

Mapfre, S.A. BME:MAP

FQ1 2018 Earnings Call Transcripts

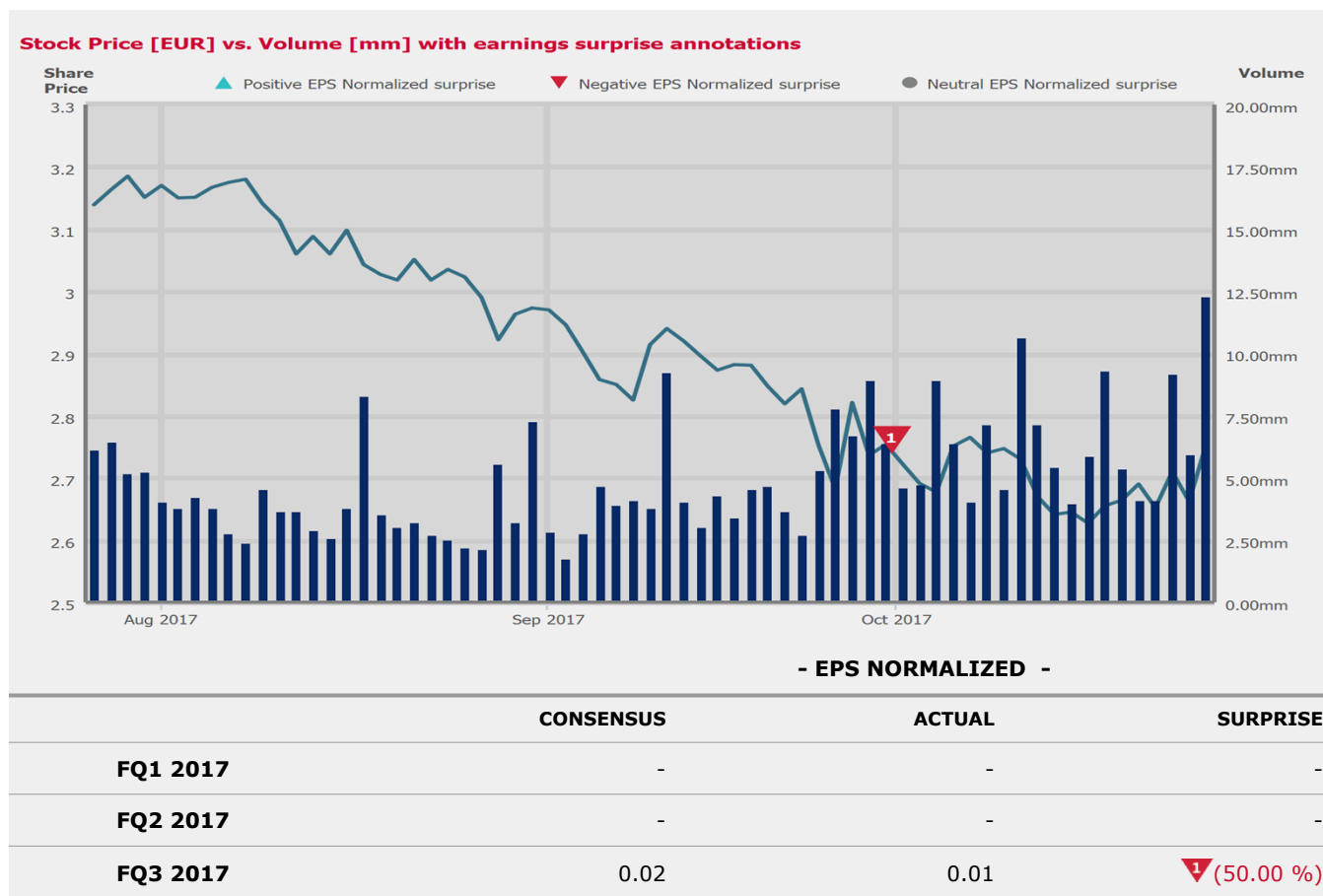
Friday, April 27, 2018 11:30 AM GMT

S&P Capital IQ Estimates

	-FQ4 2017-	-FQ1 2018-		-FY 2017-	-FY 2018-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	0.06	0.05	▲ 20.00	0.22	0.27
Revenue	-	-	▼ (2.67 %)	-	-
Revenue (mm)	5772.00	6367.00	-	23582.06	22601.21

Currency: EUR

Consensus as of Apr-23-2018 3:48 PM GMT



Call Participants

EXECUTIVES

Antonio Huertas Mejías

Chairman & CEO

Fernando Mata Verdejo

CFO & Director

Natalia Núñez Arana

Ramón Carrasco

Group Chief Risk Officer

ANALYSTS

Sofía Barallat

Presentation

Natalia Núñez Arana

Good morning, everyone, and welcome to MAPFRE's Results Presentation for the First Quarter of 2018. I'm Natalia Núñez, Head of Investor Relations. Here with me is Fernando Mata, our CFO and member of the Board. He, as usual, will take us through the main trans of the period. Today, it's also a pleasure to have here with us Mr. Ramón Carrasco, MAPFRE's Chief Risk Officer. He will run through the Solvency figures for the full year 2017 and at the end of the presentation, he will also participate in the Q&A session.

As a reminder, during the Q&A, we will answer all questions received at the specified e-mail address. The Investor Relation team will be available to answer any further questions you may have after that.

