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FQ1 2012 Earnings Call Transcripts

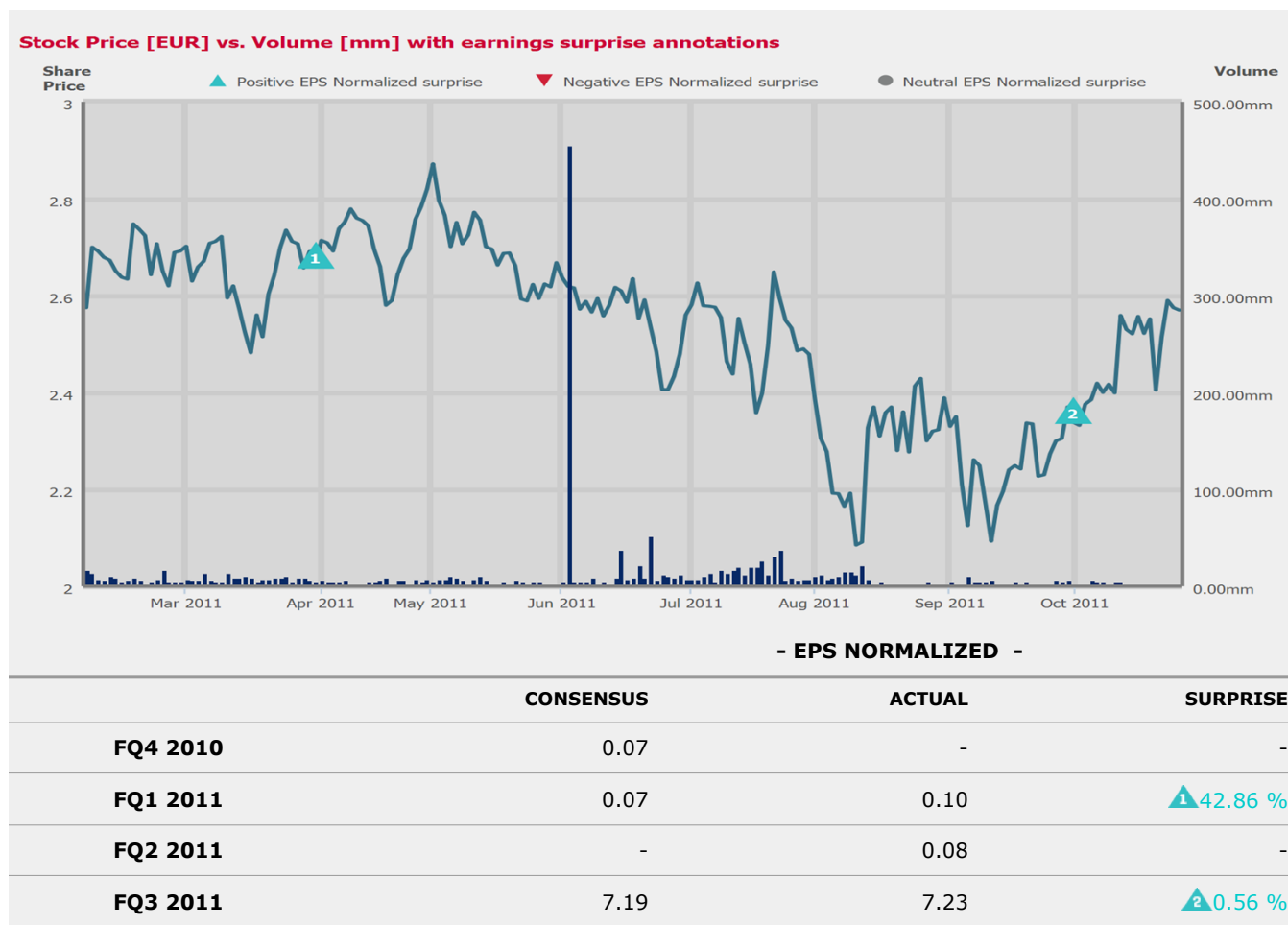
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S&P Capital IQ Estimates

	-FQ1 2012-		-FY 2011-	-FY 2012-
	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	-	-	0.31	0.34
Revenue (mm)	5365.00	▲ 9.86	17596.17	19524.43

Currency: EUR

Consensus as of May-09-2012 3:51 PM GMT



Call Participants

EXECUTIVES

Esteban Tejera Montalvo

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

Jesus Amadori

Luigi Lubelli

ANALYSTS

Atanasio Pantarrotas

CA Cheuvreux, Research Division

Federico Salerno

*MainFirst Bank AG, Research
Division*

Giulia Raffo

Autonomous Research LLP

Maciej Wasilewicz

Morgan Stanley, Research Division

**Niccolo Cornelis Modesto Dalla-
Palma**

*Exane BNP Paribas, Research
Division*

Raphael Caruso

Raymond James Euro Equities

Rodrigo Vazquez

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

Vinit Malhotra

*Goldman Sachs Group Inc.,
Research Division*

William Hardcastle

*BofA Merrill Lynch, Research
Division*

Presentation

Esteban Tejera Montalvo

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

Good afternoon, ladies and gentlemen. Welcome to MAPFRE's First Quarter 2012 Results Presentation. 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 your questions.

Please move to Slide #3. Despite the bad conditions of our environment, we can say that we have started the year with a good start. Revenues grew by more than 11%; premiums by more than 15%; managed savings, more than 8%; and we have improved our Non-life combined ratio in 1 percentage points to 95.6%. And even the attributable result dropped by 12%, the recurring attributable result is growing nearly 4%.

These results are in a line that I would like to underline. And these results, we haven't any extraordinary gains, at least the difference between these results and the results of the first quarter of the last year. The revenues grew a little less than premiums, but we should keep in mind that in the first quarter of last year, we recognized a gain of EUR 182 million arising from the agreement with Banco do Brasil, which was not repeated this year.

