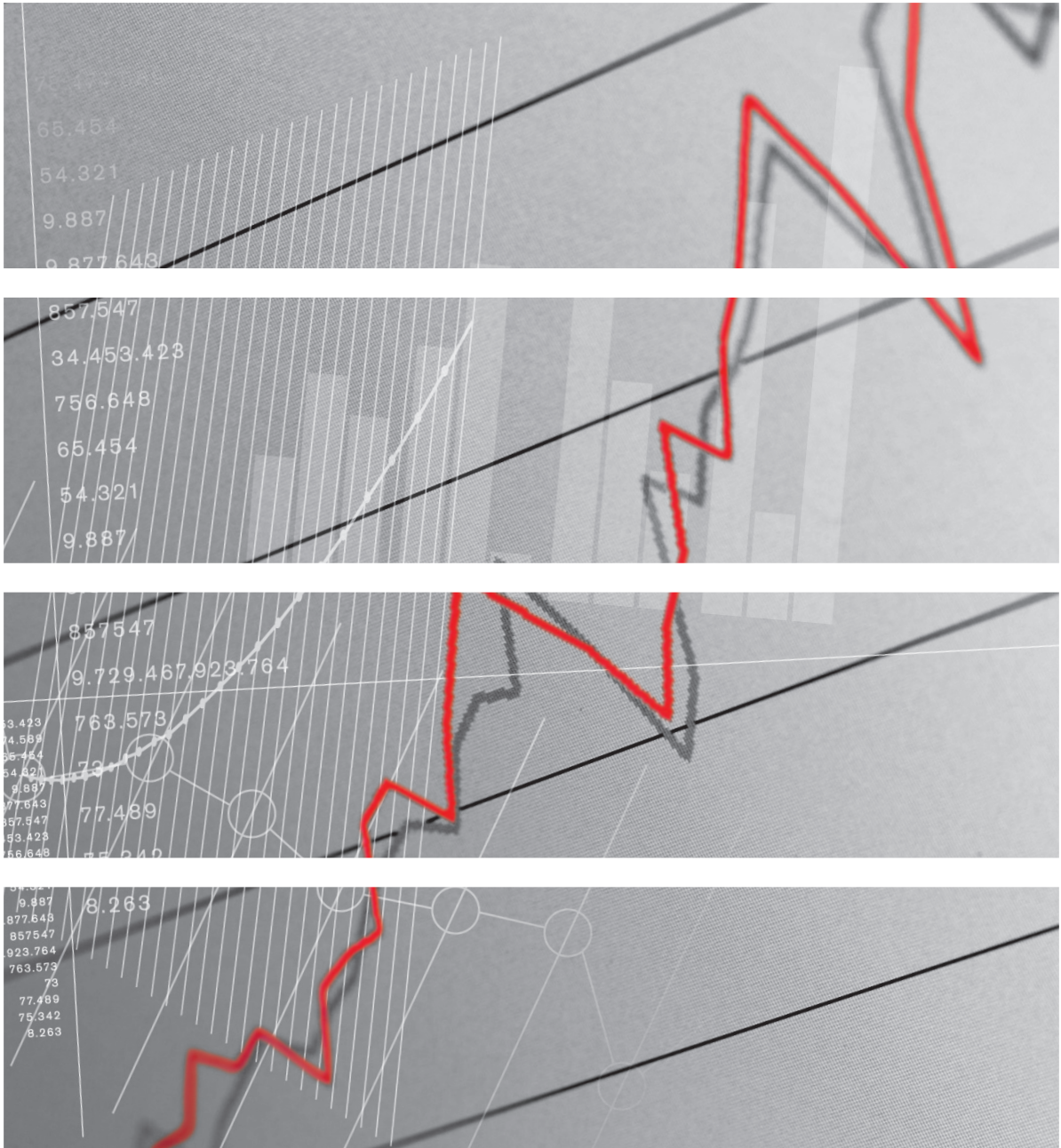


The Spanish Insurance Market in 2007

Instituto de Ciencias del Seguro



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1. SUMMARY

The Spanish economy grew 3.8% in 2007, a tenth of a percentage point less than the previous year. After expanding by more than 4% in the first quarter, the economy lost steam as the year went by. This was due in the first place to a gradual slowdown in the real estate sector and secondly to fallout from international financial instability that surfaced in the summer.

In this context, the **Spanish insurance market** posted premium volume of 53,975 million euros in 2007, which represents an increase of 3.1%, compared to a 7.8% rise in 2006. The main cause of this slower growth was the performance of the Life class, which expanded just 0.4%, due to a major decline in group policies. Production in Non-Life classes continued a deceleration that began in 2002 and grew 5.1% (compared to 6.7% in 2006).

Complementing this panorama in the Spanish insurance market, Mutual Provident Societies reached a premium volume of 2,479 million euros, an increase of 9.2%, of which 90% corresponded to Life insurance. If we add the activities of Mutual Provident Societies to that of public limited companies and mutual insurers, total premium volume in the sector in 2007 was 56,454 million euros, a rise of 3.3%.

The sector posted strong earnings. The result of the non-technical account totalled 5,545 million euros, up nearly 40% from the previous year. ROE in the sector improved six points to 24.7%, due mainly to growth in the result of the technical account for Life.

The subprime crisis in the United States barely had any effect on the aggregate balance sheet of the Spanish insurance sector. Only nine of 297 companies had any kind of exposure to the crisis in their investment portfolios, and it totalled less than 1% of their technical provisions. The sector continues to show a good level of solvency, with a margin 2.6 times higher than the minimum set under current law (2.7 in 2006).

Data from the ICEA for the first six months of 2008 show the sector is slowing. Year-on-year growth in the period was 6.1%, compared to 11.1% the previous year. This behaviour was caused by two main factors: on one hand, Spain's economic situation, marked by a drop in private consumption and decline in some sectors whose risks are covered by the insurance industry. The other reason was intense competition being waged in the Motor line, which accounts for approximately 23% of all premiums and is seeing an across-the-board decline in rates. In 2008 this could lead to a situation of zero growth or even a decrease.

In 2007 premium growth in the **Life class** was just 0.4%, far below the 11.3% increase of the previous year. Changes introduced by Spain's Income Tax Law did not favour policies with savings guarantees as an investment tool, so their growth was practically nil. Risk policies showed slower growth, due in large part to a decline in mortgage lending in the final months of the year; their premium growth went from 17% in 2006 to 9.1% in 2007. Growth in the number of policy-holders fell approximately 10 points to 3.6%. Individual insurance policies did well, posting a rise of 9.9%, while group policies dropped 27% in terms of premium volume.

This situation, along with a major increase in the number of surrenders and a drop in financial yields, has led to stagnation in managed savings, which totalled 122,975 million euros, a rise of just 1.1%.

The technical-financial result in this class was very good, reaching 2,520 million euros, nearly five times the figure for the previous year and representing 5% of net earned premiums. The reasons for this major increase can be found in the significant increase in the category “profits from financial investments”, which went from 4% of net earned premiums to 15% in 2007, and a major decrease in the “Variation of technical provisions”, which saw their weight as a proportion of premiums go from 31% to 14%.

As for novelties within this class, it is worth noting that the year 2007 saw the introduction of Variable Annuities, a gradual advance by Insured Pension Plans (known in Spanish as PPAs,) and the appearance of individual savings plan known in Spanish as PIAs. A new formula with a tax-deductible yield, it is designed to channel savings over the long term and create a life-long, guaranteed source of income.

It is also important to mention that, after somewhat of a delay, the **Registry of Life Insurance Policies** became operational in June 2007. This is a public registry that falls under the Justice Ministry. The idea is for people to be able to check if a deceased person had a life insurance policy, and if so, with which company, so as to determine if they are among the beneficiaries.

2008 is shaping up as a tough one for the Life class, mainly in traditional savings-retirement policies involving deferred capital, as a result of a foreseeable increase in surrenders and the fact that the new income tax law has eliminated the incentives these policies had as long-term savings vehicles. At the same time, the slowdown experienced by the real estate market could have a negative effect on purchases of Life insurance policies with death coverage. The forecasts are more optimistic for unit-linked and asset-linked policies, given the role that this business can play in certain companies offering bancassurance services.

Pension Plans closed the year with a volume of managed assets of 86,561 million euros, an increase of 6.5% compared to 2006. The number of pension plan members rose to 10.4 million, an increase of 5%, and the estimated number of people using this product is 7.8 million.

Non-Life classes of insurance continued the deceleration they began in 2002 and grew 5.1% (6.7% in 2006) to 30,964 million euros. This is a rather established market that is marked by intense competition over rates and efforts to come up with new kinds of coverage. Growth in the number of policies was 3.6%, compared to 4.8% in 2006.

The Motor line of insurance saw its growth in premiums decline from 4.5% to 2.3%; the average premium fell around 2% (-6% in real terms). Multi-Peril insurance grew 7.6%, above the Non-Life average, although the downward tendency that began in 2003 continued, and was fuelled by the slowdown in the construction industry starting in the second half of the year. Health insurance remained on the rise, this time around 10%, mainly as a result of health-care costs being reflected in premiums. In a soft market, Third-Party Liability premiums rose 3.5%, far below the 9.3% rise posted in 2006.

As for the rest of the Non-Life branches, insurance for burial expenses grew 5.3%, due mainly to an increase in funeral costs and changes in the coverage needs of the insured population. In Personal Accident insurance one notes a growing demand for new products and assistance coverage, but a tendency toward lower rates gave rise to growth of 3.1%. An increase in the number of companies that are in arrears on debt payments led to a rise in

Credit insurance, where premium volume grew 16.6%. The Transport class is in a sluggish cycle and this meant slacker growth, which was just 0.4%, due mainly to the performance of the Hulls section. Assistance and legal defence posted levels of growth that were above the Non-Life average. The Engineering branch, hit hard by the slowdown in the construction industry, fell 3.5%. Nor was it a good year for Pecuniary Losses, whose premium volume declined 3%.

The result for Non-Life classes was 3,341 million euros, down 4% compared to the previous year. The aggregate net loss ratio rose nearly a point to 71.2%. The operating cost ratio increased three tenths of a point to 20% of net earned premiums, although total expenditure remained steady at 21.2%. As a result of this, the combined ratio rose seven tenths of a point to 92.4%. Financial results declined in almost all branches, falling at the aggregate level from 5.8% to 5.5%. Finally, the technical-financial result slipped one point to 12.5%; the highlights include declines in Industrial Multi-Peril (from 10.2% to 2.7%), Transport (from 16.9% to 8.4%) and Credit (de 19.2 to 4.5%).

As for the **Spanish reinsurance market**, throughout 2007 competition became tougher in terms of prices and coverage terms. Direct insurers turned more to excess loss contracts in place of proportional contracts and therefore retained greater premium and risk levels. This, along with a rise in claim frequency, will lead to a reduction in the technical margins of reinsurance companies.

Finally, some changes in Spanish legislation should be noted. Firstly, in March 2007, **Law 3/2007 was approved, dealing with effective equality between men and women**. It is particularly relevant for the insurance market. The adaptation of this law to address private insurance was carried out by modifying certain clauses of the regulations that govern and oversee private insurance (articles 34, 76 and 80) through Royal Decree 1361/2007, dated 19 October.

The actual effect of the changes is that it is forbidden to use gender as a factor in evaluating risk, unless it is shown that it is a decisive factor on the basis of actuarial data and statistics which are pertinent, trustworthy and provable as per the risk assessment carried out by the company (this came into force on 21 December, 2007). Despite the aforementioned, under no circumstances can the costs and risks associated with pregnancy and childbirth be used to justify differences in premium rates and benefits of persons considered individually (this will come into effect 31 December, 2008). Furthermore, when it comes to access to goods and services it is prohibited to investigate whether a woman is pregnant. These changes will have a major impact on Health insurance, which presumably will see the effect in terms of policy purchases once the law takes force.

On 10 July, 2007 the European Commission presented the European Parliament and Council with the proposed directive known as **Solvency II**, approval of which is expected some time in 2008. Also in July, the deadline expired for completing the third quantitative impact study, known as QIS3, the conclusions of which were released in November.

2. METHODOLOGY

Sources of information

In the preparation of this study, the main source of information was that which the General Directorate of Insurance and Pension Funds (DGSFP in Spanish) provides, drawing on the Statistical and Accounting Documentation (DEC in Spanish) archives. Up to and including 2006, the data correspond to the Book of Balance Sheets and Accounts (Libro de Balances y Cuentas in Spanish) since 1998, which includes the sector-specific figures from the annual DEC. The data for 2007 come from the aggregate of the quarterly DEC, in this case the fourth quarter (which features cumulative data).¹

Data on claims frequency, and some data on policies – growth and policy lapse rates – come from a variety of studies published by ICEA. In detailed analyses on some classes of insurance (Transport, Engineering, Third-Party Liability and Life) to one extent or another we have also drawn on information provided by the ICEA.

Calculations

Premium volumes correspond to direct transactions (written premiums, total operations) by Public Limited Companies, Mutual Insurers and Branch Offices established in Spain, excluding data from strictly Mutual Provident Societies and Reinsurance companies. The growth figures published in this study refer to written premiums from direct insurance and are nominal, unless it is stated expressly that the numbers refer to growth in real terms, in other words, allowing for inflation.

The calculation of most of the descriptive ratios in this study was done with earned premiums, gross premiums or premiums net of reinsurance, depending on the case. Earned premiums comprise written premiums plus the variation of the provision for premiums receivable and the variation of the technical provision for unearned premiums and for unexpired risks. The following is an outline of how the ratios are calculated:

- Retention: $\text{Net Earned Premiums} / \text{Gross Earned Premiums (Direct + Assumed)}$.
- Gross Claims Ratio: $\text{Claims Incurred (Direct + Assumed) + Variation from other technical provisions} / \text{Gross Earned Premiums (Direct + Assumed)}$.
- Net Claims Ratio: $\text{Claims Incurred (Direct + assumed-ceded) + Variation from other technical provisions} / \text{Net Earned Premiums (Direct + Assumed-ceded)}$.
- Gross expenses: $\text{Operating costs (Direct + Assumed) + Profit-sharing and returned premiums + Other technical expenses} - \text{Other technical income} / \text{Gross earned premiums}$.
- Operating costs: $\text{acquisition expenses + administrative expenses (Direct + Assumed)} / \text{gross earned premiums (Direct + Assumed)}$.

¹ At the time this study was published, the annual DEC for 2007 was not yet available.

- Net expenses: $\text{Operating expenses (Direct + Assumed-ceded) + Profit-sharing and re-returned premiums + Other technical expenses - Other technical income} / \text{Net earned premiums}$.
- Net Combined Ratio: $\text{Net claims ratio} + \text{net expenses}$.
- Financial result: $\text{income from investments - expenses on investments} / \text{net earned premiums}$.
- Technical-financial result: $\text{technical account result} / \text{net earned premiums}$.

3. ECONOMIC CONTEXT²

3.1. THE WORLD ECONOMY

The **world economy** remained on an upward trend in 2007. However, economic deceleration in the United States, rising prices for raw materials and the spread of financial turmoil that began in the second half of the year triggered a change in the international outlook and a downward revision in growth forecasts, mainly for the economies of developed countries.

According to IMF figures, world GDP grew 4.9%, a tenth of a point less than in 2006, capping the largest growth in a four-year period since the 1960s. Expansion was driven by strong domestic demand in emerging economies – mainly China and India – which accounted for two-thirds of the world's economic growth. Activity in the main industrialized countries was strong until the third quarter of 2007, when clear signs of a slowdown started to appear.

For the year, the global inflation rate was 4.2%, compared to 3.7% in the previous year. However, the increase stemmed in particular from the most volatile components of consumer price indices, which are energy and food. On a yearly average, the price of benchmark Brent oil rose \$8 a barrel compared to 2006, to \$73. But in the final months of 2007 oil prices shot up to more than \$90 a barrel. The increase continued in the first months of 2008, hitting record highs of more than \$130 a barrel.

The aforementioned turbulence in international financial markets broke out in the summer of 2007 because of the crisis involving sub-prime mortgages in the United States. Even though this segment of the mortgage market was relatively small (13% of all mortgages as of the end of the third quarter of 2007) instability spread quickly to international markets. This was due mainly to widespread, complex investment products in which the original lenders transferred the risk inherent in these mortgages to other entities. All of this triggered a significant change in risk assessment in capital markets, and consequently there was a toughening of financing terms in the private sector.

Share prices in stock markets initially showed a high capacity for resistance, but with greater volatility. The biggest declines came in the first weeks of 2008, when major stock indices suffered significant falls as news emerged that the United States' macroeconomic prospects were worse than expected.

The economic prospects for 2008 point to a generalized deceleration which will be more acute in developed economies than in emerging ones. The latter, led by China, will continue to post relatively high growth rates. The available forecasts predict world economic growth of less than 4% in 2008, more than a percentage point less than in 2007.

In 2007 the GDP of the euro zone grew more than 2.5% for the second straight year. This strength, to which strong performances by Germany and Spain made a significant contribution, was based on a growth pattern that was very similar to that of the previous year. Domestic demand was the main engine, and, in particular, investment, because private consumption remained weak, despite a brisk rate of job-creation. Forecasts by international or-

² Except from Bank of Spain annual report for 2007.

ganizations and private agencies were revised sharply downward, and at the end of the year and in early 2008 the first symptoms of deceleration did in fact appear.

3.2. THE SPANISH ECONOMY

The Spanish economy posted **annual growth** of 3.8%, a tenth of a point less than the previous year and one percentage point above the average for the euro zone. After growing at a rate of more than 4% in the first quarter, the economy lost steam as the year progressed. This stemmed firstly from the gradual slowdown in the real estate sector after a long phase of robust growth, and secondly from the negative effects of international financial instability that arose during the summer. Growth in the last quarter of the year was 3.5%. In the first months of 2008, GDP growth declined even more, reaching a year-on-year rate of 2.7% in the first quarter.