With no further ado, let me hand the call over to Fernando.

Fernando Mata Verdejo

CFO & Director

Thank you, Natalie and good morning, everyone. It's a pleasure to be here with you for our first earnings call of 2018. Let's begin on Slide 2, where you can see the main figures for the quarter and then I will go over the main highlights in the following slides. The result stood at over EUR 187 million with the underlying result slightly under EUR 174 million, not only 0.3% year-on-year with a net -- with a -- annualized at 9% ROE, excluding part of 2017 catastrophes. "Annualized" means that the base per population is the current quarter and the last 3 quarters of last year. This is why we're excluding the cap effect. The quarter has been a mix of different trends. The measure we are implementing to improve profitability have been overshadowed by currency movements and low interest rates.

Please turn to Page 3. On this page, you can see the main highlights for the period. Profit on this account was hit by negative ForEx effects for all main currencies. So U.S. dollar is down 15%, Brazilian real [indiscernible] 16% [8], the Mexican and Italian peso 6% [8], the Argentinian peso 32% down and the Romanian are down between 10% and 28%. The Non-life business, fueled by Spain and MAPFRE, shows healthy performance. Despite the decrease in euros, Non-life premiums grew over 2% at constant exchange rate, reflecting positive trends in several markets, which we will discuss in more detail later on. The combined ratio improved by 1 percentage point to 96.5%, with 2.5 percentage point reduction in the loss ratio and uptick in the spend ratio mainly from acquisition expenses. But it's still in line with the 28% target. In addition, the low interest rate environment in Europe, global rates in Latin, especially Brazil are affecting both the sale of light products as well as financial income. There was a 9.6% fall in the Life premiums and constant euro, as a result of challenging market conditions in Spain where we see lower sales in unit-linked products and in general in life savings. Finally, I'd like to highlight our excellent solvency position, which closed last year at over 200%.

Please turn to Slide 4. As you know, there are several units that are now benefiting from the successful implementation of MAPFRE's profitable growth study. First, we continue to see solid results in Iberia and MAPFRE RE. Second LATAM North and South continue improving with combined ratios below the 97%. Third, losses have been significantly reduced at MAPFRE ASISTENCIA and in Italy, but the larger Italy continues being affected by the highly competitive Italian market, particularly direct business. Fourth is also worth mentioning: the return on profitability of GLOBAL RISKS after a very complicated 2017 as you remember, in terms of claims experience. In Turkey, the USA and Brazil measures are being taken. However, regarding the [indiscernible] II results, we now be completely seeing until restitutive plans have been fully implemented. In USA, the exit plan is on track. We've already sold the renewal rights for Tennessee, Kentucky and Indiana, and we expect New York and New Jersey exits to be complete by the second quarter as well as the sale of the life business. On the other hand, winter conditions were difficult, but somehow manageable. The results continue showing the challenging market situation, particularly in Retail Motor. In Brazil, the combined ratio has proven resilient, thanks to the performance of AgroInsurance, while Motor is still far from the turning point. Finally, in Turkey, as we expected, we are feeling the full annualized impact of the compulsory rate discounts introduced in MTPL in April last year.

We continued diversifying in 2 other lines of business to mitigate the impact on focusing on underwriting discipline.

On Slide 5, you can see the breakdown of premiums and results by region and business unit. On the right, we have the evolution of results by business unit, which we will discuss in more detail in the following slides. Regarding attributable result, Iberia stands out with EUR 118 million, by far the largest contributor and continues benefiting from the economy recovery in Spain, which is more important than profitable growth strategy. Excluding last year's extraordinary benefit from the cancellation of our own customers' provision, attributable result would have grown by 17%. MAPFRE continues being a strong driver of profit for the group, no doubt. Resource grew over 22% in a quarter free of relevant cap events. The attributable resulting North America has fallen due to a higher level of winter-related claims, approximately EUR 11 million as well as the steel complicated market situation. Gross losses for the capped events amount to approximately USD 60 million, EUR 50 million, demonstrating the highly effective reinsurance protections we implemented after the 2015 losses. As we mentioned, I mean, 2015 was the peak, I mean in these losses and thanks to their reinsurance protection, we are able to manage some of this winter exposure we're having in the Northeast of the U.S. The decline in Eurasia reflects the situation in Turkey that I've already discussed. Finally, the results in Brazil are facing strong headwinds from the currency and interest rate and volume.

Please turn to Slide 6. Revenue was down at around 1%, custom exchange rates, reflecting falling premiums as well as lower investment yields in LATAM, especially Brazil. Non-life premiums are down 0.4% at constant exchange rates, reflecting the following underlying trends. Nearly 5% growth in Iberia with positive developments in main non-life business lines. Slight decline in local currency in Brazil as a result of a 3% fall in general P&C and flat premiums in Motor. Local currency growth is [external] growth for LATAM North with double-digit growth in Mexico and the Dominican Republic. In LATAM South, there're also positive trends in main geographies except Chile, which continues with the cancellation of unprofitable business in non-motor lines. Life premiums were down over 9% at constant exchange rates. As I mentioned, the decline was mainly driven by Spain due to the absence of sales campaigns in a very volatile financial markets scenario. On the other hand, the recovery of lending activity in Brazil has led to 6% growth in local currency.