The growth of the funds under management reflect growth in Spain, as well as the consolidation of Banco do Brasil and Middlesea and the improvement in the combined ratio, which is now in a level more normal in our activity. When we talk about the combined ratio of MAPFRE RE [ph] is not damaged this year by the earthquakes of Japan and New Zealand and the weather-related claims that we suffered in MAPFRE USA last year.

So as I mentioned before, the underlying profit growth was close to 4%, taking into account the EUR 97 million net gain in Brazil booked in this quarter in 2011, as well as the realized gains in claims I just referred to. I consider these to be a fine increase of the results, given the present environment.

We go to the next slide. On Page 4, we have the main highlights of the results. The growth in the international business has been usual given the last quarters. The improvement in the underwriting results in Non-life, thanks to strength of the domestic revenues and the lower impact of catastrophe and weather-related losses. We have an improvement in Life insurance and recurring results, thanks to the growth of the international business and the focus on Life-Protection insurance, which is an objective we had probably [ph] 2 years ago, and that we are maintaining due to a special circumstance of the saving Life insurance in Spain at this moment. And we have also a sustained improvement in recurring financial results.

In Page 5, we have the development of the recurring results. This year, there is only one truly nonrecurring item, which is the impact of the impairment of the Greek debt, which is EUR 41.5 million. And as you remember, we have a provision for general deterioration of the financial environment at the end of last year of EUR 56 million in our accounting. So there has been a release, a partial release of this provision, and this has an effect of neutralization of the impairment of the Greek debt.

There are no exceptional claims. And on the other hand, as you know, last year, and I mentioned before, our accounting, especially in MAPFRE RE, were impacted by the earthquakes in Japan and New Zealand. This year, we haven't catastrophe or weather-related special conditions in our claims. And the realization gains this year are much lower than in the year before, of course, where there was a large one-off gain in Brazil that I mentioned before also.

On Page #6, we saw the relations [ph] of the agreement we reached during the quarter with Banco Financiero y de Ahorros to acquire their shareholding in MAPFRE AMÉRICA, which was 10%, and we acquired these shareholdings. And now, we are the owners of 99% -- more than 99% of our main subsidiary abroad. The operation will be financed from the group's own resources and the price was

EUR 244 million. This is an agreement that is accretive from scratch [ph]. It has a positive impact in our accounting.

On Page 7, we saw our policy of dividends. They were disclosed in a meeting celebrated this morning and has established to pay fully in cash the final dividend payable against the 2011 results. The results, as you remember, EUR 0.08 gross per share, and this means that it will be paid in the 29th of June, and this implies a rise in the amount paid of the dividends against 2011, which represent an increase of 2.2%.

And finally on Page 8, we provide a breakdown of our investments, which should clarify several questions we have received over the past months. As you can see, our exposure to the Spanish financial institutions is concentrated in better quality assets, and overall exposure to financial institutions is more diversified than normally assumed by the market.

I will now hand the call to Mr. Lubelli, who will explain the financials in greater detail, as usual, and then we'll take your questions. Thank you.

Luigi Lubelli

Thank you, Esteban. Good afternoon to everyone on the line and on the Internet. Before I go ahead, some of you may already know that today, the Board of Directors of MAPFRE has appointed Mr. Tejera as First Vice Chairman of the Group, and therefore, I wish to congratulate Esteban publicly on this call for his appointment.

With no further delay, let's move on to Slide #10. Just as a preface to what I will say about the rest of the contents, you may have noticed that we have changed the presentation of the figures. This is in order to adapt them to the new management structure of MAPFRE. If you had the chance to look in greater detail at the presentation, you need not worry because the usual figures we provided about each subsidiary are found in the statistical appendix as usual. It's just a matter of presenting the figures in the main presentation according to our new management approach.

On Slide 11, we have the usual breakdown of premiums by line of business and geography. The weight of the foreign business activities over total premiums has remained in line with the full year 2011 figures. That is about 62%. The figure was pretty much the same at the end of last year. Unsurprisingly, the dramatic increase of the previous year comes from the consolidation of the business held jointly with Banco do Brasil, which, in addition to this, was by far the main contributor to premiums growth in the first quarter.

Due to the absence of significant nonrecurring items, the contribution to insurance profits is basically in line with the insurer underlying level. The foreign business, including ratio, has gone up to 45% of total insurance profits compared to 40% a year ago. This is a result of the startup and consolidation of the new Brazilian business, as well as a much larger contribution from Commerce, which, as you will see, has experienced a notable improvement.

On Slide #12, we have a new slide, which we -- through which we wish to provide additional color on the breakdown shown on the previous slide. In a nutshell, what I would like to show here is that Spain, the U.S. and Brazil bring in 60% of total premiums and about 70% of total profits. Spain remains the main contributor to profits, but as I already explained in the previous slide, the contribution of Brazil and the USA has gone up materially year-on-year.

If we were to add to this geography the reinsurance business, we would go up to about 75% of premiums and 85% of profits, so 3 countries plus the reinsurance business make up 85% of our total profits. Premiums fell 3.7% in Spain, which nonetheless was way lower than the 11% contraction for the market at large. This has translated into an overall increase in MAPFRE's market share of about 0.7 percentage points.

On Slide 13, we have another new slide with the development of Non-life insurance results, in which we also want to show you how different geographies and subsidiaries play. As I said before, the Non-life premiums growth was driven mainly by MAPFRE AMÉRICA, thanks to both the business with Banco do Brasil, as well as to an average increase of about 20% in the other countries. All other subsidiaries grew

as well, except in Spain, which were -- unsurprisingly, we had the contraction which was due to the impact of the economic slowdown on sales. As I said on the previous slide, nonetheless, we outperformed the market in this decrease -- meaning that we decreased less, of course.

Overall, year-on-year, the combined ratio recorded an improvement, and this improvement is a result of several variations. In the Spanish business, we had an increase, although overall, the combined ratio remains outstanding. This is basically a comparison effect with the previous year where we had an exceptionally low experience in the burial business. This year, this is compounded for -- by a change in the expense accrual criteria and not from business [ph], which anyway will be diluted as the year progresses.