GDP growth was compatible with a shift in sources of expansion, as the contribution from the external sector improved and household spending grew at a slower pace. External demand reduced its negative contribution by 0.5 decimal points, settling at -0.7 percentage points. This result was the consequence of the performance of exports of goods and services which, in a more challenging international context, recorded growth similar to that of the previous year (5.3%, compared to 5.1%) and, to a greater extent, a slowdown in imports, which increased 6.6%, compared to 8.3% the previous year. Annual national demand saw its growth fall by 0.5 percentage points to 4.6%, due to higher interest rates and a drop in a confidence in the economy, and because of the gradual decline in investment in construction. Finally, investment in equipment and public consumption grew in 2007.

In 2007 conditions for financing households and businesses continued to get tougher as a result of interest rates hikes by the European Central Bank in the first half of the year and rises in market rates in the wake of the financial turbulence. Interest rates for credit rose a percentage point over the course of the year.

Spanish companies continued to invest heavily, with average growth of 7.7%, compared to 6% the previous year. This component of demand added 1.3 percentage points to GDP growth. Robust investment by businesses was fueled by strong demand, a favorable econo-

<i>Interannual variation rates in %</i>		
	2006	2007
DEMAND		
Final consumption expenditure	4.0	3.6
Final consumption expenditure by households	3.7	3.1
Final consumption expenditure by the NPISH	6.7	4.4
Final consumption expenditure by the Pub. Admin.	4.8	5.1
Gross Fixed Capital Formation	6.8	5.9
Equipment	10.4	11.6
Construction	6.0	4.0
Other products	4.6	4.2
Domestic demand ¹	5.1	4.6
Exports of goods and services	5.1	5.3
Imports of goods and services	8.3	6.6
Foreign demand	-1.3	-0.7
SUPPLY		
Fishing and agricultural classes	2.4	3.8
Energy classes	1.4	1.0
Industrial classes	2.9	3.1
Construction	5.0	3.8
Services	4.1	4.2
GDP at market prices	3.9	3.8
GDP at current market prices²	981.0	1,049.8

Table 1. GDP and its components

(1) Contribution to GDP growth

(2) Billions of €

Source: INE. CNTR, first quarter of 2008.

mic outlook and good corporate earnings. But investment by businesses weakened in the second half of the year, mainly in equipment, in a context of deteriorating confidence among the business community and a slowdown in activity.

By **classes of activity**, only industry, agriculture and fishing showed greater dynamism in 2007 than the previous year. Growth in value-added in the industrial sector was 3.1% (2.9% the previous year). Growth in value-added in agriculture was 3.8%, 1.4 points higher than in 2006. After nearly a decade in which construction activity grew more than the economy as a whole, in 2007 it posted a deceleration of 1.2 points, which took its growth rate down to 3.8%, similar to that of GDP. The services sector posted growth of 4% in 2007, similar to the figure from the previous year.

The **consumer price index** (CPI) rose moderately for much of 2007 but shot up at the end of the year to 4.2%. This mainly reflected turbulence in world markets for raw materials for energy and food (above all, grains, soybeans and milk). What is more, the effects of this upward pressure on prices manifested themselves more in Spain than in the rest of the European Union: the inflation differential between the two increased to 1.2 points in December 2007.

In secondary markets there was a significant increase in activity, although with great disparity in the various sectors. As was the case in 2006, the most dynamic were those linked to equities, both in stock markets and the derivatives market (MEFF). Share purchases in stock markets surpassed 1,600 million euros, which represents year-on-year growth of more than 44%. For the year, **stock prices** posted a moderate increase, especially in comparison with the two previous years. The IBEX 35 index rose 7.3%, a figure similar to the increase posted by the EURO STOXX 50 index of European bourses (6.8%) and above that of the S&P 500 in the United States (3.5%). For the most part these gains came in the first part of the year. Starting in summer, much greater price volatility set in because of international financial turmoil. Still, like other major international indices, the IBEX 35 showed significant resistance in this period: the declines it registered in July and August were followed by recovery in later months. In early 2008 both Spanish and international stock indices saw more significant drops in share prices in a context in which continued financial instability ended up weakening the global economic outlook.

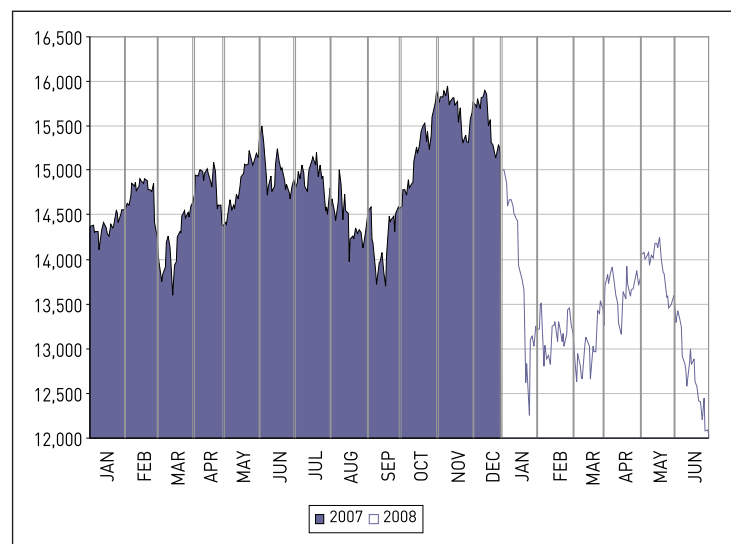


Chart 1. Evolution of the IBEX 35 stock index. Daily closing levels

Source: Sistema de Interconexión Bursátil.

The persistence of the three factors that have cast a shadow over **prospects for growth** since last summer (the international financial crisis, higher oil prices and higher prices for food and raw materials) accelerated a slowdown in the Spanish economy in 2008. The government estimates the economy will grow 1.6% in 2008. It also forecasts that domestic demand will contribute 1.4 percentage points to GDP growth, while external demand will add 0.2 points. Consumption will grow 1.7% due to an easing of private consumption, which will rise 0.7%. Investment will post a moderate increase of 0.3%, as a consequence of investment in equipment rising more than 3% and investment in construction falling about 2%.

4. SOCIAL AND ECONOMIC VARIABLES RELATED TO INSURANCE

4.1. POPULATION

Spain's resident population as of the end of 2007 was 46.1 million, nearly 900,000 more than in 2006, an annual increase of 1.9%.

By gender, women make up 50.5% of the total. Within the Spanish-born population they account for 51%, while among the foreign community women make up 46.8% of the total.

As has been common in recent years, population growth is due mainly to the foreign population, which in 2007 rose 15.5% (the non-foreign population increased 0.4%) to 5.2 million people, equivalent to 11% of the total population. Foreign residents from other EU countries are the most numerous, with Romanians the biggest community (14% of the total number of foreigners), Britons (6.7%) and Germans (3.5%). Among people originally from non-EU countries, the largest communities are Moroccans (12.3%), Ecuadorans (8%) and Colombians (5.4%).

By age, 14.3 % of the Spanish population is under 15, 69% is between 16 and 65 and 16.7% is over 65. It is in this latter group where the largest gender differences are seen: the number of women is 36% higher than that of men.

The semi-autonomous regions that experienced the largest population increases in 2007 were Madrid, Catalonia and Valencia, reaching 6.2 million, 7.3 million and 5 million, respectively.

Data on natural movement of the population reveal that the gross birth rate (number of live births per 1,000 inhabitants) rose to 10.95, with 19% corresponding to births by foreign mothers; Moroccans had the largest number of children. The fertility rate was 1.39 children per woman of child-bearing age, the highest figure in Spain since 1990.

The gross mortality rate (number of deaths per 1,000 inhabitants) also rose, from 8.43 to 8.57. A total of 2.7% of the deaths corresponded to foreigners, mainly ones from the EU (72% of the foreigners who died), who are the oldest foreign residents of Spain, chief among

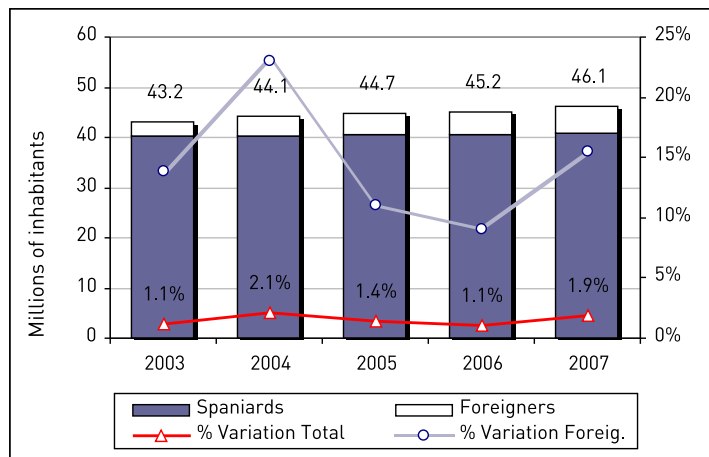


Chart 2 . Evolution of Spanish population

Source: INE

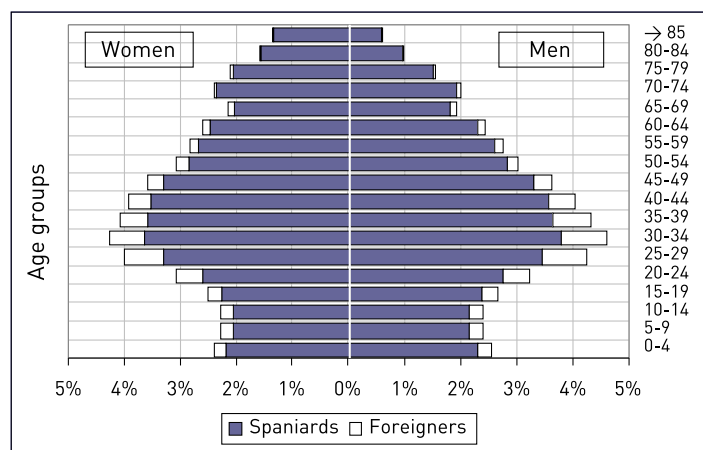


Chart 3. Distribution of the Spanish Population by age group and sex. Year 2007

Source: INE

deceased people from Britain and Germany. Vegetative growth in the population was 106,000 people, compared to 111,000 the previous year.

Spain continues to have one of the world's most aged populations. According to the latest update from the National Statistics Institute, life expectancy at birth is 80.2 years, 77 for men and 83.6 for women. Within the European Union, the bloc's statistical agency, Eurostat, says the males with the longest life expectancy are Swedes, at 78.5 years, while among women it is the French at 83.8 years.

4.2. MOTOR

In late 2007, the Spanish automobile market began to show slower growth and this has been even more pronounced in 2008. The number of newly registered vehicles hardly changed from 2006 to 2007, remaining at 2.3 million. As for private cars, 1.6 million were registered, a decline of 1.2% compared to the previous year.

At the end of 2007 the total number of registered vehicles was nearly 30 million, up 4% from 2006. The lion's share of the total, or 60%, was registered between 1997 and 2006 and nearly 11% of the total are more than 20 years old.

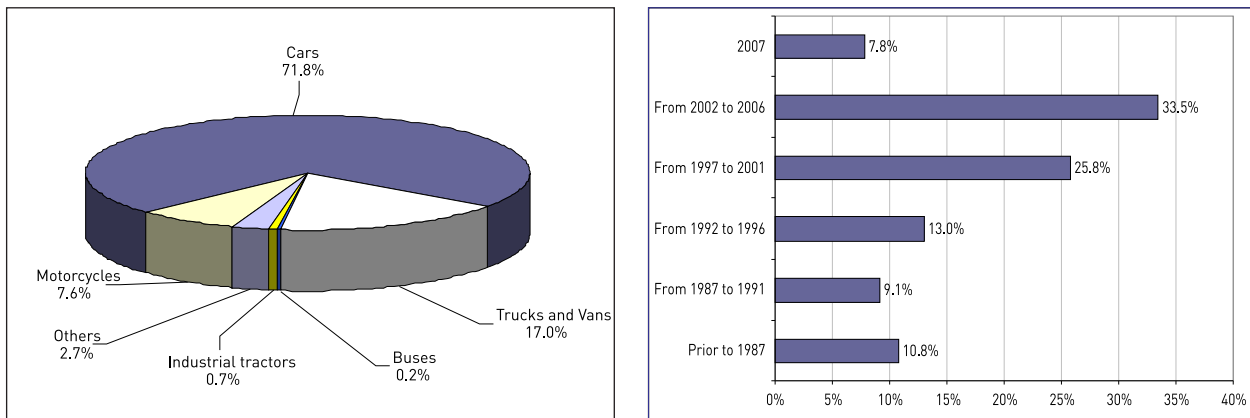


Chart 4.
Distribution of total automobiles in Spain by class of vehicle and age

Source: Interior Ministry

Road accidents

In 2007 there were 2,416 traffic accidents involving deaths, 8% fewer than in 2006. For the first time since 1968, the number of deaths in road accidents was below 3,000, coming in at 2,742, which was 9.1% less than in 2006. The number of people who suffered serious injuries fell by 19.5%.

The decline in some indicators that measure accident rates and traffic violations reflects greater caution being exercised on Spanish roads: the number of deaths involving people who were not wearing seatbelts fell (34% in 2003, down to 25% in 2007); the number of motorcycle drivers and passengers who died in accidents while not wearing helmets also went down (10% in 2003, 7% in 2007); the number of people testing positive for alcohol consumption at roadside checkpoints is down by almost one-half (4.2% in 2003, 2.4% in 2007); and the number of drivers caught by radar while driving in excess of 140 km/h also declined (6.8% in 2005, 0.8% in 2007).

The introduction of a points-based driving license system in July 2006 has led to a significant drop in the number of road accidents, with accident rates falling in all age groups. Figures on the second year of the system's being in force, which were presented by the Interior Ministry in July 2008, show that in the course of these two years the number of deaths on Spanish roads has gone down by 1,424, equivalent to a drop of 22%. The main cause of people having points deducted from their licenses is speeding (42%), followed by using cellular telephones at the wheel (12%), driving under the influence of alcohol (10%) and not wearing seatbelts (9%). A total of 81% of the points deducted corresponded to male drivers and 19% to women.

4.3. HOUSING

In 2007 the total number of homes in Spain was 24.4 million, according to estimates by the Housing Ministry in its update of the 2001 Census. That number represents an increase of 2.7% with respect to 2006. Of these housing units, 68.5% are primary residences and 31.5% are used as second homes or for other purposes.

In 2007 the Spanish housing market remained in a period of flux, with clear declines in indicators that measure the sector. Municipal authorities granted licenses to build or rehabilitate nearly 654,000 homes, a drop of 14% from 2006.

As for housing sales, in 2007 a total of 837,000 real estate transactions took place, 12.4% less than the previous year. The biggest drops took place in the last two quarters of the year. Housing prices rose 4.8%, the lowest rate of growth since 1998 and approaching the level of increase in the CPI (4.2%).

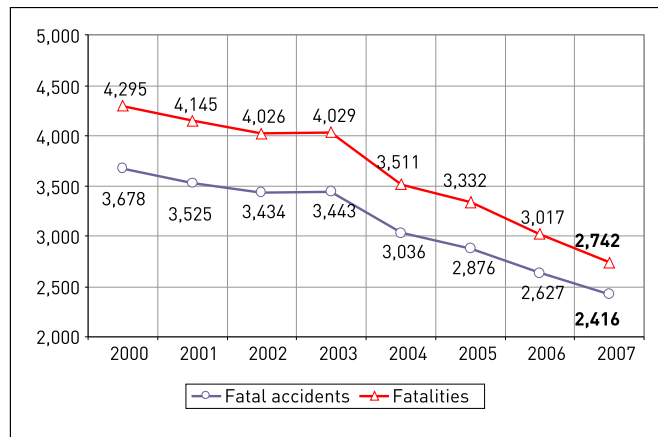


Chart 5. Evolution of the number of accidents and fatalities

Source: General Directorate of Traffic

In 2007 a total of 1.7 million mortgages were taken out for rural and urban properties, which marks a decline of 5.1% compared to 2006. The average value of the mortgages granted was 149,000 euros, an increase of 6.2% over the previous year (the rise was 12.6% in 2006). The average interest rate on the loans was 4.71% (3.83% in 2006) and the average duration was 26 years (25 in 2006).

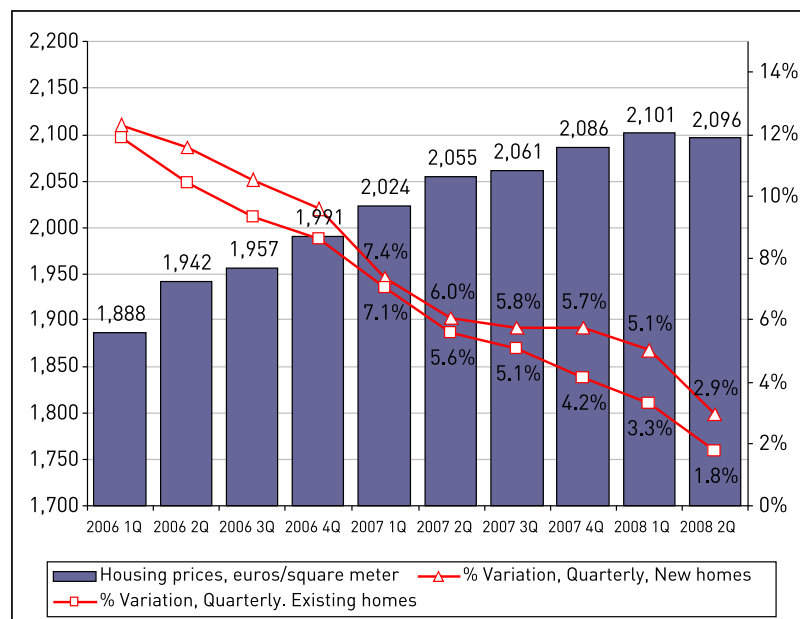


Chart 6. Quarterly evolution of housing prices

Source: Housing Ministry

5. PRINCIPLE CHARACTERISTICS OF THE INSURANCE MARKET

5.1. INTERNATIONAL MARKETS

Premium volume on the **world insurance market** rose to \$4.1 trillion (2.9 trillion euros) in 2007, a 3.3% increase in real terms from the previous year. The Life class posted income of \$2.4 trillion (59% of the total), a real increase of 5.4%, less than the 7.7% rise it registered in 2006. Last year's increase was driven by single-premium products, pensions and annuity insurance. Non-Life classes rose just 0.7%, again due to intense competition over prices, mainly in industrialized countries.