Let's move on to the next page, please. On Slide 7, I would like to take a look at the extraordinary impacts that have effect in MAPFRE's net result. The quarter's result were affected by multiple, but not severe, no storms in the Northeast USA with EUR 11 million net losses compared to EUR 19 million net loss from the Coastal El Niño that affected last year mainly Peru, Colombia and MAPFRE RE. 2017 figures also reflect EUR 27 million net gain from the reversal of our provision for continued liabilities in bank assurance. And finally, realized gains are relatively stable year-on-year. We're proud of the numbers we got from equity markets in these financial difficulties. Excluding these extraordinary impacts, the underlying results has proven stable at around EUR 174 million. On the right side, you can see the improvement in the Non-life underlying result amounting to EUR 16 million. This figure is before tax and minorities. It was driven mainly by Iberia and MAPFRE RE as well as the better [indiscernible] experience at the GLOBAL RISKS. The result of the Life business is down EUR 66 million, also before taxes and minorities. And this was mainly due to lower financial income and then increasing the expenses in Brazil as well as currency effects. Obviously, the impact is lessened but the line due to the share of noncontrolling interest in this business and also the high tax rate that we have in Brazil.

On Slide 8, you can see the breakdown of key Non-Life figures by region and unit. I would like to emphasize the following positive trends in combined ratio. The improvements in Iberia, which I will cover in more detail later. The resilient combined ratio in Brazil, which has still improved, despite the challenging market situation in Motor, thanks to the Agricultural business. LATAM North and South show improvements across the board. The combined ratio in GLOBAL RISKS has improved over 17% percentage points to 92% due to the absence of large claims. The uptake in Eurasia is due to the situation in Turkey that I have already mentioned. And the increase in North America is to a large extent driven by the snowstorms.

On Slide 9, I would like to take a quick look at the evolution, the runoff of 2017 NetCat events during the quarter by unit and country. Good news, there are not -- there are insignificant variations in the runoff

by geography and the total net loss is EUR 157 million. Obviously, this is an evidence of our insurance protection effectiveness.

On Slide 10, we disclosed the main non-life trends. I would like to highlight the excellent performance of the business in Iberia. First of all, we grow in and gaining market share in all our main lines of business with exceptional profitability levels. Performance in Motor has been excellent with retail premiums up 3.4% in Spain and the combined ratio down by 1.7 percentage points at around 90%. We are also seeing positive growth and combined ratio trends in other main lines of our business. Thanks to the profitable growth strategy and more benign weather.

Please move on to Slide 12, we're going to skip 11. As we mentioned, the first quarter was challenging for the Life business. Premiums are down due to the adverse and volatile market conditions for sales campaigns as well as lower sales for unit-linked products in Spain. It is also worth remembering that 2017 premiums included approximately EUR 17 million from UNIÓN DUERO VIDA subsidiary -- from a subsidiary was sold last year. The total market decrease in savings premiums for the first quarter is 17%, with some competitors down by over 30%. The fall in results in Iberia is due to the cancellation of a provision for bancassurance contingent payments in 2017, you know it very well, which had a EUR 29 million impact. This is before taxes again. In Brazil, currency depreciation is still hurting premiums, despite the 6% increase in reals and thanks to the recovery of lending activity. Results here are still impacted by higher acquisition expenses. It was mainly in order to boost sales, especially in the bancassurance channel as well as the full and financial income approximately around EUR 30 million due to the lower returns on floating rate and inflation-linked bonds. Just a remark, the Selic rate was 6.5% at the close of March compared to 12.3% a year ago, practically 1/2. And inflation was around 2.8% compared to around 4.5% last year. Obviously, we are very happy with this inflation reduction that will help us our operation and also the country, but obviously, it's hurting our financial income.

Moving on to our Slide 13. You can see the breakdown of shareholders' equity and its evolution during the first quarter, which has fallen by over EUR 145 million from December to March to around EUR 8.5 billion. The decline was largely driven by the depreciation of our main currencies during the period and lower retained earnings. On the other hand, the recent improvement of the Spanish sovereign rating had a double effect. On one side, it had a positive impact on financial assets available for sale, and on the other, this increase in financial assets is offset by a negative impact on shadow accounting, as roll-around volume of this investment portfolio corresponds to life portfolios with profit sharing. As you can see on the right side of the slide, net unrealized capital gains grew by EUR 31 million and stood at a comfortable EUR 651 million providing MAPFRE with a flexible capital buffer.

Please turn to Slide 14. On the left, you can see the assets and their management continue to grow steadily, driven by the good performance of the Spanish-fixed income portfolio. On the back of the improvement in the sovereign rating. Nevertheless, this positive impact has been offset by the weak performance of equity markets after January, which is reflected in the 0.9% decrease of the Mutual and Pension fund businesses. Part of the decrease has been recovered during April with wonderful behavior -- performance of the market. On the right, you can see the breakdown of the investment portfolio, our investment strategy has been stable throughout the year with a slight increase in fixed income assets. Realized gains in Non-life were around EUR 32 million, similar to last year. During the quarter, we were able to take advantage of market volatility and the narrowing of the Spanish [indiscernible] premium to realize gains in both equity and fixed income portfolio. Realized gains in equity were made basically in January and fixed income in February and March. I would like to point out that despite the fall in equity marketing March, the realized gains in our equity and mutual fund portfolios around EUR 58 million remain at very comfortable levels. And performance in equity markets in April has been quite good, returning to similar levels as at in the beginning of the year. This will continue to give us leverage to take advantage of future opportunities.