MAPFRE AMÉRICA recorded an increase due to a higher loss ratio in motor, agriculture, health and accident insurance. This was especially concentrated in Brazil. If you follow other groups that operate there, you will have noticed that the countries had largely experienced a deterioration in the combined ratio in the motor business, as well as the impact on the severe drought on agriculture insurance.

MAPFRE RE improved very materially. That is no surprise to anyone. Last year, we had the earthquakes in Japan and New Zealand, and fortunately, it had none in the first quarter of this year. Something similar must be said about MAPFRE USA, which last year suffered the consequences of historically severe winter storms, which, once again, fortunately were not repeated this year.

MAPFRE GLOBAL RISKS had incurred into a higher cost of reinsurance protections. And in addition to that, on the cost side, it had a greater proportion of its business sold through brokers. And finally, MAPFRE ASISTENCIA recorded a negative impact of foreign exchange valuations on its reserves, and in addition to that, had a business mix driven by products with higher commissions.

On Slide #14, we have the Non-life account. I've already explained at length the drivers of premiums growth and the technical results. I will just like to add with respect to the technical results, the combined ratio specifically, that compared to the full year 2011 figures, we have the expense ratio up 0.4 percentage points, but the loss ratio is down 1.7 percentage points. So we have a net improvement of 1.3 percentage points since the closing of the previous year. The growth in the financial results benefited from higher recurring yields, generally speaking, and the strong increase in Brazil, which more than compensated for the lower amount of realization gain.

On Slide #15, we have a new summary as well for the Life business. Brazil was the main driver of growth also in the Life accounts. The explanation is more complex in this account. Last year, the NOSSA CAIXA business was in runoff, awaiting the commencement of the business activities with Banco do Brasil. And this year, this business's activities are up and running, and this had a strong impact on both sales and the technical financial results.

MAPFRE VIDA on the Spanish side benefited from a strong performance of the agents channel, which largely made up for the contraction in sales through the bancassurance channel. And this explained why MAPFRE strongly outperformed the market because, for those of you may not know that, the market in Spain contracted nearly 19%, 1-9. The technical financial results continues to benefit in Spain from the growing rate of Life-Protection insurance.

MAPFRE RE recorded a very large increase in sales, which mainly came from European ceding companies.

And the summary of the Life account is found on Slide 16. Here too, I've already explained the main drivers. Early on, Mr. Tejera made reference to a gain booked in 2011 on the agreement with Banco do Brasil. If you exclude that, the technical financial result were nearly 90%, which once again was driven by Brazil, but this year, it actually comes from the development of the business.

On Slide 17, we have the development of other business activities. Generally speaking, we have lower interest payments this year, and we have an impact on the year-on-year comparison which is positive, by the provision which we appropriated in 2011 as a result of the sale of the shareholding in BANCO DE SERVICIOS FINANCIEROS CAJA MADRID-MAPFRE. If we exclude that, as well as interest payment, we see that the net balance is a small profit, and this is a testimony to MAPFRE's strategic choice to exit the non insurance businesses and increase the profitability of those it holds.

On the next slide, we have the bottom line. Little to say here. I'd say the major change here, which is the most striking, is the increase in the results attributable to the minority shareholders, which is mainly a result of the alliance with Banco do Brasil.

Just as an add-on, which is not covered here, I would just like to add that some of you may have been surprised compared to your expectations by the results of MAPFRE FAMILIAR. That is actually quite easily understood. If you take into account the fact that last year, after taxes and minorities, it had a positive impact of about EUR 25 million from realized gains, which this year has fallen to just EUR 9 million. And this year, on the contrary, it has a write-down on Greek debt of about EUR 29 million. If you adjust for everything from -- plus some small, really immaterial write-offs that it also had, it basically has an adjusted net results of in the region of EUR 82 million, which is closer to what we saw with the expectations of some analysts.

Details for the case of America, there's been some surprise possibly with that. Here, we have bigger swings. Last year, we had the realized gain -- profit on the recognition of the alliance with Banco do Brasil, which added about EUR 109 million, EUR 110 million to its bottom line, plus EUR 5 million of inflation adjustments in Venezuela. This year, it actually has about EUR 7 million of amortization of value of business acquired arising from the alliance with Banco do Brasil and a smaller adjustment for inflation in Venezuela. If you take into account this amortization of the VOBA and the inflation adjustment, the net profit comes out at around EUR 55 million, which is basically in line with what we understand most people expected the result to be.

After this digression, I'll go back to the presentation. On Slide 19, we have the balance sheet. You will have noticed a seasonal decrease in cash and equivalents, and that is simply the result of the pressures of financial assets. And year-on-year, we also have a comparison, a fall of about EUR 280 million, which is almost entirely due to the repayment on maturity of the bonds issued in 2011, which basically were of the same amount.

Other assets, as well as liability, see a seasonal increase in the case of the assets as receivables from insurance and reinsurance operations. Those of you who follow us should not be surprised by the increase in minority interest and technical reserves. Minority interest grow because of the consolidation of Banco do Brasil and technical reserves because of this and in addition to that, because of the consolidation of the Middlesea Insurance.

I'd just like to add that compared to year end, debt recorded a further decrease -- a small one, but yet a decrease of about EUR 75 million -- EUR 65 million.

And finally, we have the statement of changes in equity. This year, unlike the other year, we have a positive impact from the changes in market valued investments, which was partly offset by the application of shadow accounting and translation adjustments mainly coming from the depreciation of the U.S. dollar. We have the dividend approved by the general meeting. And I wish to stress this: this is already taken away from equity. It's already recognized in equities, so we'll not see another charge for this.

And this concludes my time. I will hand the call back to Mr. Tejera for the Q&A session.

