pay at least a flat dividend of EUR 0.14 for full year 2015?

Esteban Tejera Montalvo

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

Well, the policy is unchanged. We have the intention to do it because [indiscernible] at least 50% of the earnings of the whole figure. But I only come and tell now that the interim dividend is EUR 0.06. It corresponds to the [indiscernible] according to the figures of last year to establish the amount of the final dividend. So I'm sorry, but I can't deliver more.

Operator

The next set of question comes from Silvia Rigol from BBVA. In motor insurance, are you seeing increases in frequency? Are you increasing prices? By how much?

Natalia Nuñez

In the case of MAPFRE FAMILIAR's motor insurance business, of course, we are seeing increases in frequency and severity increase in frequency because improvement of the economic situation in Spain. And the severity will come mainly because of the implementation of the Baremo. MAPFRE FAMILIAR

in any case is seeing increasing prices so we prepare to higher frequency that only comes from the [indiscernible]. I'm saying, from the improvement of the economic situation as the increase in the severity stemming from Baremo and from economic recovery.

Operator

Financial results have been very weak this quarter. In MAPFRE FAMILIAR, financial results amounts to only EUR 18 million. Moreover, there are net realization losses of EUR 12 million. What's the reason for these impairments?

Natalia Nuñez

Okay. There was a decrease in MAPFRE FAMILIAR's financial results during the quarter mainly because this quarter, we haven't done realization gains. And also, as we have seen in the figures, the net realization gains, I mean, losses of EUR 12 million corresponds to impairments of real estate assets. These assets include all used properties as well as properties rented to third parties that we have to reevaluate during this quarter. This is the result of this new valuation and taking assessment of these real estate properties. And again, still one-offs.

Operator

Why have gains from CatalunyaCaixa been accounted in this quarter? In the conference call of first half results, it was said that they would be registered in the fourth quarter.

Esteban Tejera Montalvo

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

Well, we have to register the operation just when they had been realized. In the presentation of the business first half, we said that the operation would be completed in the second half of 2015. At that time, we will know that a specific date will be the date of the closing of the agreement. Fortunately, the agreement was closed in the third quarter and after it was closed we have released it in our company.

Operator

Premium from Bankia channel have fallen 23% in the quarter. What's the reason for this evolution? Do you have any plans to change this situation?

Esteban Tejera Montalvo

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

Well, the evolution of the Life Assurance savings in Spain is an evolution that keeps [indiscernible]. The typical evolution [indiscernible] these were the environment of the low interest rates and the flat card of interest rates is not convenient for launching new products of savings. If you look at our figures, there was a decline of 40% in the first half of the year. And now, the decline is 23% which is due to the fact that we have taken advantage of a small window of the [indiscernible] of the more [indiscernible] interest rates. We have launches 2 different programs [indiscernible] getting very well sold. But in any case, I would like to remark that when we are talking about these products, we keep in mind always that our first target is to preserve value for our shareholders and our policyholders with no issue so that where there is no clear possibility of profitability in terms of the business and providing a definite deal for our policyholders. The good news is that in the Life Protection premiums, the savings by Bankia have grown by 21%. And additionally, the total technical provisions for Bankia also have a positive evolution, and our agents channels have improved the figures also in Life Protection. And Life Protection is the business that is profitable and we are committed to grow and we are growing.

Operator

The next question is on Direct Line. Could you give us more information, combined ratio, return on equity?

Esteban Tejera Montalvo

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

Well, as we mentioned in the presentation, the total premium of Direct Line amount to EUR 207 million. So the [indiscernible] the EUR 140 million come from Italy and EUR 68 million from Germany. Both in Italy and Germany in the quarter will have seen several extraordinary charges. But if we eliminate these effects, the combined ratio will be around weakened [ph] in both countries. The results have been also impacted by the amortization of the value of business acquired. As in any case, the evolution of the businesses would and we are now -- will have taken the control of the company. And then we have to make -- we are making improvements in the -- at the operational levels that will allow us to see this operation at very good one in the near future.

Operator

Why has LatAm North had a higher combined ratio at 100.6% in this quarter?

Natalia Nuñez

The combined ratio in the quarter has increased from 94.9% to 100.6%, about 5.7 percentage points. The claims ratio increasing from -- has increased from 53.2% to 53.7%. And the expense ratio has increased from 32.4% to 38%. This is due to the strong growth years finishing in LatAm North. We have seen also some upward pressure on acquisition cost which was more notable in the quarter. More than quarterly movements that they can be volatile, it's important for growth of the long-term trends and the accumulated expense ratio in LatAm North have improved to 35.2% at September 2015 from 36% in the previous year.

Esteban Tejera Montalvo

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

In any case, this quarter, we'll have the seasonal losses due to the evolution of the chemical provisions of the hydrogen [indiscernible] in Mexico.