Life insurance companies continued to show strong solvency, and the profitability of Life insurance around the world was hardly affected at all by the credit squeeze, posting good earnings. In the Non-Life classes, the claims ratio from catastrophes fell within normal limits and reserves from previous years evolved favourably. These two factors contributed to the good results posted by this segment of the market.

For yet another year, growth in the insurance industry was greater in emerging markets than in industrialized countries, although it did slow somewhat compared to 2006. In the former, the increase in Life insurance was 13.1%, compared to 4.7% in developed markets. In Non-Life classes, emerging markets rose 10.2%, a figure similar to that of the previous year (10.8%), while in the industrialized countries income from premiums slipped by 0.3%.

Amid increasingly fierce competition, income for the **European insurance sector** rose just 0.1% in real terms in 2007, the smallest increase of the past few years. According to the European Insurance Committee, premium volume for all of Europe totaled 1.1 trillion euros, with 688 billion of that coming from Life policies and 422 billion from Non-Life classes of insurance.

Life insurance volume grew only 0.1%, with a great disparity in the performance of markets in **western and eastern** Europe. While the latter got a boost from a strong economy, volume in the former declined as a result of lower income in the three largest markets, those of Germany, France and Italy.

After a 6.2% rise in Non-Life insurance in 2006, fueled largely by the privatization of health insurance in the Netherlands, this sector expanded just 0.2% in 2007, confirming the slow-down this market has seen in recent years. Motor insurance was the sector hardest hit by stiff competition, posting a decline of 1.1% in 2007.

After automobile insurance, Health insurance is the second largest class among the Non-Life lines, with clear leadership by Germany and the Netherlands in terms of premium volume. Between them they hold a 57% market share. Important reforms in the health-care systems of both countries in the past two years have had a major impact on the performance of this sector of the insurance industry. In January 2006 legislation took effect that privatized much of the Dutch public health care system. This fueled a 148% rise in this class of insurance in 2006; in 2007 the growth figure was just 2.5%. Reforms of the German system went into force in April 2007. With regard to private health care insurance, one of the changes that had a particularly significant effect was the creation of a three-year waiting period for people who want to switch to private insurance, so long as they can prove that during those

years they exceeded a pre-set level of income. This restriction on access to private insurance led to lower growth in this sector in Germany.

The **Spanish insurance sector** ranks 11th in the world in terms of premium volume, one spot lower than in 2006. In Life insurance Spain is 16th and in Non-Life it dropped one rung to ninth. In Europe, Spain continues to have the sixth-largest market, after Britain, France, Germany, Italy and the Netherlands, with a market share of 5.1% (compared to 4.9% in 2006).

According to Swiss Re³, Spain's average spending on insurance per inhabitant in 2007 was 1,194 euros⁴ (\$1,700), giving it 25th place in the world ranking. That is below the European average of 1,425 euros, and the most pronounced difference was in Life insurance, with Spanish spending averaging 509 euros compared to 888 euros in Europe. In Non-Life insurance it was the other way round: per capita spending in Spain was 685 euros, above the European average of 537 euros.

As for insurance penetration in the economy, it dropped two-tenths of a percentage point in 2007 to 5.1%, because premium growth was less than GDP growth. This percentage places Spain in 28th place in the world ranking.

Country	Premiums (thousand million USD)	Premiums/inhabitant (USD)	Premiums/GDP
United States	1,230	4,087	8.9%
Great Britain	464	7,114	15.7%
Japan	425	3,320	9.6%
France	269	4,148	10.3%
Germany	223	2,662	6.6%
Italy	142	2,322	6.4%
South Korea	117	2,384	11.8%
Netherlands*	103	6,263	13.4%
Canada	100	3,054	7.0%
China	92	70	2.9%
Spain	75	1,700	5.1%
Europe	1,681	1,962	8.0%
EU 27	1,567	2,982	8.8%
World	4,061	608	7.5%

* In 2006, before the state health care system was privatized, the average premium per inhabitant was \$3,829 and premiums/GDP was 9.4%

Table 2. Size of the world's largest insurance markets

Source: Swiss Re

³ Swiss Re (2008). "World Insurance in 2007: emerging markets leading the way", Sigma n° 3.

⁴ The average premium is calculated by dividing premium volume by the number of inhabitants. It is a good barometer for comparing the level of insurance development among different countries. But in using this figure one must keep in mind that the numerator includes premiums from policies taken out by persons as well as companies or legal entities.

5.2. THE SPANISH INSURANCE MARKET

5.2.1 MAIN INDICATORS

The Spanish insurance market posted direct insurance premium volume of 53,975 million euros in 2007, an increase of 3.1%, compared to 7.8% the previous year.

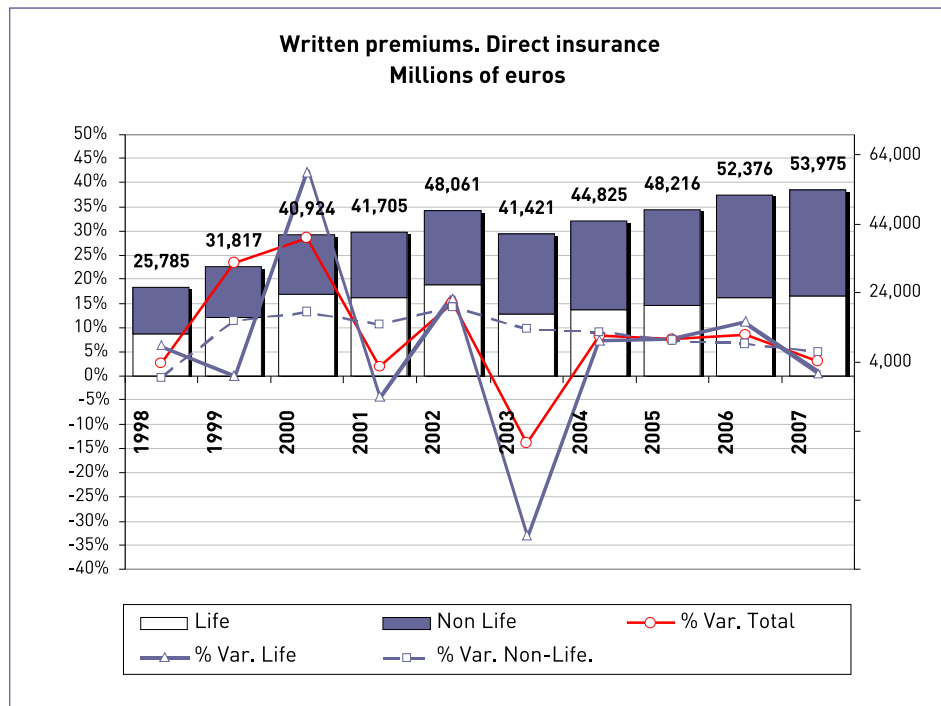


Chart 7. Evolution of the insurance market in Spain

Source: DGSFP

The main cause of this slower growth was the fact that Life insurance, which accounts for 43% of the total, posted premium volume growth of just 0.4%, far below the 11.3 % rise of the previous year⁵. The loss of tax-deduction appeal of savings insurance compared to other kinds of savings options led to virtually flat growth in premiums for this kind of policies, whose terms and number of policy-holders grew about 2%. Risk insurance also posted slower growth, due in part to a decline in the number of mortgages granted. So premium growth in this class of insurance fell from 17% in 2006 to 9.1 % in 2007. Growth in the number of policy-holders dropped about 10 percentage points to 3.6%.

Non-Life insurance continued the deceleration trend it began in 2002 and posted growth of 5.1% (6.7% in 2006) for a total of 30,964 million euros. It is a rather mature market that is seeing stiff competition over prices and a quest to offer kinds of coverage that stand out from the rest. Growth in policies was 3.6%, compared to 4.8% in 2006. Motor insurance rose 2.3% (4.5% in 2006), with an estimated drop of about 2% (6% in real terms) in the average premium. Multi-Peril insurance posted growth of 7.6% (10% in 2006). With the exception of

⁵ The premium and growth figures for Life insurance that are provided by the DGSFP, and which are the basis of this report, are significantly different from those of the ICEA, but they reflect the same situation. According to the ICEA, growth in Life insurance was 9.8% in 2006, while in 2007 this expansion fell to 1.3%.

Other Multi-Peril, all classes of insurance within this branch rose more than the average for Non-Life. However, the downward growth trend that began in 2003 continued, and it was fueled in 2007 by the slowdown in the construction sector in the second half of the year. Health insurance continued to grow around 10%, although one must keep in mind that to a large extent this expansion was due to the repercussions of health-care costs on premiums. Third-Party Liability premiums, struggling in a soft market, rose 3.5%, far below the 9.3% increase seen in 2006.

<i>Million of euros</i>	2007	2006	%Δ 2007/2006	% of Total
Total	53,975	52,376	3.1%	
Life	23,011	22,910	0.4%	42.6%
Individual	14,768	13,434	9.9%	27.4%
Group	4,186	5,702	-26.6%	7.8%
Unit linked	4,057	3,774	7.5%	7.5%
Non Life	30,964	29,466	5.1%	57.4%
Motor	12,298	12,026	2.3%	22.8%
Third party liability	6,873	6,916	-0.6%	12.7%
Other guarantees	5,426	5,110	6.2%	10.1%
Multi-Risk	5,474	5,087	7.6%	10.1%
Househol	2,886	2,674	7.9%	5.3%
Industrial	1,219	1,129	8.0%	2.3%
Commercial Premises	625	590	8.3%	1.2%
Condominiums	599	553	5.8%	1.1%
Others	145	142	2.6%	0.3%
Health	5,166	4,696	10.0%	9.6%
Healthcare Assistance	4,477	4,097	9.3%	8.3%
Illness	689	599	15.0%	1.3%
Third party liability	1,892	1,828	3.5%	3.5%
Burial expenses	1,478	1,404	5.3%	2.7%
Personal accidents	953	925	3.1%	1.8%
Engineering	844	875	-3.5%	1.6%
Credit	690	592	16.6%	1.3%
Transport	594	593	0.2%	1.1%
Hulls	303	319	-4.9%	0.6%
Goods	291	274	6.1%	0.5%
Agricultural	543	462	17.5%	1.0%
Pecuniary losses	373	384	-2.9%	0.7%
Assistance	291	244	19.1%	0.5%
Legal defence	144	136	6.5%	0.3%
Fire	113	110	3.3%	0.2%
Surety	82	79	3.8%	0.2%
Theft	28	26	6.4%	0.1%

Table 3. Distribution of premium volume by classes.
Written premiums, direct insurance

Source: DGSFP

Rounding out this analysis of the Spanish insurance market, Mutual Provident Societies reported premium volume of 2,479 million euros, an increase of 9.2%, of which 90% corresponds to Life insurance. Volume of managed assets was almost 28 billion euros, a rise of 8.5%. If we add the activities of Mutual Provident Societies to those of public limited companies and mutual insurers, premium volume in the sector in 2007 was 56,454 million euros, an increase of 3.3%.

Insurance penetration in the economy (premiums as a percentage of GDP) fell two-tenths of a point to 5.1%, due to the fact that the economy grew at a faster pace in 2007 than did insurance activity. Insurance density (premium per inhabitant) rose slightly to almost 1,200 euros, with a slight decline in Life.

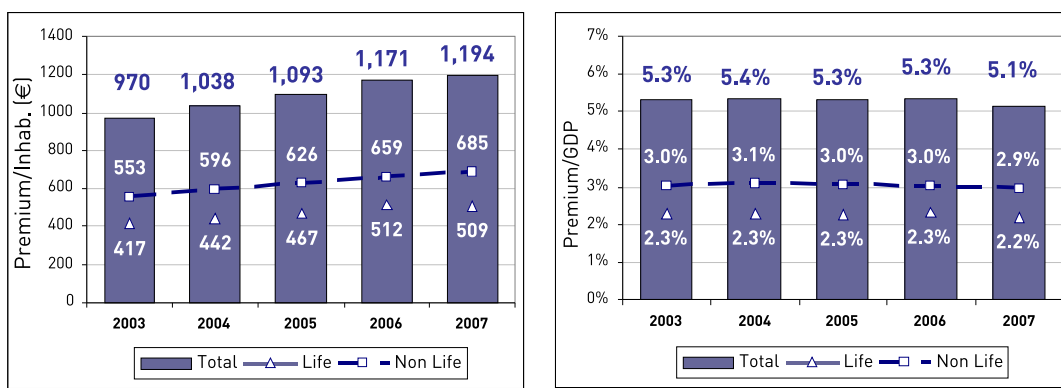


Chart 8. Penetration and Density

Source: FUNDACIÓN MAPFRE with data from DGSFP and INE

The sector posted good earnings. The result of the non-technical account was 5,545 million euros, up nearly 40% from the previous year. The sector’s ROE increased six points to 24.7%.

The improvement in the results was due mainly to growth in the Life class technical account result, which almost quintupled. Analyzing the sectorial aggregate of this account, we note a significant increase in the category “profits from financial investments”, as well as a major decrease in “variation of technical provisions.”

The result of the Non-Life technical account fell 4% in absolute terms, accounting for 6.8% of earned premiums (compared to 7.2% in 2006). This decline stems from a situation of fierce competition in the sector, with strong downward pressure on rates, and a significant worsening of the result from (technical) investments in 2007.

Results	2005	2006	2007
Technical account	3,960	4,040	5,861
Life	816	560	2,521
Non Life	3,144	3,480	3,341
Non Technical account			
Before taxes	4,708	5,424	7,225
After taxes	3,448	3,975	5,545
ROE (%)	18.2%	18.6%	24.7%

Table 4. Insurance sector results

Source: FUNDACIÓN MAPFRE with data from DGSFP

The sub-prime crisis in the United States barely had any impact on the aggregate balance of the Spanish insurance industry. Only nine of 297 entities had any exposure to the crisis in their investment portfolios, and in any case the amount was less than 1% of their technical provisions. The sector continues to display a solid level of solvency, having reached in 2007 a

margin that is 2.6 times greater than the minimum required by regulators (compared to 2.7 in 2006). In the Non-Life class, the margin was 3.4 (3.7 in 2006), while in Life it was 2 (1.9 in 2006).

ICEA data for the first half of 2008 show a slowing down of activity in the sector. Year-on-year growth in the first six months of the year was 6.1%, compared to 11.1% the previous year. The deceleration was caused by two main factors. On one hand there was Spain's economic situation, marked by a drop in private consumption and a slowdown in some economic sectors whose risks are covered by the insurance industry. The second reason was stiff competition in the Motor class, which accounts for about 23% of all premiums and is experiencing an across-the-board drop in rates. In 2008 this could lead to zero or even negative growth. So the forecast for the rest of the year is one of very restrained optimism.

5.2.2 STRUCTURE OF THE MARKET

As of the end of 2007, there were 297 companies listed in the Administrative Registry of Insurance Entities, one less than the previous year. Of this total, 206 are public limited companies, 37 are mutual insurers, 52 are Mutual Provident Societies⁶ and two are specialized re-insurance companies. Over the course of the year, 11 entities went out of business (10 public limited companies and one mutual insurer) and 10 new companies emerged (9 public limited companies and one Mutual Provident Society). Currently there are no insurance cooperatives listed in the registry.

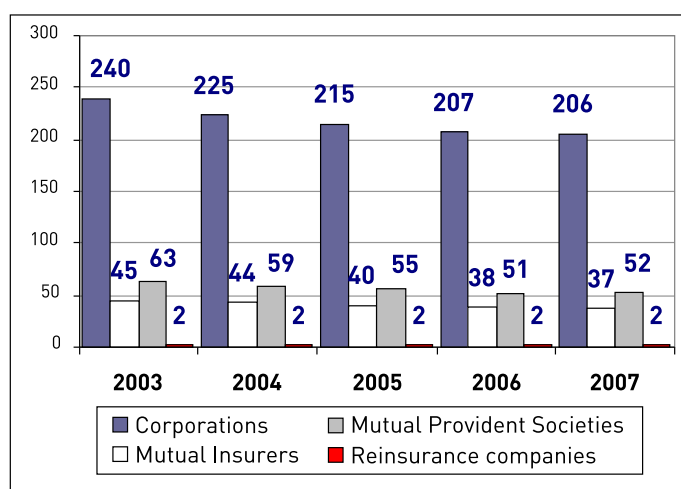


Chart 9. Evolution of the number of private insurance companies according to their legal structure

Source: Spanish Insurance and Pension Funds General Directorate

At the end of 2006, the Spanish insurance sector employed nearly 47,000 people. Meanwhile, according to the DGSFP, in 2007 Spain had nearly 93,000 insurance and reinsurance intermediaries: 4,900 brokers, 100 agents and operators of linked bancassurance, nearly 88,000 exclusive agents and operators, and 21 reinsurance brokers.

Foreign capital invested in Spanish insurance entities in 2007 represented a 22.49% share of the total, compared to 27.64% the previous year. This decline was due mainly to a shareholder restructuring in the CAIFOR, group: the stake held by the Belgian and Dutch group FORTIS was acquired by CRITERIA, the holding company of LA CAIXA.