Esteban Tejera Montalvo

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

Thank you, Luigi. Well, we have finished our presentation and we are available for you for questions. Thank you.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Niccolo Dalla Palma of BNP Paribas.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

I have 3 questions please. First one on Brazil. If you could, on the P&C side, please give us the like-for-like growth in premiums. And also if you could say something more on what drove the larger loss experience, was it frequency? Severity? Was it on current or past accident years? And on the Life side, in Brazilian side [ph], if you could reexplain what happened in NOSSA CAIXA, because I got a bit lost there. And if the VOBA amortization is a one-off, or if that is a recurring level of amortization of your VOBA. Secondly, in -- if you could confirm on the accounting change at MAPFRE EMPRESAS that -- is that only a one-off change in Q1 or is that a new recurring level of, let's say, expense ratio due to the change in accounting? So just to clarify if that's -- if you will go back to the normal expense ratio in the coming quarters. And finally, on the fixed income portfolio, where you gave some more details on Slide 8 which are useful, if you could also just add 2 little pieces of information on the financials exposure, just to better understand the covered and senior exposure to banks, i.e., is it fair to assume that around the 1/2 of that is to savings banks, which is the number I would get to, looking at the full year disclosure, mixing it with this one? And is there any concentration risk? You mentioned that it's a very diversified portfolio. Could give us an idea of what the maximum size as to one institutions -- obviously no names, but just an idea?

Luigi Lubelli

I hope I can remember everything you asked, so if I do not, please remind me. I'm afraid we cannot provide a like-for-like for Brazil. We explained this in previous conference calls, but I will explain it again. It is not that easy because there's been quite a movement around our portfolios as the transaction was consumed, so it is difficult to give a percentage like-for-like comparison, I'm afraid. The loss ratio in Brazil was a generalized deterioration in the country, if I'm not wrong, is especially frequency of theft, if I'm -- car theft in the country. NOSSA CAIXA, yes. What happened was the following, which actually, last year, caused the negative comparison we explained. If you may remember that last year in MAPFRE AMÉRICA, we had an increase in expense ratio. That was due to the fact that somehow, the year began and we stopped selling Life business to NOSSA CAIXA. This business began to be sold through the then subsidiaries of Banco do Brasil. And at the same time, we were actually setting up the structure of what would be the present holding companies now. So last year, we actually had an initial negative impact of the alliance because we recognized a significant portion of the expenses but we have stopped, temporarily, recognizing the revenues and profits of the subsidiary. Then this, of course, was taken into account in the evaluations, in the rough evaluations, and then the business came in. So this year, you're comparing a business that is up and running with a business that last year was temporarily stopped. And then, of course, call it a big upward swing in the result of the Life account with latch [ph]. That's basically -- and have I explained myself with you?

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

That's very clear.

Luigi Lubelli

And the value of business acquired is -- yes, it will continue. It's just an accounting procedure, so it will continue for the period of 20 years, about.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

But the rate at which it will continue that -- are we -- can we assume that's similar to the, I think, EUR 22 million you mentioned for...

Luigi Lubelli

Yes. Okay, the change in accrual in MAPFRE EMPRESAS was basically due to somehow a timing difference between -- let me be clear on this one. This business, like in other 2 businesses in Spain, which is burial and health, most premiums issue in the first quarter of the year. So there was a certain timing disconnection between the recognition of expenses and the recognition of premiums, so that is basically what has been fixed. I'm afraid it will somehow affect the year-on-year comparisons but just this year. Then next year, being an accrual, everything will revert to normal. Next question was the fixed income portfolio, right?

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Yes.

Luigi Lubelli

So you said the covered and...

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

And the senior, just understand, if it's a fair assumption that's roughly 1/2 is savings banks and the other 1/2 is non-savings banks, which is the number I would get to, applying the full year disclosure to this more detailed one.

Luigi Lubelli

I'm afraid we don't have a precise disclosure of that, and I cannot give it to you. I would say it's a fair-ish assumption, in the sense that obviously, I mean, the market is what it is. And so the issuance of covered bonds was clearly skewed towards the banks which had the larger mortgage portfolios, and so the bigger have the bigger share. So as a rough smell test, that would swing it towards the banks rather than towards the savings banks. But that's, I'm afraid, as far as I can go. Niccolo?

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

That's very clear. And in terms of concentration risk just to -- not specific names, clearly, but just you said it was a very well diversified portfolio. Can you give us a number on the maximum size to one single institution or...

Luigi Lubelli

I'm afraid, that being nonpublic information, I cannot.

Operator

Your next question comes from the line of Maciej Wasilewicz from Morgan Stanley.

Maciej Wasilewicz

Morgan Stanley, Research Division

It's Maciej from Morgan Stanley. A few questions, if you don't mind. The first question is, if we assume that, let's say, the Spanish property market went through a more rapid adjustment in terms of pricing than might have been expected in the coming months, I just want to know in terms of timing, would you -- how often would you revalue your portfolio? If there was evidence that, say, property was revalued at a much lower -- much lower, much sooner than you might have been expecting, would you revalue that portfolio in 2Q? Or would we have to wait for a revaluation of the portfolio until the end of the year, even if there was some compelling evidence that the portfolio might have lost some value? Number two, could

you just give us an update on your solvency position? Is that above -- still above 200%, or what can we expect there? And number three, very briefly -- and I don't think you'll be able to answer this anyway, but if we, for a second, entertain the idea that there was a secondary offering of your stock, would MAPFRE FUNDACIÓN potentially be a sizable buyer of that stock? I don't know if you can answer that actually, but I'll ask anyway.

Luigi Lubelli

I'm sorry -- I was going to say, "Sorry, I have something wrong with the mic." You could never be blamed for asking, but don't ruin my [indiscernible]. Now let's see. I'll begin from the end, in the first question. We revalue properties at year end. We've explained this a few months ago, on occasion of the full year results. That's the established procedure. And honestly, unless havoc breaks through, I wouldn't see a reason for such an adjustment. I mean, I think we've had a fair share of fright today in Spain and of rapid falls in the price of real estate values, and we've never faced such a situation. And at this date, prices have fallen quite considerably already in the market. So I will not anticipate -- I don't know what exactly you have in mind, but with the present market situation, I will anticipate that the revaluation will take place as usual. Is there anything you have specifically in mind?