Finally, it's worth pointing out, the high accounting yields in our portfolios, 2.4% in Non-life and nearly 5% in Life, well above market yields.

On Page 16, on the left side, you can see the breakdown of the capital structure at the close of March, which amounted to EUR 12.7 billion. There are no significant changes compared to last year, so we're

going to move on to Solvency II and on the next few slides, we'll take a closer look at these figures for the full year, 2017 with Ramón Carrasco, our CRO, which is here with us. Ramón, the floor is yours.

Ramón Carrasco

Group Chief Risk Officer

Thank you, Fernando. Solvency II figures as of 31st December 2017 confirms MAPFRE's strong solvency position. The 200.2% Solvency II ratio is based on the high-quality capital structure of EUR 8.9 billion in Eligible Own Funds of which 93% is unrestricted to 1 capital and the remaining 7% is still to subordinated debt. On the right side, you can see our sensitivity analysis. As you can see, the impact on the Solvency position from the various events is limited. The greatest impact occurs when increase of 15 basic points is considered in the corporate and government bond dispersed in which case, the rate here will stand at 190%.

Please turn to the next slide. On this slide, as you can see, the main drivers of the change in our Solvency II ratio during 2017. This position is explained, in large, by the impact of the currency movements affecting both Eligible Own Funds as well as the SCR. Regarding the Eligible Own Funds, the IFRS equity decrease is largely driven by currency movements. This impact is reduced by the -- following Solvency II adjustments. They are lower deductions in intangible assets, following the write-down of goodwill and VOBA in Brazil, the sale of UNIÓN DUERO business as well as currency movements. ABDA is excluded from the Solvency II perimeter and therefore, it is valued at 0. The impact of the phase-out of the transitional measures, which includes the elimination of the transitional from UNIÓN DUERO. Therefore, in the capital requirements, it's driven by lower capital requirements for the entities under equivalents, mainly as a result of the depreciation of the U.S. dollar and Brazilian real.

In the next 2 slides, you can have more information regarding solvency. That's all for me, and thank you for attention.

I will now hand the floor back over to Fernando Mata, who will wrap up the presentation.

Fernando Mata Verdejo

CFO & Director

Thank you, Ramón, for the detail and interesting information. To draw the presentation to a close, I'd like to outline some conclusions regarding MAPFRE's performance this quarter. First of all, performance has been excellent, particularly in the Non-life business. Thanks to robust, fundamental space and the solid contribution from MAPFRE Iberia and MAPFRE RE as well as significant improvements in LATAM both North and South. Secondly, we're fully focused, you know very well, on completing the transformation initiatives in 2 relevant countries: the U.S. and Brazil in order to improve our results. Discussions with Banco do Brasil regarding the update of the agreement are progressing without any relevant issues, and we expect them to conclude in the coming weeks. We expect an uptick, as well, in Life sales in a less volatile market scenario this year in Spain, and a more favorable context in Brazil. I would like to say that the most of the savings Life campaigns are scheduled for the 3 remaining quarters. And to wrap things up, we will continue implementing our profitable growth strategy, supported by our financial strength and continuous current commitment to value creation for our shareholders. Thank you, and now Natalia will begin with the Q&A session.

Question and Answer

Natalia Núñez Arana

Thank you, Fernando. And now, please, let's move into the Q&A. The first question comes from Sofía Barallat from Caixia BPI.

Sofía Barallat

It's regarding MAPFRE ASISTENCIA, following the improvement in MAPFRE ASISTENCIA, do you expect to rate breakeven this year?

Fernando Mata Verdejo

CFO & Director

Thank you, Sofía. I mean this is still early to say. It's just the first quarter of 2018. We're particularly happy with the results and as you know, I mean, the transformation we're making in MAPFRE ASISTENCIA is taking -- this is the third year, and we expect to see the benefits of the actions taken during the last 2 years in 2018. Our balance sheet is quite solid and there are many surprise left on the asset side with a significant reduction -- we expect a significant reduction in losses in 2018. Guidance, let's say that as we mentioned in previous meetings, let's say the single-digit will be fine, although it's still too soon to talk about any specific date for the breakeven. But we are happy with the first quarter result of MAPFRE ASISTENCIA.

Natalia Núñez Arana

This one comes from Ivan Bokhmat from Barclays. It's regarding solvency services, so I guess Ramón will take that. And the question is, why was ABDA excluded from Solvency II perimeter?

Ramón Carrasco

Group Chief Risk Officer

Thank you, Ivan. First of all implementing Solvency II is not easy. It involves a lot of costs by implementing new processes and requires a lot of data and a lot of process to be included in the company. It is more difficult in those countries where we're not used to Solvency II processes, and therefore, we decided not to implement Solvency II in ABDA at this moment.

Natalia Núñez Arana

Next question comes from Rahul Parekh from JP Morgan and it's regarding the underlying combined ratio run rate in the U.S. What is the underlying combined ratio run rate in the U.S. excess [indiscernible] terms and what is the trend in pricing there?