As for branches of foreign companies established in Spain, most of them -- 58 -- come from the European Economic Space, compared to two others from third countries. As for activity

⁶ It must be noted that the Administrative Registry of Insurance Entities includes only those companies that operate on a nationwide basis. The rest are under the supervision of the corresponding regional government. The Spanish Confederation of Mutual Insurers brings together practically all such insurers, having a total of 440 members.

in the free rendering of services regime, as of 31 December, 2007 there were 535 entities in the European Economic Space that were authorized to operate in Spain.

With regard to direct investment by Spanish insurance companies abroad, one should point out the transactions that the MAPFRE group carried out in 2007: it acquired a majority stake in the Turkish insurance company GENEL SIGORTA; it made a non-hostile offer to buy all the shares of the U.S. firm THE COMMERCE GROUP, and in 2008 it won approval from shareholders and authorization from the authorities in that country to make the purchase; MAPFRE PERÚ, the group's unit in Peru, acquired LATINA SEGUROS, consolidating itself as Peru's third-largest insurance company; and it bought the ABN AMRO group's insurance business in Uruguay and Paraguay.

There are 36 branches of 30 Spanish insurance companies in other states of the European Economic Space. Portugal is the country where the largest number has been set up. In 2007 there were 52 Spanish companies operating in the free-rendering-of-services regime

Business moves

As for mergers and acquisitions carried out in 2007, the following should be pointed out:

- In late 2007 CATALANA OCCIDENTE told the Spanish stock market regulatory board that it would come to own 70.34% of the capital of Crédito y Caución by exercising its right to preferential acquisition of 4,889 shares in the company, once it obtained the necessary authorizations. This operation is one of the steps necessary to facilitate the fusion of Crédito y Caución with the Dutch company Atradius.
- In December 2007 MAPFRE and CAJA MADRID announced an accord that redefined their strategic alliance in order to adapt it to the insurance group's new structure. One of the agreements reached called for integrating the holding company MAPFRE - CAJA MADRID into MAPFRE S.A., as a result of which the subsidiaries of that company became direct subsidiaries of MAPFRE, S.A. CAJA MADRID would receive 15% of the shares of MAPFRE S.A., and 12.5% of MAPFRE INTERNACIONAL and the shares corresponding to the 30% that MAPFRE held in GESMADRID, CAJA MADRID BOLSA and CAJA MADRID PENSIONES. A new company called MAPFRE - CAJA MADRID VIDA would be created to market Life insurance through the CAJA MADRID network. The company would be run by MAPFRE, and CAJA MADRID would have a 49% stake. The different agreements took effect over the course of 2008.
- In November, the National Competition Commission authorized a merger in which MUTUA VALENCIANA AUTOMOVILÍSTICA would be absorbed by MAPFRE AUTOMÓVILES.
- MAPFRE established strategic accords to operate and jointly develop Life insurance and Pension Plans with CAJA CASTILLA LA MANCHA, CAJA DUERO and BANKINTER. MAPFRE will have a 50% stake in the insurance operations of these companies and take charge of running said operations.
- SANTALUCÍA acquired a 47.9% stake in CISNE ASEGURADORA.
- At the end of the year CRITERIA CAIXA CORP formalized its purchase of the stakes that FORTIS owned in CAIFOR (50%) and SEGURCAIXA (20%), controlling 100% of the companies that belong to the CAIFOR group.

- The Spanish unit of the Dutch group AEGON and CAJA CANTABRIA created a joint venture company to sell Life insurance and Pension plans. It is the fourth such venture that AEGON carried out with a savings and loan, after those it did with CAJA MEDITERRÁNEO, CAJA NAVARRA and CAJA BADAJOZ.
- In July, approval was granted for a merger by absorption between SABADELL ASEGURADORA and SABADELL MUTUAL MPS, companies which comprised SABADELL GRUPO ASEGURADOR.
- CAJAMURCIA closed a deal with AVIVA under which the British insurer acquired 50% of CAJAMURCIA VIDA.
- MUTUA MADRILEÑA completed its purchase of 100% of AUTOCLUB REPSOL.
- CNP finalized the acquisition of 94% of SKANDIA VIDA in Spain, which involved a name change to CNP VIDA.
- The Finance Ministry authorized the merger by absorption of SEGUROS GÉNESIS and LIBERTY IBERIA by LIBERTY SEGUROS.
- In 2007, a merger was completed between REALE SEGUROS, REALE VIDA and UNIÓN ASEGURADORA.

Ranking of insurance groups

The **total** ranking of groups is still led by MAPFRE, which has a greater premium volume than those of the second and third groups combined. AXA retained second place and SANTANDER moved up two spots to third. Worth noting is the CATALANA OCCIDENTE group, which, after the integration of CRÉDITO Y CAUCIÓN, rose three spots from 11th to 8th place. GENERALI and ZURICH saw decreases in premiums, and lost one and three spots, respectively. CAIFOR went down to 11th place.

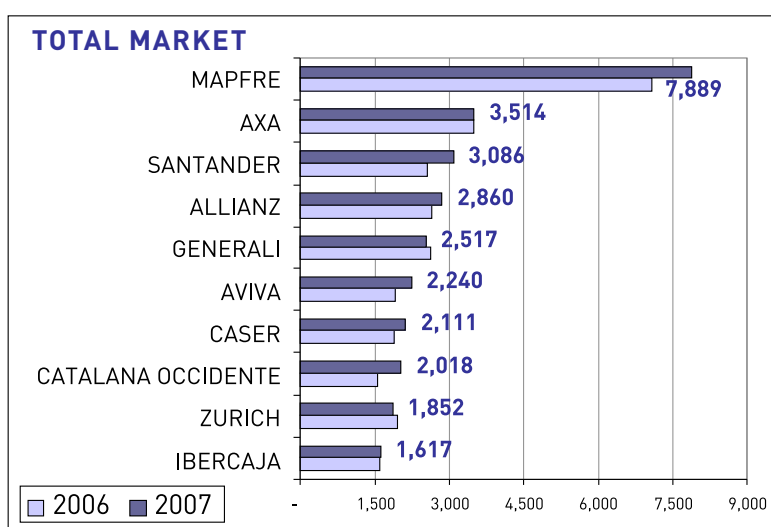


Chart 10. Ranking of insurance groups by volume of premiums

Source: ICEA

SANTANDER still leads the ranking in **Life** insurance, followed by MAPFRE, which beats out AVIVA for second place after integrating the business of CAJA CASTILLA LA MANCHA VIDA and BANKINTER VIDA. AEGON posted a significant rise after taking over the business of CAJA BADAJOZ VIDA, CAJA NAVARRA VIDA and MEDITERRÁNEO VIDA, entities in which it has a 50% share, and makes its debut in the ranking with the 9th spot, in place of AXA.

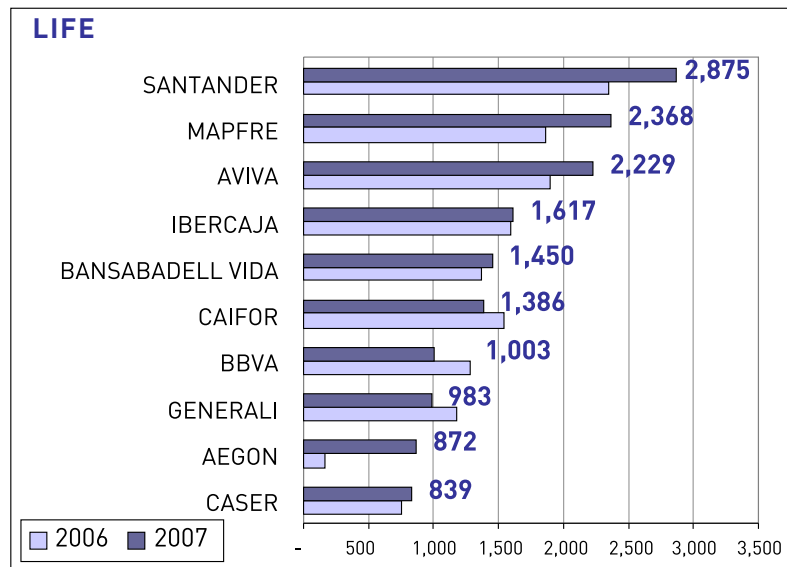


Chart 11. Ranking of insurance groups by volume of premiums. Life

Source: ICEA

Leading the top 10 in **Non-Life** is MAPFRE, followed by AXA and ALLIANZ. CATALANA OCCIDENTE moves up three spots thanks to the aforementioned transactions and takes 5th place. MUTUA MADRILEÑA goes down two positions, and SANITAS joins the ranking, replacing SANTALUCÍA.

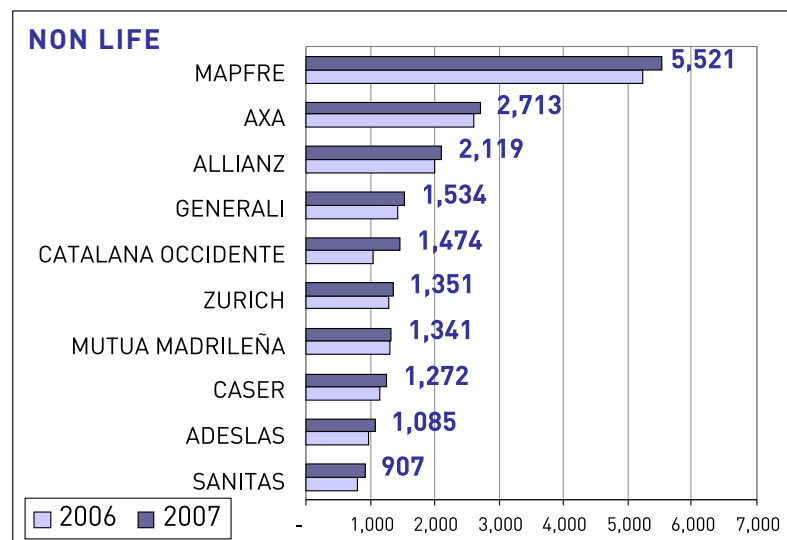


Chart 12. Ranking of insurance groups by volume of premiums. Non-Life

Source: ICEA

The ranking in **Motor** insurance hardly changed at all. MAPFRE remains at the top, followed by AXA and ALLIANZ. The only novelty is the incorporation of REALE, which takes 10th place, at the expense of CATALANA OCCIDENTE, which is no longer in the top 10.

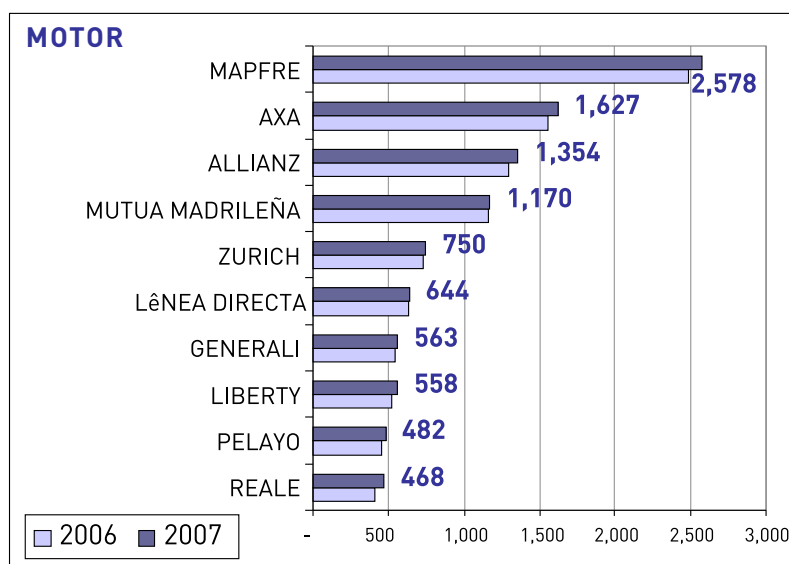


Chart 13. Ranking of insurance groups by volume of premiums. Motor

Source: ICEA

5.2.3 MUTUAL PROVIDENT SOCIETIES

With an eye to rounding out this look at the Spanish insurance sector, this year's report includes a short summary of the activity of Mutual Provident Societies in 2007. The source of information is the yearly report of the Spanish Confederation of Mutual Insurers, the top body for representing these institutions.

Mutual insurers handle a large amount of the capital invested in complementary pension plans in Spain, with more than 2.4 million people signed up. These are private, not-for-profit insurers which act voluntarily and as a complement to the social security system, even to the one for self-employed workers. One special characteristic of Mutual Provident Societies is that oversight of how they work and are organized is up to regional governments, and it is in the regions which have legislation to this effect where they have grown the most, both in numbers and economic importance.

Mutual Provident Societies posted 2,479 million euros in income in 2007, which marked an increase of 9.2% with respect to 2006. Most of this business, 90% of it, corresponded to Life insurance and the rest to Non-Life.

Mutual Provident Societies play an important long-term savings role for families in Spain, accumulating more than 20,000 million euros in mathematical provisions for Life insurance. The volume of managed assets was nearly 28,000 million euros, a rise of 8.5%.

5.2.4 REINSURANCE

In 2007 the **international market for reinsurance** performed satisfactorily, due mainly to the absence of huge natural catastrophes. There were, however, significant loss events such as the storm *Kyrill* in northern Europe, and storms in Australia and Britain, which, due to their size, for the most part remained within the retention of insurance companies. For this reason, reinsurance companies finished 2007 with results that were similar to or slightly better than those of 2006.

The favorable technical result came along with a better financial result, fueled by a rise in interest rates. Recent financial market instability caused by the sub-prime mortgage crisis and movements on the stock markets will apparently hit this sector only to a limited extent. But the real effect of this problem will not be seen until well into 2008.

The aforementioned absence of major disasters and expectations of better results in 2007 encouraged greater competition over rates and coverage terms in practically all classes and territories, although sufficient technical margins are expected to remain.

As a result of this, reinsurance companies are experiencing a drop in premium volume. This is due, among other reasons, to a greater retention capacity on the part of direct insurance companies and the continuous transformation of proportional reinsurance programs into non-proportional ones. This reduction will enhance competition among companies as they seek to maintain income in line with their high level of capitalization and expectations.

The year 2007 saw important acquisitions aimed at diversifying and increasing prospects for penetrating certain markets, and at consolidating leadership positions. At the same time, some reinsurance companies are issuing direct insurance policies as a way to offset the drop in reinsurance premiums and thus obtain results that allow them to remunerate capital. With the same goal in mind they have even started returning capital to share-holders.

Two elements have also been present in the market throughout 2007: an increase in contracts to transfer risk to the financial market⁷ and greater enterprise risk management by ratings agencies. Although for the time being the former has not undergone a resistance test, due to the lack of natural disasters, the latter has drawn special attention from reinsurance companies, which have had to analyze risks thoroughly and apply the conclusions of this to their underwriting policy.

The **Spanish reinsurance market** has not been unaffected by events on the international market. Throughout 2007, competition over prices and coverage terms became stiffer. Direct insurance companies have turned to a greater extent to excess loss contracts, rather than proportional contracts, and therefore have retained greater premium volume and more risk. This, added to a rise in claim frequency, will lead to a reduction in the technical margins of reinsurance companies.

In late 2007 a change in the economic cycle was detected, one which will without a doubt affect the international insurance and reinsurance industry. A fall in home-building and production in auxiliary industries, along with a contraction in credit, do not auger well for an increase in premium volume in developed countries.

⁷ The volume of transactions in cat bonds in 2007 was nearly \$7 billion

For all of the reasons stated here, the outlook for 2008 is unclear. Results will depend on whether, for the third straight year, there are no noteworthy natural disasters and whether financial market turbulence affects insurance and reinsurance entities.

5.2.5 SOLVENCY II

On 10 July, 2007, the European Commission presented a “Proposal for a Directive of the European Parliament and the Council on the taking-up and pursuit of the business of Insurance and Reinsurance. Solvency II”. Under the current timetable, approval of the directive is expected some time in 2008, and implementation is expected by December 2012.

The proposal is the result of a melding of 13 directives involving Life insurance, Non-Life, Reinsurance, insurance groups and settlement. Eliminating that which is incompatible, it introduces the new EU system of insurance oversight that is known as “Solvency II”.

At the same time, work continued on the general formula of the *Solvency Capital Requirement* through so-called *Quantitative Impact Studies*. In July 2007 the deadline expired for companies to fill out the questionnaire included in the third impact study, called QIS3. The results of it were analyzed by the DGSFP and CEIOPS, and the conclusions were made public in November. They include the following:

- Compared with QIS2, participation rose 163%, reaching a market share of 76.2% in Life and 77.8% in Non-Life. However, in certain sections the data varied so much that it was not possible to reach consistent solutions.
- In general, all entities are suffering from a decline in their solvency ratio (available capital/solvency capital requirement) under QIS3, in comparison with Solvency I. The solvency ratio is lower in mutual insurers than in public limited companies.
- In general, companies that belong to a group experience a smaller increase in capital requirements with respect to the current situation under Solvency I. Furthermore, entities that belong to a group have a higher solvency ratio than independent entities.
- The average assessment of investments rises slightly (between 2% and 8%) in all kinds of entities. Basic Own Funds experience an average increase of 21% in Life insurance entities, 17% in Non-Life and 10% in mixed companies. Assessment of technical provisions does not vary in Life but drops more than 15% in the Non-Life class.

Of the assessments carried out by insurance companies, the following are highlights:

- It is necessary to relocate the Burial Expenses line. Under the current system, it is heavily penalized because it is grouped with “miscellaneous” and is treated in a way similar to that of Life insurance.
- A recalibration is suggested for some modules of the SCR, and a reformulation of the MCR to avoid the emergence of negative values in QIS4. As for MCR, the sector proposes that it be calculated as a percentage of the SCR.
- Greater weight is requested for profits through diversification in insurance groups.

After QIS3, the sector worked on an outline of the technical specifications of QIS4, which were developed from April to July of 2008. The CEIOPS is expected to release its conclusions in November.

5.2.6 ACTIVITIES OF THE CONSORCIO DE COMPENSACIÓN DE SEGUROS

In this section we are going to address only two of the main activities of the Consorcio: coverage of Extraordinary Risks and, as part of risks associated with driving, the Guarantee Fund (Fondo de Garantía, SOA, in Spanish) and direct insurance of Third-Party Liability for Motor Vehicles.