Maciej Wasilewicz

Morgan Stanley, Research Division

Well, I just thought that perhaps, given the current situation, you might consider some of your property to be worth materially less than it currently sits at, at the balance sheet. So you might choose to recognize that loss in value, if there is a loss in value, sooner rather than waiting until year end and just wanted to test if that was a possibility. It sounds like you'll wait till year end, normal procedure.

Luigi Lubelli

Yes, because among other things, I mean, there's nothing that we have noted in terms of any more rapid depreciation in asset values which would warrant that. So no, I mean, I couldn't see any reason now for anticipating that revaluation. So in terms of the solvency provision, no, there has not been any. I mean, we have not -- we normally do not release that. [indiscernible] time has passed since year end, and there have been no material changes. I mean, there was this Greek write-down, but it wouldn't have any material impact on the situation. Actually, we had, as you can see from the change in equity, we had a positive impact from asset valuation on equities, so actually in solvency would be a bit better. And the last question, I'm afraid, has no answer, a, because this is, at this stage, science fiction; and secondly, no, we could not speak on behalf of the foundation because they [indiscernible]. I mean, as a hunch, you would expect them to be interested in the capital increase of MAPFRE, but that is as far as I can go, that they're independent from our company and they take their own investment decision, [indiscernible] that's the long and short of it.

Operator

Your next question comes from Atanasio Pantarrotas of Cheuvreux.

Atanasio Pantarrotas

CA Cheuvreux, Research Division

I have 3 questions. First of all, on the Motor Spanish business. I saw that you reported a healthy trend in the loss ratio, which improved by 3.3% year-on-year despite some lower premiums income. I wonder if you can give us some more color on the Motor business. If the premium decline is totally due to lower tariffs or lower coverage both by your clients, what is the claim inflation trend and expectation regarding possible change in the compensation scheme in Baremo? The second question is on the Life business results, which was very strong in the first quarter. And I wonder what could be a sustainable level because I saw a high volatility in your Life results, even excluding the gain booked for the joint venture in Brazil last year. There was a high volatility in the quarter-by-quarter the Life results, which passed from less than EUR 60 million in the second quarter last year, then jumped to EUR 135 million and then declined to EUR 65 million also to impairments in the last quarter, then it jumped again to EUR 165 million in the first quarter this year. So what could be a sustainable level going forward, of course, in the next quarters?

Last question regards impairments. Is it now that your Greek bonds in line with the market valuation? And what could be the expectation regarding the possible impairments in the next quarters? I mean, maybe for example, in Bankia, I think that the market evaluation in Bankia is that now far below the IPO price, and I know that you both, if I remember, wanted [ph] EUR 165 million, so I wonder if there is potentially some impairments in the stake going forward.

Luigi Lubelli

Let's see, health [ph] in the combined ratio, I would say, more or less reverted to normal. As we said last year -- well, not last year, a few months, 3 months ago with the full year results. In the last quarter of last year, we took a conscious decision to strengthen reserves in expectation of potential deteriorations to happen this year. So if you compare it quarter-on-quarter, that quarter was not that normal. This quarter is more normal. Falling premiums, I'm afraid that the economic situation is what it is. So that there is a -- it's a competitive market and the volume of car sales are falling and falling so as the cars are not being replaced, so cars grow older and people somehow downshift with their policies. As their cars get older, they no longer have a fully comprehensive. They perhaps go to a third-party liability policy or a policy which has fewer covers although it has more than a third-party liability. It's just basically an adjustment to a lower level of economic activity and sales. Nothing special to report on the claims inflation and on the Baremo front. There are no news of Baremo for the moment.

Maciej Wasilewicz

Morgan Stanley, Research Division

I'm sorry. Regarding the inflation costs, so is stable? Is 0? Is negative?

Luigi Lubelli

I don't have the precise figure. Inflation, at large, in Spain has fallen. And then more or less moves in sync with that. Life business, you said a strong Q1. You were referring to the technical results, or were you referring to premiums?

Maciej Wasilewicz

Morgan Stanley, Research Division

[indiscernible] include the financial income, you saw so that there were also was EUR 165 million. And I mean, it was much higher than compared to the past 3 quarters, which was an average EUR 86 million, of course, maybe partially due to some negative one-offs about anyways [ph] .

Luigi Lubelli

I was going to say, last year, you had Greece and this year, on the year-on-year comparison, you have Brazil. If you want the [ph] technical results, what would be absorbed, so that wouldn't impact on that. So it's just basically business activity. Higher yields, there are not many gains to report or anything.

Esteban Tejera Montalvo

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

Atanasio, [indiscernible] actually looking at our Life account, if you adjust quarter-on-quarter evolution, if you take out last year, obviously, the impact of the one-off on Brazil, and in the last quarter, the Greek impact on the Life account typically gives you roughly between EUR 60 million and EUR 80 million per quarter. We can take it off-line if you want and then we can debate a bit further, but regularly, that is what it should have been last year, right?

Maciej Wasilewicz

Morgan Stanley, Research Division

Yes. Okay.

Esteban Tejera Montalvo

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

And with regard to the impairment, well, clearly, the Greek bonds are there. Whatever impairment there had to be, there has been. And now the bonds are at market value, like all our investments, so -- and the same answer applies to Bankia. So there has been a difference in Bankia with respect -- I honestly do not recall what was the share price on the 31st of March. But whatever falls there has been in that price will be reflected in the accounts at the close of June, if it stays on at this price by the end of June. So there are actually no write-downs. It's just our investment according to market price. So if the market price falls, it goes into everything. And the same with the Greek bonds. Now they are trading at market, whatever permanent impairments there have been have gone through the P&L and we are now trading at market.

Operator

Your next question comes from Federico Salerno of MainFirst Bank.