Operator

Furthermore, regarding financial income from international at LatAm, we see also a decrease. What's going on in this subsidiary?

Natalia Nuñez

During the 3 quarters, I have seen decline in the financial income coming mainly from Malta and Middle Sea [ph]. Huge volatility we have seen in the trading portfolio during the quarter which has affected on the profit of those accounts because as you know, this is a trading portfolio and affects -- this movement of the market affects today, the system of loss accounts. Given the decline in financial markets in the quarter in equity which was a minus 7% in the third quarter versus plus 10% in the third quarter of 2014, the financial income in Malta has declined in the year. Also in LatAm, we did view mainly to the effects of the higher average exchange rate in Venezuela. Where as you know, we have been using SIMADI since the 1st of April. And Colombia has also been affected by the lower income results that come from the nonrenewal of some private sector pension scheme.

Operator

Going on the regional slide, Life in Brazil has generated a loss in financial income of EUR 14 million and EMEA, EUR 22 million loss. Why is this? The losses in MAPFRE Brazil are worrying.

Natalia Nuñez

In Brazil, we have seen a decline, actually, not a loss, and it seemed mainly due in the financial income line, mainly due to the work [indiscernible] ForEx effects. These, however, have been compensated by the improvement in the technical or working results in the quarter which has been very, very good. Also, EMEA has seen a decline in 3 quarters, another loss stemming from Malta. As I've said before, trading and due to the volatility seen in the trading portfolio which has affected to their profit and loss account.

Operator

Could you comment the evolution of premiums in local currency in Brazil? How is the evolution of agricultural insurance?

Esteban Tejera Montalvo

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

Well, as I said before, they have been [indiscernible] for volumes 4% in Brazil. And this is imparted by the decline of their insurance at the beginning of the year. As you know, agricultural insurance is work seasonality. So when we loss the business at the beginning of the year, this is impossible to recover, because the crop has [indiscernible]. But the good news with that now, we have subsidies again. And with the new crops that are in place, we'll have recovered part of the total [indiscernible] in the third quarter we'll have good volumes in our insurance of just over EUR 1 billion compared with the EUR 700 million in at the beginning of the year. If we set aside the effect of the reinsurance, the like-for-like growth would be roughly 5%.

Operator

The next set of questions comes from Fabian Lares from JB Capital. In Malta, growth of MAPFRE in the third quarter, 0% is below the growth in the total market, 4%. What is the reason for this difference?

Natalia Nuñez

The evolution here mainly reflects the nonrenewal of unprofitable motor contracts in the first quarter.

Operator

What's the outlook in motor insurance in 2016? What do you expect in terms of tariffs and impact of Baremo?

Esteban Tejera Montalvo

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

Well, I can say, as I've said before, in 2015, we expect our recovery in premiums for the whole market and we will be a companion in the market and even leading this increases on tariff according to our policy in underwriting mentioned in my presentation before.

Operator

Are you confident with your current situation of technical reserves in motor business? Do you expect to increase technical reserves in the fourth quarter?

Esteban Tejera Montalvo

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

Yes, of course. We are comfortable with the level of the technical provision, and we don't expect any further implication [ph] of reserves in the fourth quarter.

Operator

What level of realized gains do you expect for the next quarter?

Esteban Tejera Montalvo

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

Well, according to the situation of the market, MAPFRE has a lot of unrealized gains in our portfolio. But we are aware of the environment of the low interest rates, but it is thinkable that we would be more engaged that in this quarter, that we have to any -- we will return to our normal situation in the fourth quarter. But there is a -- we will continue in a normal evolution of the business. There was another final question please?

Natalia Nuñez

Yes, [indiscernible]

Operator

The next question is, what level of realized gains do you expect for the next quarter?

Natalia Nuñez

This has already been answered. The next one is what's the reason for the increase of acquisition expenses in MAPFRE FAMILIAR. This is due in part mainly due to the portfolio of mix of products distributed in the year 2015 that included bigger weight of products with higher commissions.

Esteban Tejera Montalvo

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

But there is a decline in the administrative cost in internal expenses, and the increases in the current area.

Operator

The next question is about LatAm excluding Brazil. What is the worsening of the combined ratios in the third quarter 2015 due to? We have 100% versus 98% in the first half of 2015. Is this due to specific one-off claims? Or is this a deteriorating tendency?

Esteban Tejera Montalvo

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

Well, there are 2 things. One is the evolution of the higher expense ratio due to acquisition cost. We didn't meet our internal costs everywhere in LatAm. And there were problems with the loss ratio in Venezuela due to an increase in the [indiscernible] for retention in the third quarter. We had an impact of roughly EUR 4.8 million due to the earthquake in Chile. And we had the deterioration of the high loss ratio in Mexico, mainly in the remote [indiscernible] our fees. But it's not a tendency, it's clearly a specific situation due to mainly these factors.