As for income from coverage of Extraordinary Risks, the 9.2% increase in surcharges assessed is in line with the growth of the insurance sector. In terms of claims incurred, the year can be described as an adverse⁸ one because more than 62,000 claims were filed, compared to the average of 43,000 filed in two of the worst years of the past two decades, 1997 and 2006. The volume of settled claims was almost 327 million euros, 42.9% more than in the previous year.

<i>Thousands euros</i>	Net earned premium		Net losses	
	2007	2006	2007	2006
General activity				
Extraordinary risks	632,153	578,645	326,877	228,768
Property	566,481	521,010	306,612	202,941
Persons	25,366	23,670	2,984	17
Loss of benefits	40,306	33,966	17,281	25,811
Traffic risks	237,200	237,148	153,720	155,588
Guarantee Fund	197,617	194,776	104,476	106,875
Private vehicles	25,094	28,011	31,778	31,840
Official vehicles	14,489	14,361	17,466	16,873

Table 5 . General Activity of the CCS

Source: Consorcio de Compensación de Seguros

As was the case in 2006, the claims most frequently filed under this kind of coverage stemmed from floods and atypical cyclonic storms. Floods hit Castilla-La Mancha, Mallorca, Andalusia and the Valencia region, with October the worst month for it and Valencia the region hardest hit. More than 37,000 claims were processed, at an estimated cost of 170 million euros.

It is important to note that over the course of 2007, 1,160 claims were processed in connection with the Basque separatist bombing of terminal T-4 at Madrid-Barajas airport in December 2006, the cost of which has been estimated at 46 million euros.

As for personal injury, we should mention that in 2007 compensation was paid to victims of terrorist acts that took place outside Spain (in Afghanistan, Lebanon, Yemen and France),

⁸ The claims ratio is considered exceptional when it surpasses the average of the previous two years.

thanks to an extension of the kinds of coverage provided for in this insurance as a result of the latest legal changes.

With regard to activity stemming from Risks associated with Driving, income from premiums for vehicles that were insured by the Consorcio and lacking private insurance declined 8.1% in 2007, continuing the downward trend of recent years. This is due to greater flexibility in policies on underwriting risk, a change that made it easier for people to insure two-wheel vehicles. Policy purchases continue to focus on this kind of vehicle, driven by people under the age of 25 and/or people who have not had a driving license for a long time. The decline in income was accompanied by a fall in the claims ratio.

The portfolio involving official government cars remains stable, with a slight increase of 3.5% in premium volume in 2007. The claims ratio rose. This, and the fact that rates remained stable, led to an increasingly negative technical result.

As for the Guarantee Fund, in 2007 income surpassed 197 million euros, making for a slight increase of 1.5%. It is worth noting that this revenue comes from surcharges which insurance companies charge as part of the premiums for the policies they issue. It also comes from fines imposed on people caught driving without mandatory insurance, with 50% of this amount going to the fund. The amount raised in this latter category has come to be considerable, reflecting cooperation from traffic authorities, who have made a greater effort to crack down on this kind of infraction. This is contributing to a decline in the number of claims filed that involve uninsured vehicles, although these claims continue to have the greatest relative weight among all the sources of money going into the fund.

6. MOST NOTABLE FEATURES OF THE YEAR BY CLASSES

6.1. LIFE

Life insurance posted direct insurance premium volume of 23,011 million euros in 2007, an increase of 0.4% compared to the previous year⁹. This figure, along with a major rise in volume of surrenders and a fall in yields, caused a certain degree of stagnation in managed savings in the sector as a whole, which totaled 122,975 million euros, a rise of 1.1%. As for Life insurance penetration, the number of policy-holders at the end of the year surpassed 32 million, an increase of 3.2% (9.45% en 2006).

Class	Premium		Provisions	
	2007	% Var.	2007	% Var.
Individual	14,768	9.9%	66,873	2.5%
Risk	2,285	10.2%	2,609	-5.5%
Savings/Retirement	12,483	9.9%	64,263	2.9%
Group	4,186	-26.6%	47,585	-3.1%
Risk	1,360	2.1%	1,567	5.7%
Savings/Retirement	2,826	-35.3%	46,018	-3.4%
Unit Linked	4,057	7.5%	12,694	9.9%
Total	23,011	0.4%	127,152	1.0%
Risk	3,645	7.0%	4,176	-1.6%
Savings/Retirement	19,366	-0.7%	122,975	1.1%

**Table 6. Composition of Life insurance by class.
Written premiums. Direct insurance**

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

By category, insurance with strictly death coverage still accounted for more than two-thirds of all policies, at 23.1 million policy-holders. Although the performance here was positive, premium growth was slower (7% compared to 17% in 2006) as a result of the evolution of the mortgage market, which showed a clear downward trend in the final months of the year.

Lines involving savings/retirement plans experienced a slight decline of 0.7% in the volume of premiums issued. However, a greater role was taken on by non-traditional products, such as unit-linked and index-linked policies, in which the holder assumes the risk of whether they will be profitable. These premiums grew around 7.5%.

In the same line, and in the spirit of innovation and sophistication of the Spanish market, one should also note the gradual advance of Insured Pension Plans (known in Spanish as PPA's, with growth of 23% in managed savings), the introduction in 2007 of variable annuities and the emergence of individual savings plans known in Spanish as PIA's). The latter is a new formula with tax-deductible yield, conceived to channel savings over the long term and create a guaranteed, life-long source of income. It is worth noting that at the end of

⁹ According to the ICEA, premium volume was 22,755 million euros, an increase of 1.3%.

2007, PPA's, PIA's and savings policies linked to assets accounted for 13% of all savings and retirement policy-holders, with nearly 1.2 million policies.

As is usually the case, most of the managed savings in the Life class remained concentrated in policies for individuals, with provisions growing 3.6% and accounting for 63% of the total. On the other hand, group policies fell slightly, a shift from the trend observed so far. Premium volume fell 26.6% and provisions declined 3.1%. The reduction was caused mainly by a fall in premiums for life insurance that implements pension agreements, which in terms of managed savings account for 69% of the total corresponding to group policies.

The technical-financial result in this branch was very good, totalling 2,520 million euros, nearly five times the figure from the previous year, and represented 5% of net earned premiums. The explanation of the technical account in this class stems from a significant rise in "profits from financial investments," which went from 4% of net earned premiums to 15% in 2007, and a major drop in "variation of technical provisions", which saw its share of premiums go from 31% to 14%.

Pension plans finished the year with a volume of managed assets of 86,561 million euros, an increase of 6.5% compared to 2006. The number of pension plan members rose to 10.4 million, a rise of 5%, meaning the number of Spaniards estimated to have purchased this kind of product is 8.5 million.

Class	<i>Data in millions of euros</i>				<i>Data in millions</i>	
	Contributions		Total Assets		Participants	
	2007	% Var.	2007	% Var.	2007	% Var.
Individual	5,243	-15.9%	54,203	8.6%	8.5	4.5%
Employment	1,666	8.8%	31,162	3.2%	1.7	7.5%
Associated	59	-8.3%	1,196	5.9%	0.1	-7.3%
Total	6,968	-10.9%	86,561	6.5%	10.4	4.9%

Table 7. Pension plan figures

Source: INVERCO

However, due to a change in tax policy regarding these products, in the final months of the year there was somewhat of a slowdown in the pace and volume of contributions. Of the three pension plan systems -- individual, employment and associated - individual pension plans are without a doubt the ones performing best, representing 63% of the total and expanding by 8.6%.

As for Mutual Funds, it is important to note that they were the only savings-pension products that performed more poorly in 2007 than in the previous year. The factors that explain this go back to the onset of turbulence on financial markets, a circumstance which drew investors to the high yield provided by bank deposits, and to the high volatility in stock markets and the ensuing loss of appeal of mixed funds and equities.

Total mutual fund assets were down 15,623 million euros from 2006 and totaled 238,699 million euros. They declined as a proportion of all financial assets held by Spanish families. Still, the number of participants is over 8.3 million, although the number of account-holders of this kind of product fell.

Of the different classes of funds, the ones that performed best were Fixed-Income Guaranteed Funds, the only category that increased its asset volume (by 11%, to 18,000 million euros). The rest, including short-term fixed income funds, fell and posted a net negative balance.

The prospects for 2008 point to a rough year for the sector, mainly for traditional, deferred-capital savings-retirement policies, a consequence of a rise in surrenders and the fact that Spain's new tax law did away with their tax-deduction appeal as a long-term savings product.

Nor would it come as any surprise if hard times in the real estate sector continued to curb sales of Life insurance with death coverage.

The forecast is better for unit-linked and index-linked products, given the role that their marketing can place in some bancassurance entities. However, one will have to wait to confirm their results, which will depend on the financial crisis and its consequences for the overall economy.

Meanwhile, all signs are that Insured Previsional Plans can consolidate themselves as alternatives to Pension Plans and greatly increase their volume of managed savings, as a result of the larger number of transfers by participants seeking higher yields.

At the same time, even though they are new, prospects are very bright for PIA's because they are long-term savings products with tax advantages and a complementary solution for pension-plan holders with more buying power.

As for mutual funds, the outlook is even worse than in 2007. A cascade of negative yields, added to the appeal of bank deposits, makes for a significant rise in departures from this line of business, with a large number of net negative balances.

Finally, with regard to Pension Plans, it is likely they will give up their traditional level of asset growth due to yield losses stemming from the situation in the financial markets. However, the differential aspect – along with PPA's – in terms of their tax deductibility will make their results better than those of the mutual funds.

In March 2007, the Spanish Cabinet approved Royal Decree 398/2007 which paved the way for creating the **Registry of Insurance Policies with Death Coverage**. It began to operate in June of that same year. This is a public registry that falls under the Justice Ministry and is designed to provide information on whether a person who has died had life insurance and if so, which company issued the policy. With this information, potential beneficiaries could go to the company to determine if they are in fact beneficiaries and claim whatever they might have coming under the insurance policy.

The delay in the launch of the registry (the law creating it was passed in 2005) is due to the complexity of implementing it, as the law involves personal information.

The centralized handling of is done by the General Registry of Last Wills and Testaments, part of the General Directorate of Registries and Notaries; the registry is responsible for this archives. Insurance companies are obliged to provide the registry with information on life insurance policies with death coverage and accident policies with clauses covering the death of the policy-holder.

After the registry completed one year of operation, the Justice Ministry released some figures from it, which we summarize here:

- The data base contains more than 67 million policies from more than 28 million people. The data come from information provided by 209 insurance companies. On a weekly basis these companies provide updates on new policies, modifications to existing ones, and policies that are terminated.
- It has issued more than 250,000 certificates, of which 56,500 were accompanied by at least one Life insurance policy.
- The registry has released more than 5,000 notices which allow people to know if they have one or more policies registered. Thirty-seven percent of the notices were affirmative.

6.2. MOTOR

Premium volume totaled 12,298 million euros, an increase of 2.3%, compared to the 4.5% rise of the previous year. This lower growth stems from the combined effect of the following factors:

- Lower rates, as a result of a fall in the frequency of serious accidents with personal injury in recent years. In 2007 there were 92 victims per million vehicles, compared to 106 in 2006 or 201 in 1998, which has meant a very high level of profits in this category of insurance since 2003 (more than 11% of the result of the technical account).
 - Stiff competition as a result of the aforementioned, but also from a strengthening of direct sales channels by traditional entities, and the constant emergence of new sales outlets working by telephone or over the Internet, and/or linked to financial groups.
- However, in 2007, even though telephone sales grew more than the category itself (6.8% as opposed to 2.3%), this was due mainly to traditional entities marketing their products over the phone. Companies which do their sales via telephone posted growth of only 3.1%, far below the rise of 2006 (10.8%). This figure might suggest a wearing out of the telephone-sales-only model, caused mainly by saturation in advertising, the pillar of these companies' underwriting.
- Slower growth in the number of insured vehicles, which, according to FIVA, was 4.7% compared to 5.2% the previous year.

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	3.6%	4.5%	2.3%
Retention	95.4%	95.4%	90.2%
Gross claims ratio	73.5%	74.0%	73.9%
Gross expenses ratio	17.1%	18.6%	18.7%
Operating costs	16.3%	17.1%	17.7%
Net claims ratio	74.8%	75.1%	75.4%
Net combined ratio	92.3%	94.1%	94.2%
Financial result	7.6%	7.3%	6.9%
Technical-Financial result	14.8%	12.6%	11.9%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology

Table 8. Basic indicators for Motor insurance (% of premiums)

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

All of this has meant that since 2005, the rate of growth in premium volume has come to be lower than that of the number of insured vehicles, reflecting the aforementioned decline in the average premium. In real terms this began to be seen in 2003. In 2007, the average premium fell 2.3% (-6.2% in real terms). Average premium performance in the period 2000-2007 and the estimate for 2008 are seen here:

Year	Insured vehicles (1)		Premiums. Direct insurance (2)		Average premium		
	Million	% Var.	Million €	% Var.	€	% Variation	
						Nominal	Real
2000	21.7	3.0%	7,996	17.9%	368	14.5%	10.0%
2001	22.0	1.1%	8,808	10.1%	401	8.9%	6.1%
2002	22.4	2.0%	9,834	11.7%	439	9.4%	5.2%
2003	23.3	4.2%	10,456	6.3%	448	2.1%	-0.5%
2004	24.6	5.4%	11,161	6.7%	454	1.3%	-1.8%
2005	25.7	4.7%	11,558	3.6%	449	-1.1%	-4.6%
2006	27.1	5.2%	12,066	4.4%	445	-0.8%	-3.4%
2007	28.3	4.7%	12,336	2.2%	435	-2.3%	-6.2%
2008*	29.1	2.5%	12,211	-1.0%	420	-3.4%	-8.2%

* Estimated

(1) FIVA

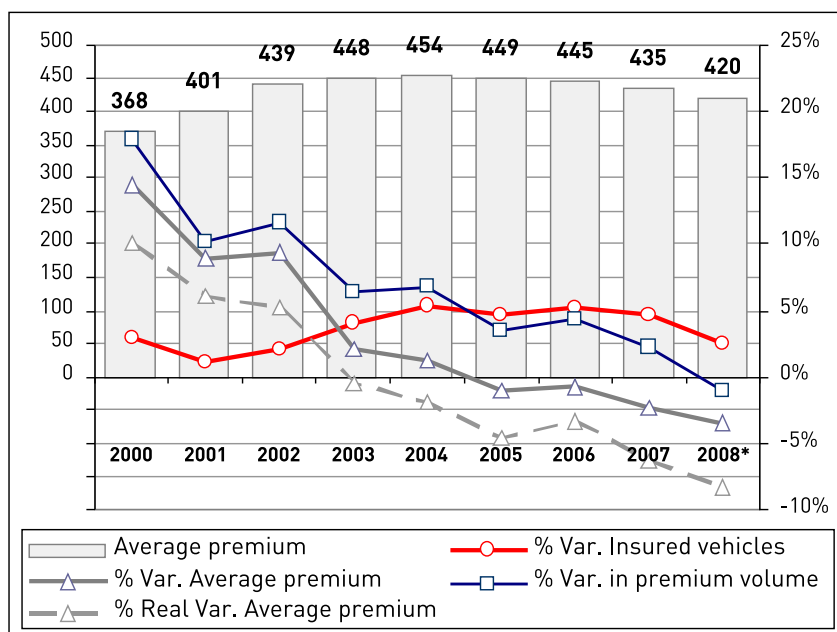
(2) Direct insurance premium from insurance companies, plus premiums from the Consorcio (private and official cars).

Table 9. Evolution of average Motor premium

Source: FIVA, DGSFP, Consorcio de Compensación de Seguros and FUNDACIÓN MAPFRE

Companies' reaction to this situation can be summarized thusly:

- Rate reductions, especially in new production, through the application of commercial discounts and other tools designed to reduce premiums. In some cases these could lead to rate insufficiency.
- Improving products by offering more benefits with no extra charge to the policy-holder, such as higher insured amounts for drivers in accident coverage, a loaner vehicle in case of an accident, counselling for victims and relatives, etc.
- A search for new or scarcely-tapped segments of the market, such as motorcycles, car fleets or special risks.



* Estimated

Chart 14. Evolution of average Motor premium

Source: FIVA, DGSFP, Consorcio de Compensación de Seguros and FUNDACIÓN MAPFRE

As for claims, the frequency with which they were filed went down in nearly every kind of coverage in 2007. This was probable due to Spain’s introduction of a points-based driver’s license system and new road safety measures, but also a consequence of the economic slow-down and higher fuel prices. These lead people to drive less and thus a lower exposure to risk.

In terms of the average claim cost, increases were seen in most kinds of coverage for property damage, in line with the rise in the average range of vehicles and repair costs. Highlights were theft, TPL property damage, and own damage, with increases of 16.8%, 6.5% and 5.3%, respectively. The only categories that saw declines were TPL personal injury, which was down 8% due to the aforementioned fall in serious personal injuries, and legal defence, which decreased 5.4%.

Guaranty	Frequency			Average cost		
	2006	2007	%Δ	2006	2007	%Δ
Third-party liability	12.1%	11.5%	-4.7%	1,801.2	1,807.5	0.3%
Bodily injury	2.3%	2.3%	-0.4%	5,730.3	5,270.9	-8.0%
Property	10.7%	10.2%	-5.0%	793.7	845.3	6.5%
Own damage	36.9%	36.0%	-2.2%	896.0	943.2	5.3%
Broken Windows	7.7%	7.6%	-1.4%	254.4	263.7	3.7%
Theft	1.9%	1.7%	-9.7%	773.9	904.1	16.8%
Legal defence	2.6%	2.6%	1.6%	304.7	288.2	-5.4%
Occupants	0.3%	0.3%	-10.3%	1,880.3	1,930.5	2.7%
Fire	0.1%	0.1%	14.3%	4,024.0	4,113.9	2.2%

Frequency: number of claims incurred in each exposed period.