Federico Salerno

MainFirst Bank AG, Research Division

Just a quick question on Slide 40. I think you mentioned the realization of gains at FAMILIAR, which fell from EUR 35 million to EUR 13 million. Which level going forward should I assume is the sustainable one for the coming quarters? That's the first question. And then just on the Spanish Motor, is it possible to have an idea what share of your cash dollars have a comprehensive policy as opposed to pure TPL, given a rough idea, if possible?

Luigi Lubelli

I'm afraid you have a rough idea on both -- in the sense that realization gains, honestly, there's no budget for realization gains. Realization gains happen depending on the evolution of investments. So I cannot -- I honestly don't have an answer for your question. For the second one, I can give you a rough guidance. Let's say in terms of TPL, MAPFRE is the largest writer in Spain. Our market share on third-party liability insurance for motor is comparatively larger. So in our book, it weighs more. Now I do not precisely recall the weight in Spain. I think it's something like 70% is fully comprehensive or something like that and 30% is TPL. And we have a comparatively larger weight. Honestly, I don't have -- I mean, I think the relative majority is fully comprehensive in other guarantees and MAPFRE as well, but I would not be able to tell you -- to give you precise percentage for that, I'm afraid.

Operator

Your next question comes from William Hardcastle of Bank of America.

William Hardcastle

BofA Merrill Lynch, Research Division

Clearly, it's a difficult situation with the current restructuring in the banking sector, but I do see some comments made in another conference call hitting the tape. Could you perhaps just comment on your long-term strategy of the bank here and perhaps just verify the exact percentage holdings?

Luigi Lubelli

We just understood the first part of the question, long-term strategy of the bank. And then the second part what?

William Hardcastle

BofA Merrill Lynch, Research Division

Just verify the exact percentage holdings. I see that your commenting 2% is at stake in Bankia.

Luigi Lubelli

Yes, the stake precisely is 2.14%. We originally had a 2.4% stake, and then Bankia converted preferred stock into shares and that diluted our shareholding to 2.14%. With respect to the long-term strategy, I'll pass that one on to Mr. Tejera.

Esteban Tejera Montalvo

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

Our relationship with Bankia is, as we have mentioned, retains an alliance [indiscernible] commercial agreement for selling insurance policies. We have an [indiscernible] agreement where we sell also financial products for them through our network advantage. From this point of view, the situation with Bankia is that we have this agreement with CAJA MADRID, and we continued having this agreement with Bankia. The evolution of the business in Bankia, I hope that will improve in the near future [indiscernible] but where we're taking in place in the next future. And we have to work and continue to work to develop new ways of cooperation in our field of this insurance provision of products for them actually in the future. So this is a negotiation. It remains the same. And we have this agreement and evaluate the situation that selling of the saving products is now in a bad situation due to the special conditions of the deposits war in the financial turmoil in Spain. We have the products and the procedures prepared to take advantage of the new situation when we return to normal.

Operator

Next question comes from the line of Giulia Raffo.

Giulia Raffo

Autonomous Research LLP

First of all, just one quick thing. It would be very helpful if for the next quarter, you can let us know what the like-for-like comparison is on South America, premium-wise. I understand it was a complex transaction, but we get like-for-like comparison from all of your competitors. Now just going to a question. One, I just want to ask you on the reinsurance side, if we look last year in Q1, MAPFRE RE had a combined ratio of about 106% but within that, MAPFRE had to absorb about 20 points of nat cat. This year in Q1, can you confirm that there was no nat cat? And if that is the case, what happened to the attritional performance in the sense of, in a quarter with 0 nat cat, I would expect a better combined ratio than 94%. Second question is still on reinsurance but on the Life side, if I read your number correctly, we have a situation where your top line on Life Re is up by 55% Q1-on-Q1, but then if I look at the financial and technical profit, that is down by 42% so just wondering whether you can highlight whether there was any one-off item there. The other question is on the consolidation line. If I add the impact of the macro provision utilization, I end up with a pretax loss of about EUR 18 million. I just want to check whether that is a normal run rate for future quarters, because I was expecting more like EUR 10 million to EUR 12 million as opposed to EUR 18 million, so I just want to check whether there was any one-off item impacting that. Then I suppose you can't comment on that, but can you give us a sense for what is your total exposure to Bankia in addition to the 2.1% equity stake? And finally, if you can give any comment on your potential interest on Group Palma [ph] Seguros.

Luigi Lubelli

Giulia, quite a full list of questions, let's see. Let's go for the first one. You're right -- and it has to be understood and actually, thank you for asking that question. This is basically an accounting policy. You have premiums and you have the unearned premium reserves, and the release of the unearned premium reserves has to go in line with what is called seasonality. Seasonality, when it comes to cat losses, is basically translating to occurrence. So what happened last year was that clearly, it was an exceptionally large loss. Clearly, it was unlikely -- and fortunately, that was the case that another loss of a similar nature could happen for the same account, so the release of the unearned premium reserve was enhanced in that quarter in order for the premiums collected on each account to bear their share of losses. So actually making a like-for-like, I take stock of the fact that we do not provide a like-for-like change in the unearned premium reserve. If you just take it to -- take out the losses and catastrophes, you leave the additional release of the unearned premium reserve and then makes it seem as if the ordinary loss experience deteriorated last year. It's just an accounting effect. Have I made myself clear or not?

Giulia Raffo

Autonomous Research LLP

Yes, it's clear. It's just that I would have expected still, in spite of that, if I just look at your 94% combined ratio in Q1 2012. For a shorter [ph] property cat, I mean, your book is very skewed towards property. You give us -- you don't give us PML, but you always say that you roughly price the business for a 95% to 96% combined ratio, and that would include a normal loading of nat cat. So I'm just saying that in a clean quarter with no nat cat, I would have expected a lot less than 94%.