Operator

Are you planning on refinancing your outstanding senior bond that matures next November? If not, how are you planning on repaying it?

Esteban Tejera Montalvo

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

Well, the senior debt of EUR 1 billion comes to maturity during this month and we'd have sufficient liquidity into repay it without issues and as you can remember, we have made in the operation of selling CatalunyaCaixa that gave us liquidity. We have the internal liquidity coming from the [indiscernible] of our subsidiary. We have also the possibility to collect money from our syndicate bank facility that was undrawn.

Operator

When are you planning on reporting updated Solvency II figures?

Esteban Tejera Montalvo

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

Well, the [indiscernible] Solvency II according to the [indiscernible] I don't know exactly the date, but during the first half of 2016.

Operator

Can you explain the evolution of MAPFRE ASISTENCIA in the third quarter?

Esteban Tejera Montalvo

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

Well, MAPFRE ASISTENCIA we have on one hand, the evolution of the premiums while premiums are lower rate due to some local currency lows in North America. And in general, the evolution of premiums in MAPFRE income is going well. And the company have suffered in the year, several problems, mainly in North America, we have problems with the losses coming from the extreme conditions of the weather given the winter. And we designed our contract with state farms in order to reduce this. We have suffered in [indiscernible] a change in the regulatory that helps us grow our systems to be classified as a service instead of a reinsurance product which have impacted margin. And we have suffered also a deterioration of the one big contract in Brazil that had been resigned. The good thing is that we have cleaned everything in the MAPFRE ASISTENCIA and we have to reduce that growth in premiums that will allow us to improve in the consumption of the near future.

Operator

The next set of question comes from Mr. Castro from Banco Sabadell. The first one is regarding impairment tests on U.S.A. business. Have you increased provisions in order to anticipate a potential impairment? Can you give us an idea of the main indicators you have taken to account to assess a potential impairment in MAPFRE USA?

Esteban Tejera Montalvo

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

Well, the evolution of MAPFRE U.S.A. according to the business plan we have [indiscernible] acquired the company even if we have suffer, this is probably the losses this year. According to the plans of the company and budget for the years to come, I don't see in this in the near future of having configuration of impairment of this operation. In any case, MAPFRE always is vigilant about the evolution of the business and in this case, we are especially [indiscernible].

Operator

These next 2 questions come from Michael Huttner from JPMorgan. What is the sensitivity to deteriorating LatAm companies in the fourth quarter of 2015 and going forward?

Esteban Tejera Montalvo

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

Well, as I mentioned before, LatAm is suffering the -- mainly, we are suffering the impacts of the foreign deterioration, especially the real and other currencies. Even if the evolution of the business in local currencies aren't doing very well. So we've had presence in this economy for a long time. We are here and know very well the evolution of the business, and we are taking advantage of the evolution of the [indiscernible] money, even in village [ph] have deterioration in the global figures from those countries in terms of the evolution of the internal demand of the insurance, we can see a strong growth in the near future.

Operator

Can you say what the profits are on the direct business which you have agreed to buy?

Esteban Tejera Montalvo

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

Well, actually, we mentioned before, there have been certainly charges of the remaining [ph] operation and that we have one shop that will not be operating in the future. And honestly, I see that the evolution of the business will be able to fit and your parties was working.

Operator

The next set of questions comes from Avinash Singh from Nomura. Reinvestment yields in Spain have fallen significantly over the last few years and this is being reflected in weaker investment income. Can you please quantify the impact of this falling yield on your earnings in Iberia?

Natalia Nuñez

Okay. In Non-Life financial income, the Non-Life financial income has fallen over the year, about EUR 30 million, of which EUR 22 million have been reduction due to lower realization gains and the remainder could be explained by the following interest rates among other factors. As we see today Life business, it doesn't make sense to look at the financial income on a standalone basis. And then add the profitability and the business, as we analyze, taking into consideration also the liabilities. And then you got financial income we saw at MAPFRE VIDA have fallen by EUR 30 million year-on-year, of which EUR 17 million is due to lower realization gain.

Operator

In MAPFRE VIDA, can you please explain the current dynamics of Spanish insurance savings market? How does the low interest rate have changed this dynamics? And where does the savings going away from insurance? And what is the medium-term outlook?

Esteban Tejera Montalvo

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

Well, clearly, the low interest rate environment is having a strong impact on the dynamics of the Spanish insurance savings market, as I mentioned several times, savers are now hunting new, moving away from traditional savings products towards other kind of outfits like pensions, mutual funds. The good news is that we are active also in this kind of business and we have [indiscernible] growth in both of these business. And we are launching products even of insurance that are uniquely products tie up to these kinds of products. So even we think there is poor premiums, you can see a decline. We are growing in other kinds of products like mutual funds and pensions where we are keep and these are products that are not risk increasing our necessities of capital in the balance sheet. So MAPFRE is playing that role in the new environment. I think that in the near future, as the loan penetrates remain, we will see this kind of movements to this kind of products. And we are also increasing our activity [indiscernible] protection Life assurance which is more profitable.