Average cost: cost per claim during the period. Euros.

Table 10. Average frequencies and costs by coverage class

Source: ICEA

As for other figures, expenditure rose six-tenths of a point to 17.7% and the combined ratio rose 1.1 percentage points to 93.1%, compared to 92.2% in 2006. The financial result stayed practically unchanged at 5% and, finally, the technical-financial result of the technical account declined eight-tenths of a point, from 12.7% in 2006 to 11.9% in 2007.

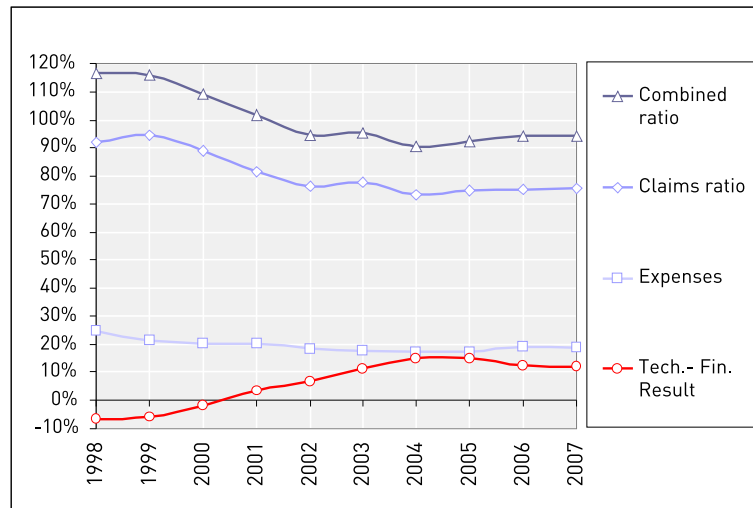


Chart 15. Evolution of results of Motor Insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Other relevant information

In July of 2007, Law 21/2007 was passed, and it took effect 1 January, 2008. It amends the Law on Third-Party Liability and Insurance in the Driving of Motor Vehicles. Besides seeking improvements in management and in tending to victims of traffic accidents, the law raised the coverage limit for obligatory insurance. For personal injury it now stands at 70 million euros per claim, regardless of the number of victims. Maximum coverage for property damage was set at 15 million euros per claim.

As in actual practice obligatory insurance concurs with voluntary, third-party liability insurance, it is estimated that modifying coverage limits and improving how victims are treated might involve an increase of only between 1.5 % and 3% in the third party liability rate (obligatory + voluntary insurance).

Prospects for 2008

The outlook for 2008 is one of stagnation or even a reduction in premium volume, given the possibility of the economic crisis getting worse, with car registrations falling and a generalized decline in average premiums.

According to ICEA figures for the first quarter of 2008, the trend toward improvement in claim frequency is holding, and the loss ratio is steady. At the same time, operating costs are falling, so the fall in rates is not eating away at the technical account.

However, a planned reform of the “scale” of Compensation to Victims of Personal Injury, scheduled for 2009, and a trend toward higher average property damage costs and medical

costs, might mean over the short to mid term a shift toward some degree of stabilization or recovery in the evolution of rates and the average premium in this category of insurance.

6.3. MULTI-PERIL

The Multi-Peril insurance market posted premium volume of 5,474 million euros, an increase of 7.6% (3.7% if we take into account the rate of inflation for this kind of coverage). All branches within this sector had growth rates above the average for Non-Life classes. But a tendency toward deceleration that began in 2003 continued. It was accentuated in 2007 by the slowdown in the real estate sector in the second half of the year. Average policy growth was around 4%, with a policy lapse rate of 11%.

A total of 53% of premiums corresponded to the Home class, followed by Industrial (22%), Commercial Premises (11%), Condominiums (10.7%) and Others (3%). The growth figures for 2007 were 7.9%, for Home, 8.0% for Industrial, 5.8% for Commercial Premises, 8.3% for Condominiums and 4.6% for Other Multi-Peril.

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	10.5%	10.1%	7.6%
Retention	80.5%	80.4%	81.6%
Gross claims ratio	63.3%	61.2%	63.5%
Gross expenses ratio	29.7%	29.5%	29.4%
Operating costs	28.5%	28.0%	28.3%
Net claims ratio	60.3%	60.1%	63.0%
Net combined ratio	90.6%	90.7%	93.7%
Financial result	5.3%	5.0%	4.6%
Technical-Financial result	14.7%	13.9%	10.7%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology

Table 11. Basic indicator for Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

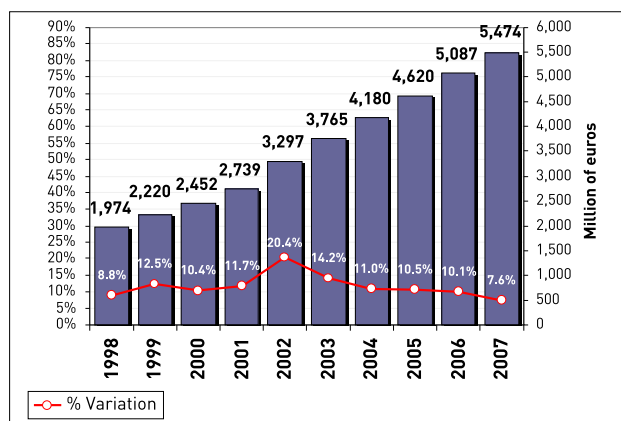


Chart 16. Evolution of Multi-Peril insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP).

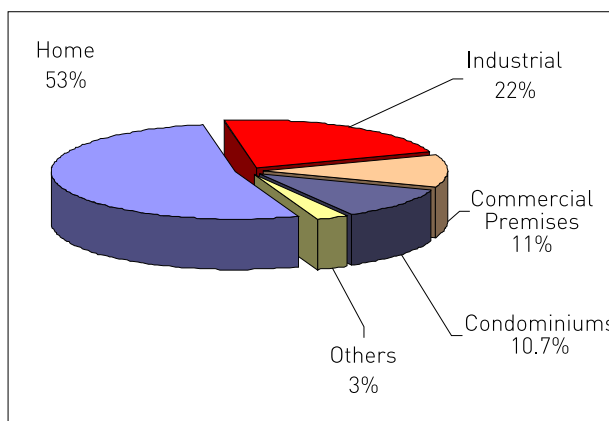


Chart 17. Distribution of Multi-Peril premiums by class of insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP).

As is the case in most classes of Non-Life insurance, Multi-Peril is subject to intense competition. This exerts downward pressure on rates and prompts companies to offer new products that give them an edge: assistance via computer, coverage for pets, legal counseling over the telephone, etc.

The gross loss ratio broke with the downward spiral it began in 2002, rising three points to 63.5% (63% net of reinsurance). Gross operating costs rose slightly, although total spending remained at levels similar to those of the previous year. The financial result declined half a percentage point. As a result of this, the technical-financial result maintained the downward tendency that it started in 2005 and settled at 10.7%, three points less than in 2006. A large part of the fall stems from Industrial Multi-peril, whose technical-financial result went down eight points in 2007, accounting for 2.7% of net earned premiums.

6.3.1 HOME MULTI-PERIL

Home Multi-Peril insurance recorded premium volume of 2,886 million euros, a rise of 7.9% from the previous year. For the first time since 1998 this sector posted only single-digit growth. According to data from the DGSFP, the total number of policies rose 5%. It is estimated that around 68% of all homes listed on property registries had insurance. The policy lapse rate was around 10.7%.

The sector is in the midst of very stiff competition for two fundamental reasons:

- On one hand, the overall economic situation: the “collapse” in the construction industry, a rise in interest rates and banks setting tougher terms for granting mortgages.
- On the other, a proliferation of companies employing low-cost strategies.

We thus see a shift in which growth in production dips below the 10% level observed for the past decade and tends to go down every year. Growth in sales is now based more on adding new kinds of coverage to existing policies, which causes rates to go up and expands the overall portfolio.

The inclusion of new kinds of coverage reflects changes in social needs. Coverage such as assistance that reaches a family’s personal computer, medical tele-care, etc., appeared recently on the market. Companies face the challenge of offering coverage that is agile and useful, even outside the home, so that policy-holders reap maximum benefit from insurance products.

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	12.3%	11.0%	7.9%
Retention	92.2%	93.2%	93.1%
Gross claims ratio	55.8%	55.7%	59.0%
Gross expenses ratio	33.0%	33.1%	32.6%
Operating costs	31.6%	31.5%	31.5%
Net claims ratio	56.8%	56.8%	59.7%
Net combined ratio	90.0%	90.1%	92.5%
Financial result	3.9%	3.6%	3.4%
Technical-Financial result	13.9%	13.5%	10.8%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology

Table 12. Basic indicators for Home Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

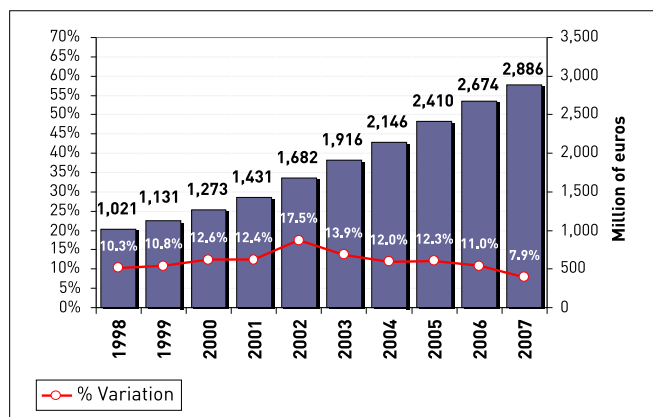


Chart 18. Evolution of Home Multi-Peril insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

As for results it should be pointed out that in recent years, weather conditions have become more and more extreme, with a combination of drought and periods of heavy rain and strong winds. Damage from storms is on average equivalent to 1.25% of the sector's yearly premiums.

The gross loss ratio fell three points while gross expenses declined half a point, giving rise to an increase of more than two points in the net combined ratio, which was 92.5%. The financial result did not improve either, so the technical-financial result fell nearly three points to 10.8%.

6.3.2 INDUSTRIAL MULTI-PERIL

Industrial Multi-Peril posted 1,219 million euros in premiums, a rise of 8% over the previous year. The number of policies grew by 5%, and the policy lapse rate was around 14%.

This branch of insurance is also seeing intense competition, which exerts downward pressure on rates and prompts companies to offer new kinds of coverage, in this case focusing on legal consulting.

The gross loss ratio rose 2.5 percentage points, although in net terms the increase was 5 points, totaling 75.5%, due largely to the variation in the benefit provisions, which doubled in value to 10% (of net earned premiums).

Gross operating costs went up seven-tenths of a point but in net terms the rise was nearly three points. The consequence of this is a major rise in the combined ratio, which, after falling a point in 2006, increased in 2007 to 103.8%. The financial result fell nearly a point, so the technical-financial result went down to 2.7%, eight points less than in 2006.

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	10.3%	8.7%	8.0%
Retention	54.0%	52.0%	54.4%
Gross claims ratio	84.1%	74.0%	76.4%
Gross expenses ratio	24.2%	23.4%	24.0%
Operating costs	23.4%	22.2%	22.9%
Net claims ratio	72.1%	70.2%	75.5%
Net combined ratio	97.0%	95.8%	103.8%
Financial result	8.7%	8.5%	7.4%
Technical-Financial result	11.3%	10.7%	2.7%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology

Table 13. Basic indicators for Industrial Multi-Peril insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

6.3.3 COMMERCIAL PREMISES MULTI-PERIL

This branch saw premium volume of 625 million euros, up 5.8% from the previous year. The number of policies rose around 3%, and the policy lapse rate was about 16%. Bars and restaurants provide the most business, accounting for nearly 50% of policies and premiums.

The Commercial Premises branch will be affected by Spain's economic slowdown. The effects are already showing up through a fall in new production in 2008. The forecast is for lower growth.

The gross loss ratio rose slightly to 60% (61.2% in net terms), due above all to an increase in claims frequency. The expense ratio went down, so the net combined ratio rose four tenths of a point to 90.7%. The financial result did not improve, either, declining half a point, so the technical-financial result fell nearly a point to 14.8%.

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	8.7%	6.8%	5.8%
Retention	83.5%	84.0%	84.6%
Gross claims ratio	59.6%	59.2%	59.9%
Gross expenses ratio	29.9%	30.2%	29.9%
Operating costs	28.7%	28.7%	28.9%
Net claims ratio	59.9%	60.6%	61.2%
Net combined ratio	89.2%	90.3%	90.7%
Financial result	6.7%	6.1%	5.6%
Technical-Financial result	17.4%	15.7%	14.8%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology

Table 14. Basic indicators for Commercial Premises Multi-Peril Insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

6.3.4 CONDOMINIUM MULTI-PERIL

Production in this line was 599 million euros, which represents growth of 8.3%, the highest of any class with Multi-Peril. The number of policies increased 5%, and the policy lapse rate has been around 7-8% in recent years.

In general, this line is affected by the same circumstances as the Home class (stiff competition over prices, slower production because of the sluggish construction industry, etc.)

Because of all this, the forecast for growth is pessimistic and calls for figures lower than those of recent years. Unlike the Home line, here the drive for new kinds of coverage does not seem as strong. So it seems unlikely premium volume will grow because of new kinds of coverage.

As with Home Multi-peril insurance, the claims ratio has been affected by strong changes in weather, with periods of drought alternating with strong storms of rain and wind. The net loss ratio rose almost two points to 63% and at the same time expenses went up slightly. So the net combined ratio increased two points to 88.8%. The financial result was not good either, as was the case in most Non-Life lines. The technical-financial result declined 2.5 points to el 16.6%.

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	11.8%	9.5%	8.3%
Retention	80.9%	82.1%	85.1%
Gross claims ratio	58.1%	59.0%	61.2%
Gross expenses ratio	26.0%	26.4%	26.3%
Operating costs	25.0%	24.8%	25.2%
Net claims ratio	60.8%	61.3%	62.9%
Net combined ratio	84.7%	86.8%	88.8%
Financial result	6.3%	5.8%	5.4%
Technical-Financial result	21.6%	19.0%	16.6%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology.

Table 15. Basic indicators for Condominium Multi-Peril Insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

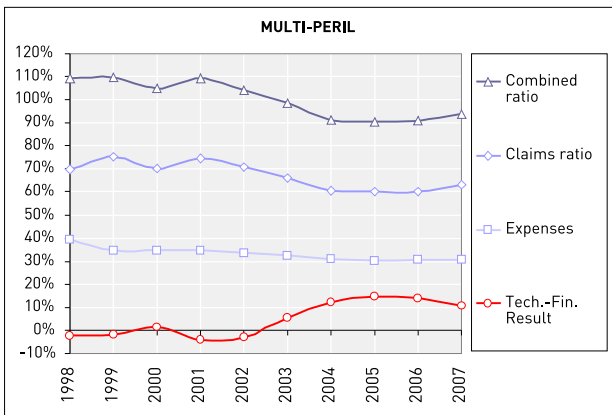


Chart 19. Evolution of results in Multi-Peril insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

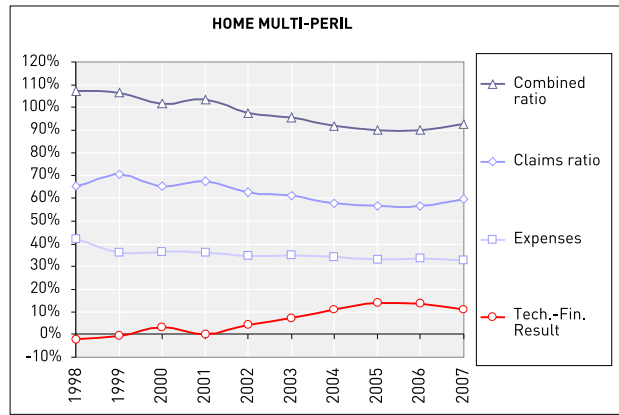


Chart 20. Evolution of results in Home Multi-Peril insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

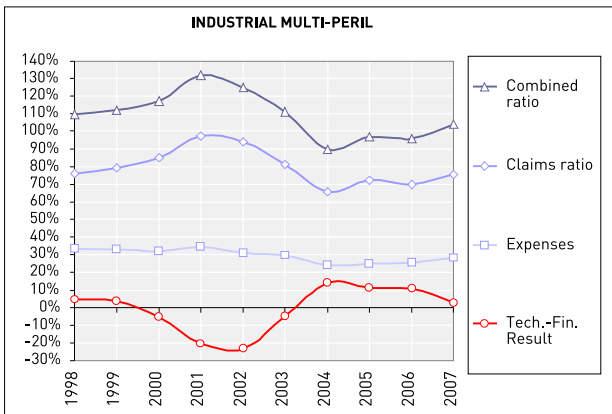


Chart 21. Evolution of results in Industrial Multi-Peril insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

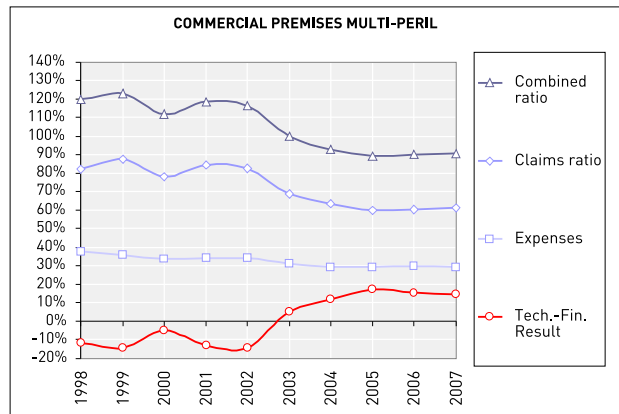


Chart 22. Evolution of results in Commercial Premises Multi-Peril Insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

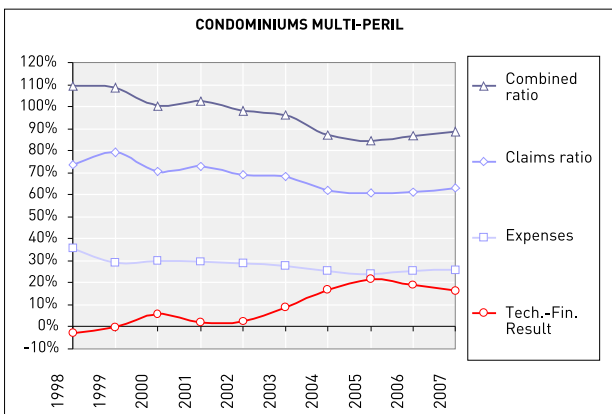


Chart 23. Evolution of results in Condominium Multi-Peril Insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

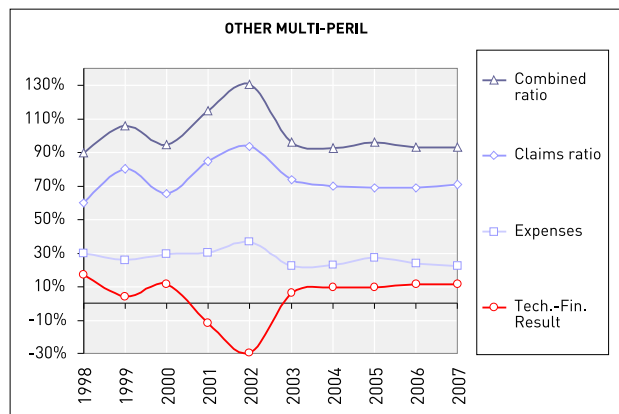


Chart 24. Evolution of results in Others class of Multi-Peril Insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

6.4. HEALTH

Health insurance posted premium volume of 5,166 million euros in 2007, an increase of 9.8%, similar to the figure from the previous year and well above the rise recorded by the rest of the lines in the market. The figure stems mainly from the effect that health-care costs had on premiums. Taking into account inflation in medical insurance, the increase in this line was 5%.