Luigi Lubelli

Right, I don't know. I mean, there has been -- I mean, there's nothing especially strong to report. There's an impact on the expenses. There's a -- which has a certain -- can have a certain impact on the combined ratio. You'll have noticed that the expense ratio has gone up, and that is because there's been a greater weight of retrocession through Excel [ph] contracts. And that has a certain impact -- upwards impact on the expense ratio, which I imagine it answers part of your doubts. But the bulk of the impact I explained to you. Staying on RE, I thought this would be asked. I mean, this is something that -- claims happen. This is the first quarter and that is what it is. It's just the beginning of the year. We'll have to see how this result develops in future quarters. I mean, this is a large scale business, and the movements in claims is not linear. So it may be disconnected on a quarterly basis. As far as your question in consolidation, I think you can take it to be a normal run rate. It probably is in the range of a normal run rate. The total exposure to Bankia, you're right in your guess as we have not given that figure in the presentation. I cannot give you the exact number. Obviously, we have exposure to fixed income securities issued by Bankia, but I cannot give you the precise amount. And I'm afraid there's nothing to comment on Group Palma, I mean, this is a process [indiscernible] perhaps would like to...

Esteban Tejera Montalvo

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

No, it's a process [indiscernible] and ultimately, we can't make a comment about the process. That is helping [ph] the market. I mean, I hope [ph] you can understand us.

Giulia Raffo

Autonomous Research LLP

Yes, yes, totally. Can I just ask a follow-up? You mentioned in the speech that you have gained market share in your Spanish insurance. If I look at the market statistics, that's definitely true on the license [ph] side. But if I look at the P&C side, your top line dropped by roughly 3.5%, whereas the market was down by 2%. Is there any specific line where you didn't participated into irrational competition?

Luigi Lubelli

Yes, you're absolutely correct. The -- when I refer to the increasing market share, I was referring to MAPFRE at large for the whole market. In the Non-life, we have a split picture. We have the retail lines, we have motor and household, in which we have increased our market share. And while on the industrial lines, we have decreased in market share. So on the balance, the usual construction stuff, on the balance, the -- on Non-life, you are absolutely right. In Non-life, we grow less than it was. We contract more than [indiscernible].

Giulia Raffo

Autonomous Research LLP

It also seems that the market grew a lot in Health, whereas you haven't, so I was wondering if there was any irrational competition there on...

Luigi Lubelli

Giulia, I could not understand. What line is the market growth?

Giulia Raffo

Autonomous Research LLP

Health.

Esteban Tejera Montalvo

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

Health. Well, yes, but let me just check if we have -- it's -- there is, Giulia, an increase in the size of the market growth due to increases of pricing. But there is also a segment of the market where we have no presence [indiscernible] and we have also a very strict underwriting policy in group policies. And so the market is slowing, and we are growing less than the market.

Luigi Lubelli

And just to add on this, we are comparatively stronger than the market in what is called the reimbursement health insurance, which is more upmarket and more expensive. So there's also, in this moment of time, depending on the affordability of the product, that also has an impact on our sales.

Esteban Tejera Montalvo

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

But in any case, our policies here in Health continues to be very cautious because we think that our aim here is to be profitable, not to gain market share.

Luigi Lubelli

As a matter of fact, the combined ratios improved considerably in Health year-on-year.

Operator

Your next question comes from Raphael Caruso of Raymond James.

Raphael Caruso

Raymond James Euro Equities

You have already answered some of my questions but I have just one more. Concerning your real estate exposure, what type of real estate do you have in portfolio and in which countries? If you can have a geographical split, it would be much appreciated.

Luigi Lubelli

Broadly, it is Spain. I mean, we do have properties, some properties in Latin America but by and large, the book is mostly commercial property located in Spain. We do not have residential properties except for a few left over from -- and a few means 100 homes or that from previous developments. And we have some development land in Spain, we do have that. But basically, it's Spain. We have some headquarters of our subsidiaries in Latin America and that's pretty much all.

Raphael Caruso

Raymond James Euro Equities

Okay. I just have a follow-up question. What is your portfolio duration, please?

Esteban Tejera Montalvo

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

It's about 7, I think.

Luigi Lubelli

Total, 5.

Raphael Caruso

Raymond James Euro Equities

Excuse me?

Luigi Lubelli

The total portfolio is 5. I think 7 is...

Operator

Your next question comes Rodrigo Vasquez from N+1 Equities.

Rodrigo Vazquez

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

This is Rodrigo Vazquez from N+1. And my first question is regarding MAPFRE USA. And in the first -- in this year, combined ratio was still above 100% despite a lower claims environment. By when could we expect more sustainable combined ratio levels below 100%? And the second question is -- I don't know if you can give me an estimation of what could be the contribution of Bankia to the Life of Spain net income? I know that it's roughly 20% of the premiums, but at button [ph] level, do you have any estimate of how much it does represent?

Luigi Lubelli

Okay, Rodrigo, the MAPFRE USA clearly has to be said is one of the main contributors to the increase in profit in the foreign business this year in the first quarter which had to be expected. Now, this last year was an exceptionally bad quarter winter storms-wise in Latin America -- I meant, sorry, in the USA but it remains a winter quarter so compared to other quarters, it does have some more claims. There also have been a cancellation of business in some states, which has led to a contraction of premiums, which has amplified that development of the combined ratio. We believe -- we have done this because we were not satisfied with the underwriting performance of the business. So moving on through the year, we will expect that to be a positive, but in the short term, it does have a negative impact on the results. If you exclude the other states where we are reducing the premiums consciously, Massachusetts is about 5% up in terms of premiums. I'm afraid I cannot give you the contribution of consolidated because it's not provided specifically in the account.

Jesus Amadori

And Rodrigo, this is Jesus Amadori again. As Luigi said [ph] , it's not public info but making a quick exercise based on what we publish in the annual report, you can guess that MAPFRE AMÉRICA [ph] roughly makes EUR 10 million a quarter. We retain 51% of that, so that gives you EUR 5 million, which is a bit north of 10% of MAPFRE VIDA's profits.