Operator

The next question comes from Rahul Parekh from JPMorgan. What is the outlook on the tax rate? This year, it has been higher than normal. Will this trend stay?

Natalia Nuñez

Okay, this is mainly impacted by rates impact rates LatAm South due to the changes in the tax we gain in Venezuela and Colombia. Together with an increase in the corporate rate in Brazil which have increased recently in September for 40% to 45%.

Operator

Why does MAPFRE not have currency risk since it seems to impact the profit so largely?

Esteban Tejera Montalvo

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

We have been looking at this kind of coverage in the past and the conclusion were all the same, because those were prohibited. In addition, the business operates locally in assets and liabilities how much in each country. So very, very [indiscernible] in our company. Finally, we use the structure where [indiscernible] appreciation of the dividends and we have implied -- applied this every time. The effect of this translation of the results are now tied to [indiscernible] not to the cash flows, so -- and the balance sheet usually is set by diversification of our business. So this is an accordance issue but the answer is these are probably the same.

Operator

There are more questions coming from Niccolo Dalla Palma from Exane BNP Paribas. The first one is on MAPFRE INTERNACIONAL. Why was the financial income very positive in the first quarter with EUR 153 million and was only EUR 6 million in the second quarter and EUR 14 million in the third quarter?

According to my calculations, financial income was negative EUR 26 million in the second quarter and negative EUR 14 million in the third quarter for the non-U.S. business. What happened?

Natalia Nuñez

Niccolo, you have to bear in mind that the Malta business and the Malta Life business affect -- because I have said before, the portfolio there is a negotiation portfolio that affects to the profit and loss account. Having said that, there was a decline in the 3Q stemming from Malta, mainly due to the volatilities in the trading portfolio. And as I've said to profit and loss accounts, it was due to the decline in their financial markets. But also, you have to bear in mind that when it happened, the underwriting result in the Life business improved because also there is a decline in the provisions. So [indiscernible] result decline, so it's difficult to see, to try to get or to exact a conclusion only from the evolution of the financial income itself. You have to bear in mind also, as I said, the evolution of the [indiscernible] results in the Life business.

Operator

The next set of questions comes from Federico Salerno from MainFirst. Premiums in home insurance at MAPFRE FAMILIAR went from negative 3% year-on-year at first half to plus 2.5% at September 2, 2015. What explains the swing? Is it suitable going forward?

Natalia Nuñez

Okay, Federico. The fall of 3% at the first half 2015 included CatalunyaCaixa -- the sale of CatalunyaCaixa in 2014. The growth without CatalunyaCaixa in the first half which have been 2.6% which is in line with the growth of -- at the end of September of 2015 which is 2.5%.

Operator

The next question from Federico Salerno is the following: can you provide a net for us year-on-year change in net income?

Esteban Tejera Montalvo

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

Well, we don't have the figures here, but we can provide you later.

Operator

The next set of questions comes from Juan Canovas from Fidentiis. The first one is on Brazil. What is your view of the Brazilian economy and what do you expect going forward? Other Spanish companies are providing a very negative view without any signs of recovery in 2016.

Esteban Tejera Montalvo

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

Well, as I've said before, the situation in Brazil is now suffering clear [indiscernible] in terms of lower economy. But in any case, our position there is strong. We are leaders inventing [ph] we are working on. And we have a very good partner which is [indiscernible] and we are there to remain there, so we begin this in local terms in doing very well and major impact is due to the deterioration of the currency.

Operator

This situation in Brazil, could it lead to MAPFRE increasing its stake in the joint venture companies with Banco do Brazil?

Esteban Tejera Montalvo

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

No, we have an agreement with Banco do Brazil that is the last 20 years, there is no intention of changing the tariffs of the agreement. We are really comfortable with our partnership with Banco do Brazil and we will remain there.

Operator

And this is the last question from Juan Canovas from Fidentiis. Why did the tax rate improve during the third quarter standalone?

Natalia Nuñez

It improved mainly due to the positive effects of the DTA coming from Brazil, given that as we have said before in September 1, the tax rate -- corporate tax rate increased from 40% to 45%, and we have this benefit, this profit coming from the DTA, deferred tax assets.

Operator

Thank you. There are no questions for now.

Esteban Tejera Montalvo

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

Thank you. Thank you, everybody, for listening in our presentation. And I hope to talk with you in 3 months to deliver the 3 months of the final year. Thank you again for attending the conference.

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.