The Spanish market for private Health insurance is quite mature, and characterized by premium growth rate of about 9-10% a year, which has been stable over time. This is due mainly to the fact that it exists alongside the National Health Care System, which is free and universal, and to the high level of concentration in policy production (the top 5 companies account for a 66% market share among them).

There are two main classes: the Providing of Services, which breaks down into Health-care Assistance and Reimbursement of Expenses, and Accident or Benefits (in the graph these two categories are lumped together as Sickness). Health-care Assistance accounts for 86% of premiums, followed by Reimbursement of Expenses with 8.7% and the rest going to Benefits and Compensation. The number of policies is around 3.1 million, with approximately 11 million people insured. Of these, nearly 7 million correspond to Health-care Assistance policies for just over 15% of the Spanish population.

In the last few years, private health insurance has taken hold in Spain as one of the non-monetary forms of compensation which companies can offer their workers. This means that group policies, which were a minority until now, have become the largest source of growth (although one must not forget that this carries with it the cancellation of individual policies). In 2007, growth in health care products for individuals was 10.5%, while for groups (excluding government employees) it was 15.4%.

In terms of new benefits, besides the incorporation of new techniques and technological advances in traditional medicine, in recent years new kinds of coverage have been added such as acupuncture, osteopathy and homeopathic medicine. Also, through policies with deductible, new benefits are being offered in aesthetic medicine and health-related leisure activities, such as resorts, spa-hotels and thalassotherapy.

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	9.5%	10.0%	10.0%
Retention	98.7%	98.6%	98.6%
Gross claims ratio	81.2%	80.6%	80.7%
Gross expenses ratio	11.8%	12.0%	12.1%
Operating costs	10.3%	10.6%	10.8%
Net claims ratio	82.0%	81.3%	81.4%
Net combined ratio	93.8%	93.3%	93.5%
Financial result	0.7%	1.4%	1.5%
Technical-Financial result	6.8%	8.1%	8.0%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology.

Table 16. Basic indicators for Health insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

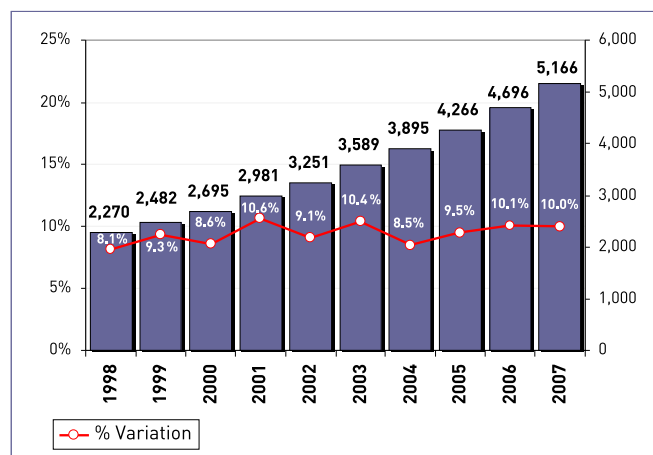


Chart 25. Evolution of Health insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

The average premium for a policy that involves Providing of Services (health-care assistance and reimbursement of expenses) was 580 euros, an increase of 4.5% compared to the previous year. The premium corresponding to Benefits dropped 7% to 174 euros (one must keep in mind that this figure is not very representative, given the broad diversity of products and rates that are marketed under this name). The average premium for dental care also decreased, to 55 euros, a drop of 4% from 2006.

In this line of insurance, through the years the claims ratio has been the most stable of any class of Non-Life coverage. Since 1998 it has tended to decline slightly, with an interruption in 2007 when it rose four tenths of a point and reach 81% of gross earned premiums (81.4% of net premiums), which is at the same time the highest ratio of any line of Non-Life. However, the expense ratio is the lowest because distribution of this kind of insurance is done through company offices. In 2007 this ratio fell slightly to 12.1% of gross earned premiums. The net combined ratio increased two-tenths of a point to 93.5%, while financial income improved slightly, so the technical-financial result went down a tenth of a point to 8%.

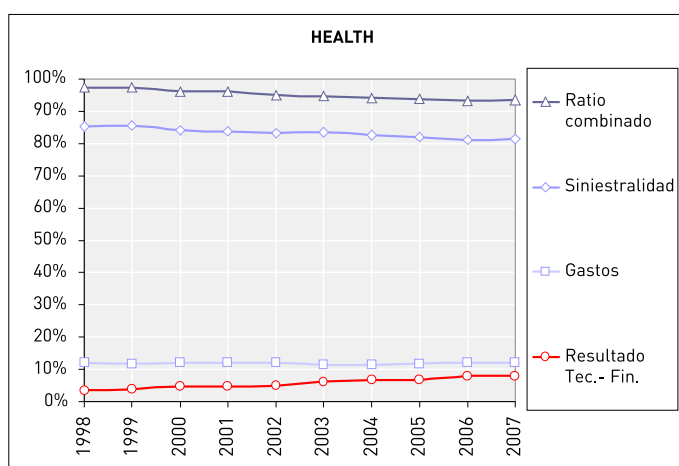


Chart 26. Evolution of results of Health insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Law 3/2007, which governs effective equality between men and women, has a major impact on health insurance in several areas. For one thing, it bars questions about pregnancy from health statements. It also limits benefit waiting periods to a maximum of eight months for pregnancy and childbirth. Finally, starting in 2009 it will no longer be possible to pass on obstetric costs to women of child-bearing age in a different way than is done with other policy-holders. So rates for women in this demographic class will go down, and those of other policy-holders will go up. These changes will presumably have a significant effect on the underwriting of new policies.

As for **dependency insurance**, given the universal and comprehensive nature of the Law on Dependency, the development of private coverage tools for those in need, such as insurance policies, will evolve slowly in Spain. Still, some companies have taken their first steps in marketing such products, selling them independently or in conjunction with other health care products. However, over the mid-term this kind of insurance could grow into something big, especially in light of demographic forecasts that predict Spain will have one of Europe's largest populations of elderly people.

6.5. THIRD-PARTY LIABILITY INSURANCE

Premium volume in third-party liability insurance rose in 2007 to 1,892 million euros, an increase of 3.5%. But this is quite modest compared to previous years in which double-digit growth posted prior to 2005 made TPL insurance the most lucrative in the entire sector.

Thus, for the fourth year in a row the market remained soft as a result of an abundance of operators and excess capacity. These factors, along with an improvement in the claims ratio, has sparked fierce competition that is leading to a decline in premiums, especially in major industrial risks, occupational hazards and D&O (*Directors & Officers*).

Looking at ICEA figures on this line of insurance, we see how important the construction industry is, with 31.2% of premiums, followed by TPL occupational hazards, (30.3%), miscellaneous business (18%), others not classified (15.5%) and Government Agencies (3.8%).

As for new kinds of coverage in an insurance line that is quite dynamic, some that are rather controversial have emerged. Such is the case of products that cover liability for behaviour that is contrary to standard labour relations (*Employment Practices Liabilities*). Such behaviour has already begun to generate numerous complaints. Products have also started to appear which cover liability for violating regulations on Data Protection, including one kind of coverage that has been hotly contested, a protection against fines and sanctions. The General Directorate of Insurance has said this kind of coverage is not legal, arguing that such sanctions are of punitive nature.

The enactment of Law 26/2007 on Environmental Liability began to have full effect in April of that same year. It calls for creating a financial guarantee which will be made obligatory in 2010. This has led to requests for insurance designed specifically to address environmental liabilities which are included in the law but not in traditional business insurance policies protecting against third-party damage liability.

In the same way, the ratification of the Agreements on Third-Party Liability for Nuclear Damage has led to the incorporation of an environmental component to regulations that until then did not address this kind of damage. As the specialized market that underwrites this

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	7.2%	9.3%	3.5%
Retention	69.0%	71.0%	72.6%
Gross claims ratio	79.9%	67.9%	67.5%
Gross expenses ratio	18.4%	18.9%	18.9%
Operating costs	17.2%	17.6%	18.0%
Net claims ratio	78.7%	66.2%	64.3%
Net combined ratio	98.1%	86.4%	84.5%
Financial result	11.6%	10.4%	12.2%
Technical-Financial result	13.2%	22.4%	26.6%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology.

Table 17. Basic indicators for Third-Party Liability insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

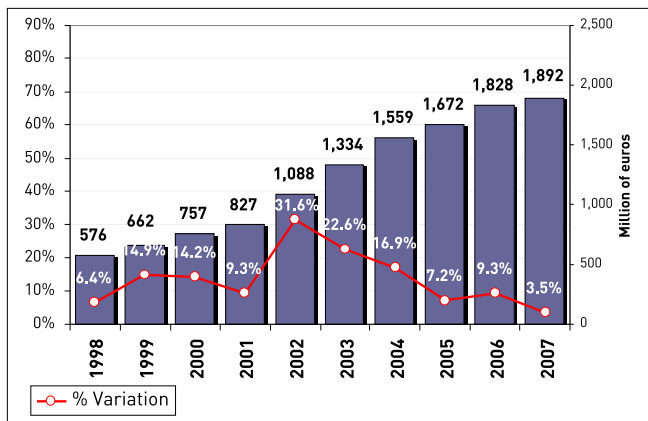


Chart 27. Evolution of Third-Party Liability insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

class of risk did not seem very interested in covering what we might call “environmental risks from nuclear energy”, besides a substantial rise in the mandatory insurance limit, it was decided that these risks be assumed by the electric power industry, charging it to “the rate.”

Finally, another issue that has not been resolved is that of coverage for malicious acts: damage caused intentionally by a policy-holder. The third party who suffers such damage must be compensated by the insurer, even if the act is intentional. Under rules of Spanish jurisprudence, such an act, always excluded from any insurance policy, must be assumed, if not covered, by the insurer. The insurer can then try to recover from the policy-holder the money that the court forces it to pay out as a settlement of the injured third-party’s claim. Such issues, which had been vigorously debated within the realm of third party liability for motorists, have spread to other kinds of third-party liability for workplace hazards.

Continuing a trend that began in 2002, the loss ratio rose four-tenths of a point to 67.5% although in net terms fell two points to 64.3%. One must keep in mind that claims in this line of insurance are characterized by their long duration. So the loss ratio is studied by analyzing the outcome over time of the claims filed each year.

Operating expenses rose nearly half a point, but the remainder of costs fell. So the ratio of expenses over gross earned premiums was stable at 18.9% (20.1 of net earned premiums).

Therefore, the net combined ratio improved two points to 84.5%. The financial result also improved, unlike what happened in most lines of Non-Life insurance. It went up nearly two points to 12.2%. So the technical-financial result accounted for 26.6% of net earned premiums for the year, four points more than in 2006.

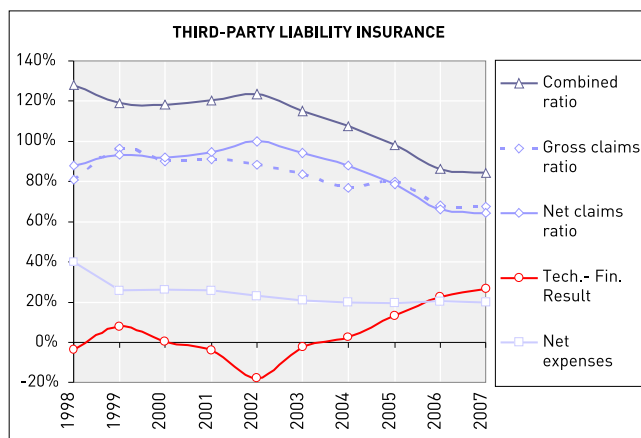


Chart 28. Evolution of results of Third-Party Liability insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

6.6. BURIAL EXPENSES

Insurance for burial expenses posted premium volume of 1,478 million euros in 2007. That was an increase of 5.3%, slightly below that of the previous year but above the average for Non-Life branches. With approximately 7.5 million policy-holders, insurance for burial expenses is deeply rooted in Spain: in 2007, 61% of the people who died had such coverage.

As the increase in the number of policies was 1.3%, premium expansion stems mainly from natural growth in the portfolio, due above all to a rise in funeral prices and the evolution of the coverage needs of those who are insured. It should be mentioned here that funeral homes these days are a key part of the services offered by insurance companies. More and more, insurance companies invest in cemeteries and funeral homes (even mobile ones). They also participate in managing these facilities so as to guarantee the coverage and rendering of services that have been purchased and achieve optimal costs.

It is also worth noting that the practice of cremation is becoming more and more common. In 2007, nationwide 25% of policy-holders chose cremation rather than being buried in a coffin. In some areas the figure was much higher, such as Malaga (67%) or Seville (64%).

Immigrants represent a market that is no longer very new, but it continues to grow. According to figures from the National Statistics Institute, over the past year the foreign population of Spain rose 15.5% to 5.2 million, which represents 11% of the total population.

The net loss ratio rose slightly to 53.6%, but was offset by a 1.5% drop in expenses, as a result of which the combined ratio declined to 90.6%. As in most lines, the financial result was down, so the technical-financial result fell half a point to 14.7%. It should be noted that the increase in claims incurred stems mainly from the aging of the insured population and conservative updates of funeral prices.

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	5.9%	6.0%	5.3%
Retention	99.3%	99.3%	99.2%
Gross claims ratio	55.2%	52.5%	53.2%
Gross expenses ratio	38.8%	38.5%	36.9%
Operating costs	36.6%	35.7%	34.4%
Net claims ratio	55.5%	52.9%	53.6%
Net combined ratio	94.5%	91.5%	90.6%
Financial result	5.0%	6.3%	5.3%
Technical-Financial result	10.7%	15.2%	14.7%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology.

Table 18. Basic indicators for Burial Expenses insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

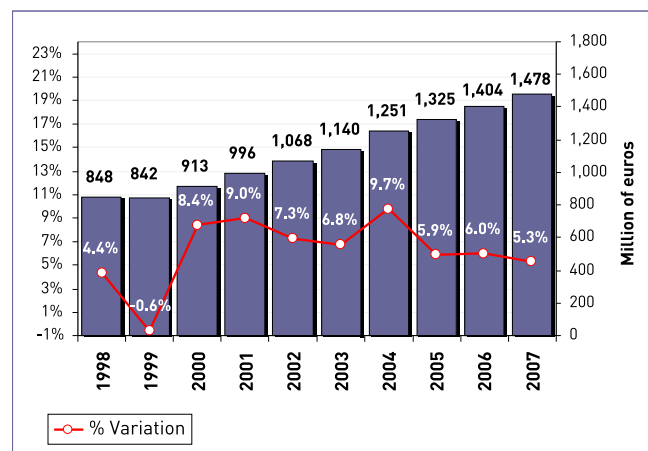


Chart 29. Evolution of Burial expenses insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

6.7. PERSONAL ACCIDENT INSURANCE

Personal accident insurance posted 953 million euros in premiums, a rise of 3.1%, just half the increase of the previous year. As in the majority of Non-Life branches, the decline was due to stiff competition in the sector, which pushes rate down.

In general, what we detect is growing demand for new products and assistance coverage, including the merging of Accident and Illness coverage.

A rise in immigration, and this community's advance into higher-paying jobs, is consolidating a market with new insurance needs and this is encouraging the emergence of new products.

The gross loss ratio fell two points to 41.2% (42.8% in net terms), but expenses rose, so the net combined ratio increased one point to 77.5%. The financial result was lower than in the previous year, so technical-financial result ended up at 28.2%, a point lower than the previous year but higher than the result of most lines of insurance

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	6.9%	6.4%	3.1%
Retention	86.8%	87.5%	88.4%
Gross claims ratio	47.4%	43.3%	41.2%
Gross expenses ratio	33.9%	31.2%	33.5%
Operating costs	28.8%	28.9%	30.4%
Net claims ratio	49.2%	44.3%	42.8%
Net combined ratio	85.2%	76.6%	77.5%
Financial result	6.2%	6.4%	5.8%
Technical-Financial result	21.1%	29.8%	28.2%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology.