Fernando Mata Verdejo

CFO & Director

Yes, thank you, Rahul. The underlying combined in Massachusetts, which is the main state of the Northeast, was around 100%. In the remaining states, it was around 117%. That's excluding the impact of the start of the [indiscernible] storms and -- now when we are eliminating those cap events that were categorized as that by the American -- by the U.S. standards. We're not happy with the results, and 100% is not acceptable combined ratio. And we are implementing additional actions in order to improve it. Regarding pricing, which is the most relevant, we have submitted rate filings in several states. I remember last year at the investors day, we said that we present a filing for 32 rates increased in 18 states. In that case, we filed -- we got filings in Massachusetts. It's approximately [5%] increase and also in California, [indiscernible] I don't remember -- if I remember well, it's around 7% increase.

Natalia Núñez Arana

Thank you. This one comes from Andrew Sinclair from Bank of America and also Niccolo Dalla-Palma. And they have the following question. What would be the combined ratio -- oh, no sorry, what would the combined ratio have been for the USA excluding the states which are being sold?

Fernando Mata Verdejo

CFO & Director

It was -- well, we know it's [to exit the state] were around 3.5% more or less, between 3% and 4% of total premiums with a combined ratio of 128%, more or less. But we don't have the figures for it excluding these states. But we can provide you with this figure in further calls.

Natalia Núñez Arana

Okay, thank you. Sofía Barallat at Caixia BPI and Andrew Sinclair both have questions regarding the development of the restructuring in the U.S. business. Next questions are more or less when do you expect to receive the proceeds for the sale of renewal rights to lose [indiscernible] all the U.S. disposals? And can you give us any color on amount of proceeds?

Fernando Mata Verdejo

CFO & Director

Yes. Let's say -- the sale of the renewal rights in Indiana, Tennessee and Kentucky, which is the only operation that has been completed. However, we really been, I mean, we already have the transaction finished, and we have received as an up-front payment. It's just enough for payment. There is as well a slide in commission on the variable payment -- or variable assessment that will be made at year-end. And probably will be assessed once the calendar year is finished. Nevertheless, I mean, we do not expect any significant amount out of this portfolio. They're quite small. Regarding New York and New Jersey, we are quite positive. We've been positively surprised with the noise that is currently the -- and the [version] that we have in the U.S. And we've seen a lot of appetite for transaction, and we will keep you informed when we have more information. That is, what I can say now is the potential buyer is carrying out the due deal and exercise and it's come to an end of the -- the end of this month of April. We had good vibration, good expectations. And -- but it will take -- it will take some time, still to see the impact on results. We haven't discussed yet any value of the transaction nor a potential consideration for this operation.

Natalia Núñez Arana

Thank you very much. Now, we have here a question coming from Andrew Sinclair and also [indiscernible], Niccolo Dalla-Palma of BNP Paribas. This set of questions is regarding Iberia. The first one is, can you quantify this exceptional benefit from benign weather in Iberia during this quarter?

Fernando Mata Verdejo

CFO & Director

Not really. What we can assess is the effect of the severe weather last year. And in 2017, the weather-related events resulted in approximately 60,000 claims and more or less EUR 16 million. These losses affected, basically, homeowners, condominiums and small and medium enterprise property insurance. More or less, I mean, let's say, that the combined ratio is like at 4 percentage points or general insurance in Iberia. I mean, weather was benign in Spain in terms of strong winds and heavy rains, but -- and also the Agricultural business performed very well. But there is still another quarter to come, and usually some of the heavy rains are spread during the first quarter. Other years in the second quarter. So we have to wait just to see the end of the first half of the year before saying that the results in Spain are wonderful.

Natalia Núñez Arana

Okay, thank you. Now regarding the very strong Non-life result, especially Motor in Iberia with the combined ratio of 90.3%, on good premium growth, the question is, how sustainable is this performance?

Fernando Mata Verdejo

CFO & Director

Well, let's say that there really is a nicer price. And then because we're improving year-by-year, our loss ratio and our combined ratio. I mean, this is -- we're harvesting them in the results of the profitable growth strategy. I mean before this presentation, I was reviewing the historical data of Spain. When I was the CFO of this unit, and from the period from the 5 consecutive years between 2008 and 2013, the combined ratio was in a range between 89% and 93% and the majority of the quarter was in the low 91% and it was after 3 years of the main crises. So let's say that they will repeat the same schedule. I mean, it is a good moment for the automobile, particularly for MAPFRE. We've got a wonderful and very efficient operation and our expectation are superb. And we would like to say that we do not expect any relevant deterioration so far of automobile unit in Spain.

Natalia Núñez Arana

Good, thank you. Now regarding life premiums in Iberia, Life premiums declined 19% year-on-year, a substantial drop even adjusting for UNIÓN DUERO VIDA. What drives their decline?

Antonio Huertas Mejías

Chairman & CEO

Okay, let's say, for the third quarter, I mean, basically, premiums are coming from 2 different sources. First is new products or new business and also renewals. Regarding renewals practically there were no maturity of product sold in previous years and regarding new business or new products, the current financial scenario was determined to sell new products in both, I mean, fixed income and also in equities. So looking forward, I mean, in the coming quarters, majority of the sales campaigns are scheduled for the second and third quarters, based on renewals. So if there is more stability in the financial market, and we believe that we will be able, I mean, to increase both new products and also renewals in the remaining quarters. Obviously, I mean the UNIÓN DUERO VIDA was sold last year, but premiums, they were not relevant. In the first quarter -- and there's some products like annuities and also the dividend of VIDAs and unit-linked that invested in paying shares with high dividend. I mean, they performed very well, but not to allow to sustain enough in order to have a premium growth in this quarter.