Operator

Your next question comes from Vinit Malhotra of Goldman Sachs.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Vinit from Goldmans. Just going back to the growth we saw in the MAPFRE AMÉRICA, in the premium side. Just looking for the slide, but I remember that in Argentina also, there was a growth of 18% in Venezuela. Now I remember -- I think it was last quarter that there was a discussion around how you were slowing down growth -- slowing down writing business deliberately. It's here in Slide 27 [ph] . And just you were slowing down growth, and I was wondering if this pickup in growth is just some seasonality or is there still some focus on managing the growth in Latin America? That's the first question. And I understand at the moment that Brazil, the Banco do Brasil is not in these countries so just to clarify. And the second question is on the breakup of the combined ratio in domestic business, I was just wondering, I mean, what is going on in the Burial and Other, because in the past, you took out [ph] Health and put in another[ph] . And this time, we can see quite a deterioration in the third quarter -- in the first quarter, and you also saw a very strong cut in premiums. And I apologize if you already described these particular 2 questions.

Luigi Lubelli

If we move on, we'll ask you kindly to just clarify your question because I did not quite understand precisely the question in Spain. With regard to Latin America, you have to bear in mind that both

Venezuela and Argentina are high inflation countries. So actually, the inflation is higher than the growth in premiums that you see on those countries. Therefore, in real terms, it actually amounts to a net contraction. Specifically in the case of Argentina, you have -- that breaks up a bit because the inflation in the country is about 25% and you have a 32% and that is because on worker compensation, tariff hikes were approved in the country. And that creates the difference, but it's not precisely growth. Now if that answers your question on America, your question in Spain was basically how to reconcile trends in premium growth and combined ratio, or did I misunderstand it?

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

No. Just on the EUR 9 billion in Other. In the past, you used to combine Health, Burial and Other. And this time you split it out. That's very nice. I just see that there is a sharp cut in premiums and also the sharp increase in combined ratio. Is it something -- is there something we should know there in that trend or...

Luigi Lubelli

Well, there's nothing special to report on the -- the biggest one is the one I mentioned when I spoke about the new Life account at large. Last year -- and we said it last year, the technical results of the Burial line were exceptionally low. It was abnormal. This year is normal, the year 2010 was normal, but this one is not normal. That's kind of the plain English answer [ph] to your question. So it was just exceptionally low and then it recovered throughout the year. And the rest of this Other has lines that are, among others, some type of commercial, some type of corporate SMEs and the reason for the decrease is, I'm afraid, I'm unable to say.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

And if I can just ask one simple question. The Commercial line, the one you see on Slide 24, that's a constant 77% combined ratio once we adjust the 7% one-off commission effect. So -- and last year, I remember this mentioned, the seasonality. Just wanted to check that this -- you anticipate a similar pattern this year as well, in Commercial? Or is there something else going on because these lower volumes in the recession, you see anything from lower frequency, or just from commercial lines, please.

Luigi Lubelli

If I understood this one, you're asking me if we are observing any trends in Commercial. Trends in Commercial?

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Because the combined ratio [indiscernible] are almost equal between the 2 quarters if you adjust the 7% this quarter for the commissions.

Luigi Lubelli

That would basically coincide with what the demands have been [ph]. There's no special trend or no special change in trend that we have observed compared to the last year. I mean, this is a difficult market at present, given the economic situation. I mean, it's the same in last year. It's depressed activity so it's not conducive to large premium growth. But at the same time, it's accompanied by a quite benign loss experience.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Okay. So the frequency is going -- still under control?

Luigi Lubelli

More or less. I wouldn't be able to point to any major change in this business compared to the previous quarter.

Operator

[Operator Instructions] And your next question comes from Niccolo Dalla Palma of Exane BNP Paribas.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

And if I may just a very quick follow-up on the topic which was already discussed at full year, but it was early days because -- following the rating changes, is there any update to whether this is having an impact on your commercial lines? And you mentioned the reduction in market share in commercial lines. And I mean, clearly, reinsurance renewals were not yet impacted because they were too early, but just to have an update if you have any signs that this is not going in the right direction or if it has no impact so far, just very briefly.

Luigi Lubelli

On the -- I mean, clearly, it's not something we are happy about. There's, I think, to-date -- the future will tell, but to-date, there are not any major impacts. Clearly, this downgrade has required us to step up our communication efforts with our clients, because as you all know, the downgrade did not reflect an intrinsic deterioration at MAPFRE itself, but are rather exogenous on the company. So for the moment, we have enhanced communication with our customers on that front and by and large, there has not been any significant impact on issuance. Going forward, time and situations will tell.

Operator

Your next question comes from Federico Salerno of MainFirst Bank.

Federico Salerno

MainFirst Bank AG, Research Division

Just on Slide 8, on the table at the bottom by the title Country, you show 162.8 in Spanish hybrid. Is it possible to know if that is listed or non-listed players, by chance?

Luigi Lubelli

Listed the shares or listed the bonds?

Federico Salerno

MainFirst Bank AG, Research Division

Listed the shares.

Luigi Lubelli

No, of course, because I would have to give you the breakdown, which is not public. Now if your question was if the bonds were listed, the bonds are mostly listed, yes.

Federico Salerno

MainFirst Bank AG, Research Division

But you can confirm it's more just one issuer, it's more than one.

Luigi Lubelli

No, no, it's more than one. Yes, yes, yes.

Federico Salerno

MainFirst Bank AG, Research Division

Okay, okay. So it's fair to assume it's a combination of listed and non-listed?

Luigi Lubelli

It is fair to assume that, yes.

Operator

[Operator Instructions] There are no further questions at this time. Please continue.

Esteban Tejera Montalvo

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

Well, thank you for attending our conference call. I'm afraid that we'll have to announce that tomorrow, it will be impossible for us to be in our traditional investors [ph] meeting with analysts in London due to the conference of the -- the information about the strikes in airports of London and the weather forecast of a severe storm affecting flights. We are very sorry of the delay of attending our traditional meeting. In any case, our department of relationship with investors and analysts and all of us are available for you for questions [indiscernible] and I hope that this situation [indiscernible] in the next quarters. In any case, thank you for attending the conference call. And I hope to meet you again in the next presentation of the quarter results. Thank you. Bye.

Operator

And that does conclude our conference for today. Thank you for participating.

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