Natalia Núñez Arana

Okay, thank you. This one is regarding MAPFRE RE. And it comes from Ivan Bokhmat from Barclays. He has the following question: could you please quantify the low net [debt] impact? How much the takeout of the combined ratio versus normalized? The sold is even better than Q1 2017?

Antonio Huertas Mejías

Chairman & CEO

Thank you, Ivan. The result of Non-life business improved from EUR 63 million to almost EUR 75 million in the third quarter of this year. We see an improvement in the financial results as well as in the technical results. Thanks to improvements in claims and growth in premiums trying to compare to last year. In addition, we should bear in mind that MAPFRE RE was affected last year by 1 of the losses resulting from the Niño Coastal, which have not repeated this quarter. I'm not sure I'm answering the question, and you know we don't disclose the underlying combined ratio from MAPFRE RE and also that no budget. But we're quite happy with MAPFRE RE results. The absence of net cap events other than the small mudslide in California and also the heavy snowstorms in New England. Those are only to highlight in this first quarter. We are quite happy and that's all.

Natalia Núñez Arana

Thank you very much, Fernando. Next question comes from -- it's regarding investments. We have received several questions regarding investment results. So Ivan Bokhmat at Barclays has the following questions. Considering the move in interest rates across geographies in Q1 2018, how do you think of your regular income development in 2018 and '19? Is that a headwind for the business in general? Could you quantify how much drag on operating profits should be expected? Also, I would like to continue because these questions are regarding the same -- the same topic. What level of unrealized gains in MAPFRE carrying currently -- [it's MAPFRE] -- sorry, what level of unrealized gains is MAPFRE carrying currently? How do you think about crystalizing them? Last one regarding this topic, Farquhar also has

a question on the investment portfolio, Farquhar from Autonomous. Is -- more generally, how do you expect Non-life investment income to develop in particular? How does the new money the investment rate compared to the current portfolio yields? Those are the questions regarding investments, but we thought we got -- put them together.

Fernando Mata Verdejo

CFO & Director

Yes, thank you, everybody. Let's say that the low deal scenario and also financial income from fixed income is not a headwind this year, particularly this quarter. It is something that we are managing, and we are coping with in the -- for the last 3 or 4 years. Fortunately, I mean, we got a privileged portfolio as we said and particularly in Spain. So far the ideal scenario in LATAM helped us to compensate part of the debt reduction we saw in Europe, mainly in fixed income. If we look at these by geography, we can say that in Europe, we're expecting a change in trend in 2019. Furthermore, we're working according to plan. We have alternative investment programs to reach EUR 500 million by 2019. So far, we have already signed commitments of approximately EUR 300 million, more or less, EUR 100 million already paid out of these EUR 300 million, mainly in real estate, when we saw a good opportunities according to our MAPFRE RE's profile. In the U.S., we see an increase in the accounting yield in the first quarter, but this trend will, we believe, will continue in 2018. In Brazil, it's true that the decline in the [indiscernible] is significant due to the lower interest rates. We got a short duration as well in majority of the countries, but particularly in Brazil. When we speak of our life, we don't remember but -- that in Brazil, what we have is protection portfolio. And as you know, we're trying to match durations, assets and liabilities. Doesn't make a lot of sense to have a larger durations in the asset sites in countries like Brazil. So let's say, we have some exposures to a volatility in deals and rates in Brazil. If you compare Selic rates, particularly this year is 1/2 of the one we had in a quarter last year. Regarding capital gains, during the quarter, capital gains have performed really well. And financial capital gains, [indiscernible] let's say, investment because in real estate, we were quite active, but we didn't see any good operation, I mean to rotate our assets. But as they say in their financial site, the Spanish, they had a fantastic evolution. Overall, due to the improvement of -- in the sovereign rating to 8 by Standard & Poor's, another rating agencies. This means 940 basis points on the 10-year bond. And [indiscernible] equity capital gains have been reduced on the active portfolio to EUR 50 million, but this has been recovered during the month of April. Realized capital gains in terms of crystallized then, I mean it was, let's say, it was a hard quarter. Let's say that we did well. We were lucky or both. Realized capital gains were up approximately 1/3 on equities and 2/3 on bonds. Equities were-- realized gains were made in January. Basically, the Hispanic Ibex say 35 index grew 6%, and therefore, 10% growth expected for the full year. So at that point, we decided to realize from gains. And realized gains on fixed income were made in February and March, taking opportunity of the movements in the deal curve. For the remaining quarters, as we discussed before, we strongly believe we are able to repeat a EUR 100 million realized gain amount that we reported last year. We know this has been challenging in the current financial scenario. Some of the real estate units are in the market, and we expect from realized gains as well from real estate, but, let's say, that realized gains has become and is a permanent source of income in our [indiscernible]. And we are relying on the ability and capacity of our COO and our MAPFRE in Brazil in order to get this number.

Natalia Núñez Arana

Thank you so much. Next one is regarding the Life results. Rahul Parekh at JP Morgan would like to know if their EUR 130 million that we have reported like Life net profit is also equal to the underlying net profit in Life? Also, Farquhar Murray from Autonomous has asked the following: please could you explain the fall in the Life Technical results and also referring the life investment income, how should we think about the likely future evolution of these lines over the remainder of the year 2018?

Fernando Mata Verdejo

CFO & Director

Yes, thank you. Regarding Rahul's question, you're right. There are no extraordinary in the EUR 130 million reported live result and the line on accounting results are the same. But I had to say that we do not consider it as extraordinary, the effect of the currency negative differences, which are, obviously,

part of them, they were in Life business, those coming from Brazil. I mean the total effect that we assess was like EUR 9 million net of losses, net of taxes and minority, but we do not consider it as an extraordinary. For the second question, the fall in the results of the Life business was largely driven by the fall in Brazil. Financial income is still suffering from lowered yields and there also been a pick-up in acquisition expenses, especially in the bancassurance channel. Probably you remember in the third quarter and also the fourth quarter, we increased our acquisition expenses basically commissions in order to boost commercial activity. We [indiscernible] in part of this action with the 6% increase in Life premium during the first quarter in the bancassurance Life channel. Also, the currency impact has been significant in Brazil. The other main Life business, Spain, we must keep in mind that there is a high share of lifesaving products. And in this case, you must always look at the total result of the Life business, not the technical result on its own. As the increasing financial results is often offset by an increase in liabilities because of the maximum of both figures. Also, the fall in Iberia is explained by the EUR 29 million one-off extraordinary item of last year.

Natalia Núñez Arana

Okay, thank you so much. And the next one is regarding the ROE. There are 2 questions regarding ROE, one is from Rahul Parekh, the other one from Michael Huttner. And they want to know if -- what is the ROE achievable in 2018, given that the target is still 11% and Q1 of 2018 was 7.4%? In that, in the same -- regarding the same topic, Michael Huttner from JP Morgan would like to know, if we -- you can talk to us about the potential areas of improvement?

Fernando Mata Verdejo

CFO & Director

Let's go firstly, with the question, the underlying ROE is 9%. And we are still working towards achieving the target initially set when we announced our 3 years strategic plan. Obviously, we already said that we moderate expectation. Then we said that it was very challenging in the end. It's crystal clear that the end objective is extremely difficult to achieve. Nevertheless, I mean we're happy because on the long run, we're seeing improvement in the underlying ROE. Regarding any guidance, with the current volatility of the market, and also this is the only 1 quarter. It is extremely difficult to estimate how our capital base is going to evolve through the duration of the year, which could increase the volatility on the ratio. So far, looking at the currencies, probably we can expect further reductions in some Latin America currencies that will help us to improve ROE, but as we said many, many times we would like to increase and to improve our ROE on the top line, I mean, on the net income, rather than with our decrease in our capital rates. Regarding the second question from Michael Huttner, thank you, Michael. You have already seen the results in Spain. This is the first country where this strategy was applied even before we launched the 3-year strategic plan, as we said in the 80/20 plan in order to cancel nonprofitable portfolios started in Spain, at the beginning of 2014 and when we saw the first above 100 combined ratios, particularly in third-party liability, and also in some segments of business in automobile, particularly fleet. Then the strategy was applied and -- in other countries, and we've seen improvements in LATAM South, LATAM North, Italy, ASISTENCIA where we have completely turned the business around. Now we're working in the other regions, especially in Brazil and the U.S., where the new plans should accelerate profitable growth and we will see the results in the upcoming quarters. But the -- but it is still too early, I mean, to -- this is what I can say, I mean this is still too early a state in order to give you an additional guidance regarding both countries.

Natalia Núñez Arana

Okay, thank you. Now this block of questions is concerning the developments in Brazil. Also, from Sofia Barallat, Andrew Sinclair, Rahul Parekh and Ivan Bokhmat. The first one is, can you provide any update on discussions with Banco do Brasil and when we should expect to hear more about that?

Fernando Mata Verdejo

CFO & Director

Well, just still just trying to give details on discussions and also the main aspects of the future agreement. As we said at their AGM, there is a 6-month period in order to complete the transaction and the contract,

but also I said that we expected the contract to be completed in April. We're late. I mean it's not going to be in this month, but May is very likely. I mean, majority of the discussion are coming to an end. I mean, there is very, very little discussion, very, very few open issues and everything is going well and just to adopt a compulsory approvals and compliance for the governance of both entities and all in all. I mean, May looks quite likely, I mean, the month in order to be completed. Regarding condition [suspects], as we said, we do not disclose any information. And we'll give you probably a full presentation with a lot of -- with any disclosure, once the contract and the agreement is signed.

Natalia Núñez Arana

Okay, thank you. And in terms of disagreement over this Banco do Brasil, will the upcoming change of instructor in Brazil help you tackle the problems more efficiently, in this way? Will the deal be accretive in 2018 and '19?

Antonio Huertas Mejías

Chairman & CEO

Well, let's say that we are optimistic with the evolution in Brazil in 2018 and 2019. What we may so far, I mean we deployed -- say, we'll call it a tax group or working group of more than 25 people from the actuarial and technical areas, different countries, the majority from Spain and they were in Brazil for over 4 months. They're back to us in Spain a couple of weeks ago. During this time, they analyzed all technical processes, actions for model and also they designed 23 different projects, comprising over 225 initiatives to mitigate potential weaknesses in the Motor business and also, they identified a lot of areas of improvement. So let's say that the recovery plan or the transformation plan, I mean, is done. And we got a booklet in order to put into action in Brazil as soon as we can. And I said, as soon as we can because the current organizational chart is based in these co-managerial way with officials from both entities, I mean the Banco do Brasil and MAPFRE. And we can't make any change in their organizational chart, nor in their functional responsibilities until the agreement has been signed. So let's say that the plan is done. The plan currently is on the table and ready to be implemented, but we have to wait a little bit longer.

Antonio Huertas Mejías

Chairman & CEO

Overall, until now, all actuarial, technical, commercial, management functions have been shared and currently they are still shared and by officials, from Banco do Brasil and from MAPFRE in the future, we're able to run Motor [indiscernible] business and the entities we bought 100% of the shares on our own. So we were able to implement these initiatives. So let's say that the bulk of the improvement will be at the end of this year or probably 2019.

Natalia Núñez Arana

Okay, good. Regarding the Brazilian Life business, there is significant deterioration in local currency terms. The questions are the following: is this a fair run rate for 2018? How do you compare the benefits of improved lending versus the headwind of lower investment income? In this way, financial income in Brazil was EUR 20 million in Q1. Is that below normal or is this the level we should expect going forward?

Fernando Mata Verdejo

CFO & Director

Yes, thank you. I, personally, and we don't think the Q1 -- the first quarter 2018 Life results can be considered as a run rate for 2018. I mean it's very important to take into account the effect of the recovery of lending activity, and how it helps to improve premiums volume. Also, the increase in acquisition expenses is giving fruit. But there's some expense. This is variable, and we can change and to adapt to current volumes of premiums. So we can see, perhaps, further increases, but also further reduction as well in this ratio. No doubt, interest income is affected, as you know by evolution of Selic rate that is currently at 6.5%. We can say that current portfolio deal has basically priced in most of the rate cuts of the last 12 months. In this way, the accounting deal is now only 90 bps above market deals.

Natalia Núñez Arana

Okay. Thank you. Next question comes from Michele Ballatore on these regarding the capital increase in Italy. Can you give us more color on the capital increase of EUR 120 million in Italy?

Fernando Mata Verdejo

CFO & Director

Yes, thank you, Michele. The objective of the capital increase for -- first of all, let's say that the capital increase was in the budget, not out. And the objective of the capital increase is to ascertain Verti, Italy's capital position. Verti, Italy's continuous improvement results and is very close to rate given and something that we had to do and that's it. So as you know, the capital increase of [EUR 120 million], EUR 60 million were fully paid in the first quarter. And the other is on core capital and will be paid if we need to -- has been considered as Tier 2 as you know well. So in the end, Solvency II ratio will improve dramatically and this will allow us, I mean, somehow to manage in a better way the current extraordinary debt that is there between Verti, Italy and Verti, Germany.

Natalia Núñez Arana

Okay, thank you. Now Farquhar Murray from Autonomous would like to know if the exit from New York and New Jersey will entail a sale of the series or the sale of the renewal rights.

Fernando Mata Verdejo

CFO & Director

New York is a company, so the current deal in such a size is for a New York company. And New Jersey is a portfolio, but the current [indiscernible] aside comprises as well this portfolio. So we're looking at a transaction that will cover both states and both businesses, I mean, the company and also the portfolio, New Jersey.

Natalia Núñez Arana

Okay, thank you so much. We are reaching the last question I have. Right now, is regarding the reinsurance program. I don't know if there is any more, but so far there's no more. Paz Ojeda asks the following: could you please explain how the catastrophic core has worked between MAPFRE USA and MAPFRE RE? You have reported growth losses of EUR 60 million and net of reinsurance -- net of reinsurance as MAPFRE USA of EUR 13 million. Did you see the development of MAPFRE's combined ratio? It is stable at 91% and no significant impact can be seen. Could you give us more details on this?

Fernando Mata Verdejo

CFO & Director

Yes, thank you. Paz, the reinsurance we got, we have between MAPFRE U.S.A. and MAPFRE RE is [indiscernible] quote a share with rate protection of 70%. Out of this MAPFRE RE is retaining 30%. So let's say that the gross of net -- gross and net for the U.S. operation and for MAPFRE RE before expenses is the same. Regarding the figures, I mean, I guess it's 60 million, not euros. I think it's USD 60 million, EUR 50 million for the gross loss. And also the EUR 15 million for MAPFRE U.S.A. is net of reinsurance and net of taxes as well. And so probably, I mean, with this information, I mean, you can make it up and adjust both inputs. And excluding the snowstorms and general catastrophic experience has been more benign. Let's say that and -- as the overall conclusion.

Natalia Núñez Arana

Okay, thank you so much. There are no more questions from the analysts, so if you want to do a wrap-up to close the session.

Fernando Mata Verdejo

CFO & Director

Yes, thank you, Natalia and Ramon. And I want to thank everyone, I mean, for joining us today. Despite this been a singular first quarter, I said singular. Yes, I didn't find any better word. And our long-term outlook remains quite positive with no changes. If anything, I should speed up -- we should speed up

processing, planning, pacing in the U.S. and Brazil and also it's very important to keep MAPFRE Spain and MAPFRE RE in the current efficiency levels within the profitable growth framework. Thank you, everybody. Have a good weekend.

Natalia Núñez Arana

Thank you very much.

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