Table 19. Basic indicators for Personal Accident insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

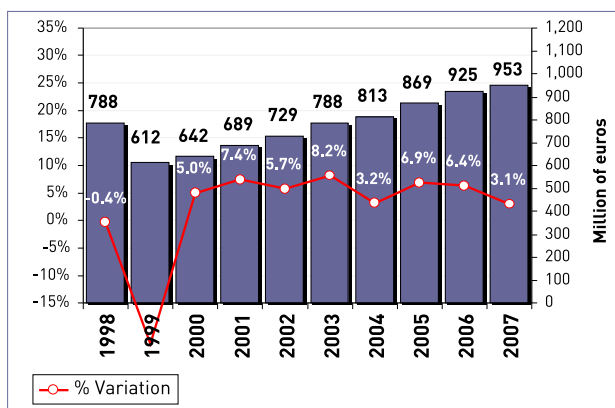


Chart 30. Evolution of Personal Accident insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

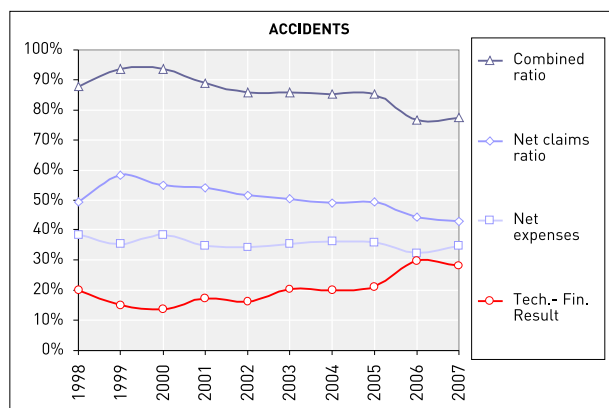


Chart 31. Evolution of results of Personal Accident insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

6.8. CREDIT AND SURETY

Reversing a downward tendency that began in 2003, Credit insurance posted premium growth of 16.6% in 2007, far above the 3.6% increase of the previous year.

After several years with a mature market and a particularly strong economy, 2007 was characterized by a new scenario for Credit insurance. An increase in the number of businesses in arrears on loan payments, added to prospects for a change in the economic cycle, triggered higher demand for this kind of insurance.

The gross loss ratio increased nine points to 79.7% (87.7% in net terms) and expenses increased slightly to 20.5% (11.2% in net terms). So the net combined ratio rose significantly to 98.9%. The financial result remained similar to that of the previous year, offsetting the technical setback. Still, the technical-financial result declined considerably, accounting for 4.5% of net earned premiums. Results for the first quarter of 2008 that were published by ICEA show a drastic worsening of the technical-financial result, with negative figures in both gross terms and net of reinsurance. Analyzing the technical account, one notes a very large allocation for the claims reserve, the variation in which amounts to 42% of net earned premiums.

Surety insurance posted premium volume of 82 million euros, a growth of 3.8%, far below the 11.3% recorded the previous year. The slowdown in the Spanish real estate sector in the second half of 2007 affected premium evolution in the home line, preventing it from matching the growth level of the previous year.

The gross loss ratio rose eight points, although in net terms it fell slightly to 21.6%. Expenses also fell, both in gross and net terms, slipping to 28.7% (18.2% in net terms), so the combined ratio im-

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	5.0%	3.6%	16.6%
Retention	49.9%	53.0%	54.0%
Gross claims ratio	64.4%	70.5%	79.7%
Gross expenses ratio	21.4%	19.6%	20.5%
Operating costs	31.1%	30.7%	30.2%
Net claims ratio	66.9%	73.2%	87.7%
Net combined ratio	79.7%	83.9%	98.9%
Financial result	8.4%	10.2%	10.2%
Technical-Financial result	19.0%	19.2%	4.5%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology.

Table 20. Basic indicators for Credit insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

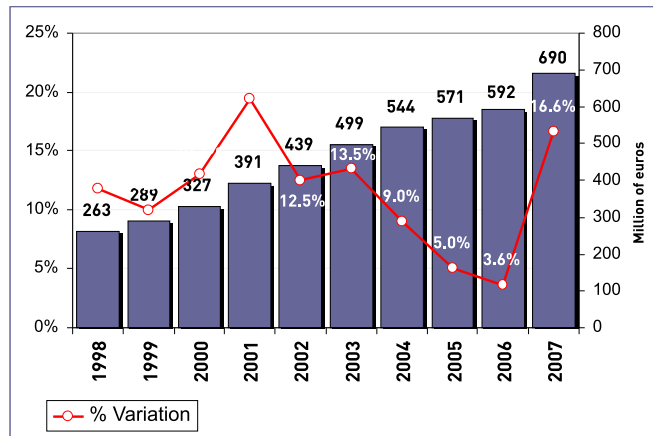


Chart 32. Evolution of Credit insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	-2.9%	11.3%	3.8%
Retention	48.0%	55.7%	53.6%
Gross claims ratio	4.1%	10.7%	18.2%
Gross expenses ratio	31.3%	29.4%	28.7%
Operating costs	30.4%	28.5%	27.8%
Net claims ratio	17.8%	22.3%	21.6%
Net combined ratio	42.7%	42.6%	39.7%
Financial result	8.9%	6.4%	14.4%
Technical-Financial result	63.2%	61.1%	74.0%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology.

Table 21. Basic indicators for Surety insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

proved five points to 39.7%. Unlike what was observed in most lines, the financial result was very favorable at 14%, so the technical-financial result came in at 74%, 13 points more than the previous year.

Data from the first half of 2008 show a significant worsening of the technical-financial result, which yields negative numbers in gross terms, although in net terms it stayed at the same level as 2007.

The cause of this decline is mainly the extraordinary allocation to the claims reserve. This gave rise to a variation that amounted to 66% of gross earned premiums (40% of net premiums).

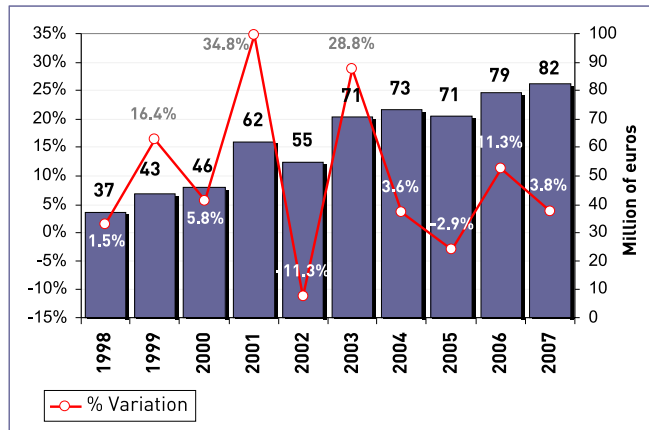


Chart 33. Evolution of Surety insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

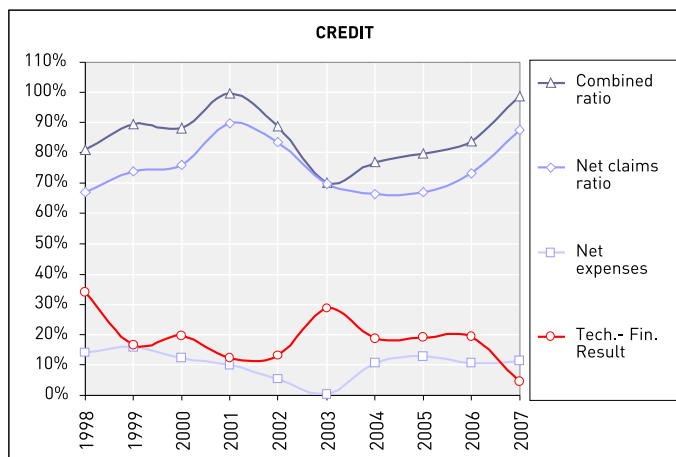


Chart 34. Evolution of results of Credit insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

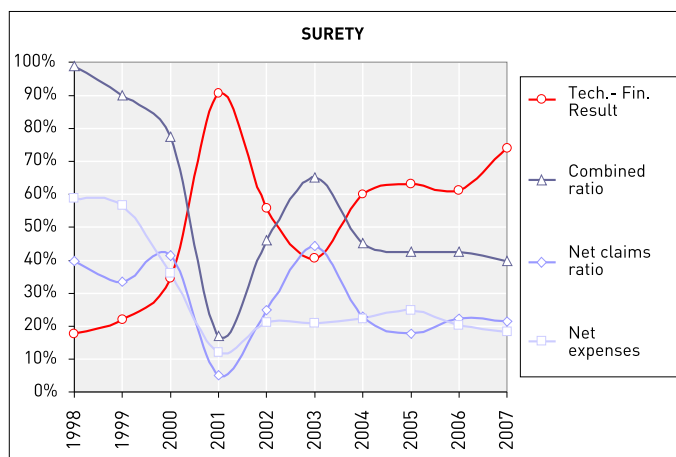


Chart 35. Evolution of results of Surety insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

6.9. TRANSPORT

Transport insurance posted premium volume of 594 million euros, an increase of 0.2% compared to 3.3% the previous year and below the overall growth level of the Non-Life market, which was 5.4%. The Transport figure was the result of two very different kinds of behaviour. On one hand, Goods insurance rose 6.1%, in particular thanks to the loader business, but Hulls fell 4.9%, having been dragged down by the Aviation sector.

Transport insurance is in the midst of a soft market, marked by a slowdown in premium growth because of intense price competition and excess capacity in the Hulls market. Furthermore, the state of the economy is having a negative effect on the transport sector.

As for results, there has been a notable rise in the claims ratio, which grew six points to 68.6%. With a ratio of 64.6%, the Goods line is evolving moderately, while in Hulls the ratio shoots up to 75%. This is attributable in large part to a major commercial airline claim. It was equivalent to 16% of gross earned premiums in the Hulls class, and 9% of total transport premiums. Thusly, the net combined ratio rose eight points to 97.6%, causing the technical-financial result to fall by one half to 8.4%.

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	16.3%	3.3%	0.2%
Retention	43.8%	44.6%	50.0%
Gross claims ratio	45.4%	49.1%	68.0%
Gross expenses ratio	17.7%	19.4%	21.8%
Operating costs	16.5%	18.2%	20.0%
Net claims ratio	59.3%	62.6%	68.6%
Net combined ratio	83.1%	89.4%	97.6%
Financial result	7.5%	6.3%	6.1%
Technical-Financial result	24.3%	16.9%	8.4%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology.

Table 22. Basic indicators for Transport insurance, Total

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

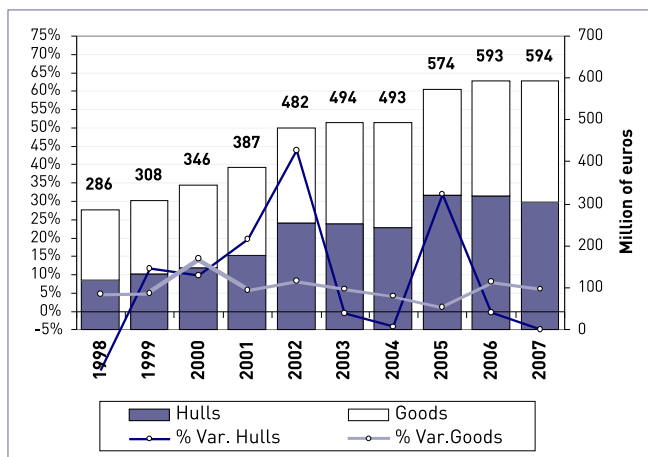


Chart 36. Evolution of Transport insurance. Written premiums. Direct insurance

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

6.9.1 HULLS

Premiums in this class of insurance, which account for 51% of the total within Transport, declined 4.9%, due mainly to the Aviation result, a class that tends to be quite volatile. Marine insurance grew 4.9%, in line with the average rise in Non-Life.

Considered gross of Reinsurance, the claims ratio rose considerably, going from 42% to 75.6%, due largely to stiff competition and several major claims. Furthermore, there was a major increase in the variation of the claims reserve. All of this, along with a three-point increase in expenses, meant that the net combined ratio surpassed 100% for the first time since 2001, reaching 102%. The technical-financial result fell dramatically from 24.1% to 6.1%.

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	31.9%	-0.3%	-4.9%
Retention	29.8%	31.3%	36.0%
Gross claims ratio	39.4%	41.9%	75.6%
Gross expenses ratio	11.0%	13.3%	15.9%
Operating costs	10.0%	12.1%	13.8%
Net claims ratio	61.7%	60.4%	75.1%
Net combined ratio	79.6%	84.4%	101.8%
Financial result	10.4%	8.5%	7.9%
Technical-Financial result	30.8%	24.1%	6.1%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology.

Table 23. Basic indicators for Transport insurance, Hulls category

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

Marine

Premium growth in 2007 was 4.9%, while the number of policies rose 12.1%. Premium rates fell but this was offset by an increase in the number of policies taken out, mainly in fishing and third party liability, although the biggest increases were in recreational boating.

There were increases in frequencies and average costs, mainly in merchant ships and recreational vessels.

We should point out the rise in insurance for hull construction due to brisk demand at shipyards in Spain.

Aviation

Premium volume in aviation insurance fell 13.5% in 2007, while the number of policies increased 13.8%. A detailed analysis shows the fall in premiums stems mainly from Satellites, to the extent that if insurance for Satellites had finished out the year in the same way it did in 2006, the rise in Aviation would be similar to the growth posted by the whole branch. It is worth noting that more and more third-party liability policies are being taken out.

Meanwhile, it should also be mentioned that there was an airline accident serious enough to distort the claims ratio figures for the entire Transport line. In November 2007, an A340 airliner suffered 54 million euros in damage during a forced landing at the international airport in Quito, Ecuador.

6.9.2 GOODS

This class, which represents 49% of all premium volume in the Transport line, saw its production increase 6.1%, which was above the average for Non-Life. But the rise is not reflected in the number of policies, which dropped 4.04%.

A detailed analysis shows that the decline in policies occurs in Carriers, not among Loaders, possibly due to the current restructuring of the sector. This stems from the opening and globalization of the market and businesses' need to increase their competitiveness. As for rates, they fell in Loaders but rose in Carriers.

Altogether, the good performance of the Loaders line offsets the sluggishness of Carriers, making for a gross loss ratio of 59.2% (64.6% net). Net expenses rose two points, so the combined ratio was 95% and the technical-financial result was 10%.

Basic indicators (% of premiums) *	2005	2006	2007
Increase in premiums	1.2%	7.9%	6.1%
Retention	62.4%	62.6%	66.3%
Gross claims ratio	53.4%	58.9%	59.2%
Gross expenses ratio	26.5%	27.7%	28.6%
Operating costs	25.1%	26.6%	27.2%
Net claims ratio	57.7%	64.2%	64.6%
Net combined ratio	85.3%	92.7%	95.1%
Financial result	5.7%	4.8%	5.0%
Technical-Financial result	20.3%	12.0%	9.9%

(*) An explanation of how these indicators are calculated is provided in the section on Methodology.

Table 24. Basic indicators for Transport insurance, Goods category

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

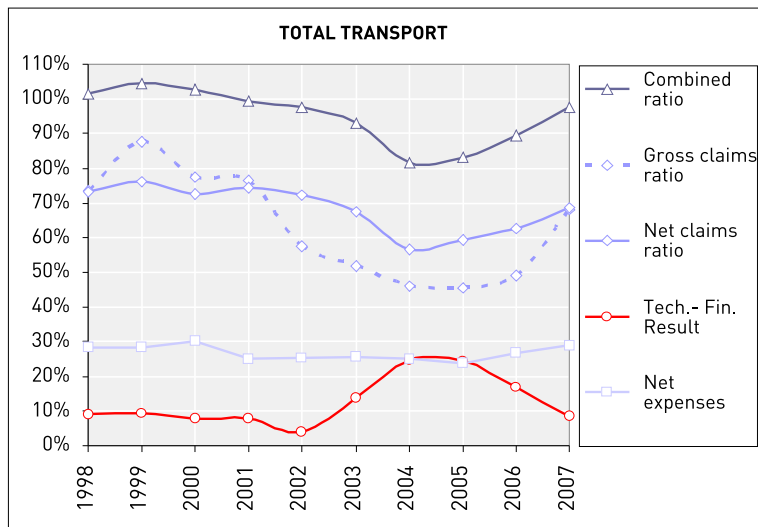


Chart 37. Evolution of results of Total Transport insurance. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

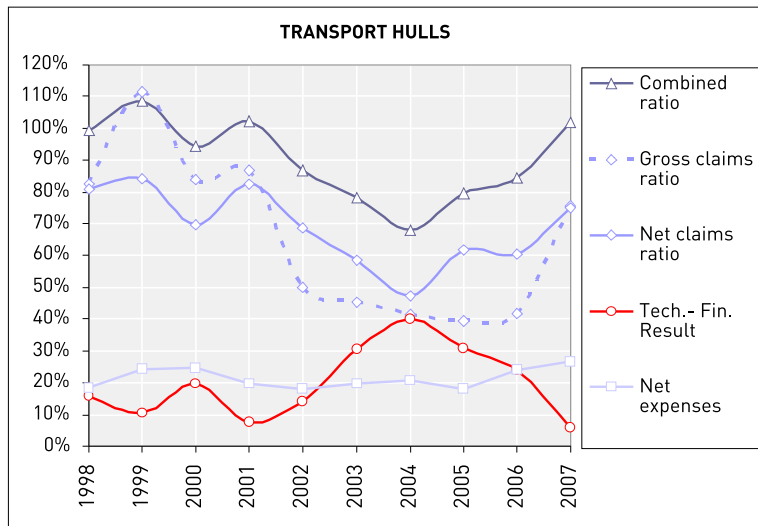


Chart 38. Transport, Hulls.

Evolution of results of Transport insurance, Hulls category. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

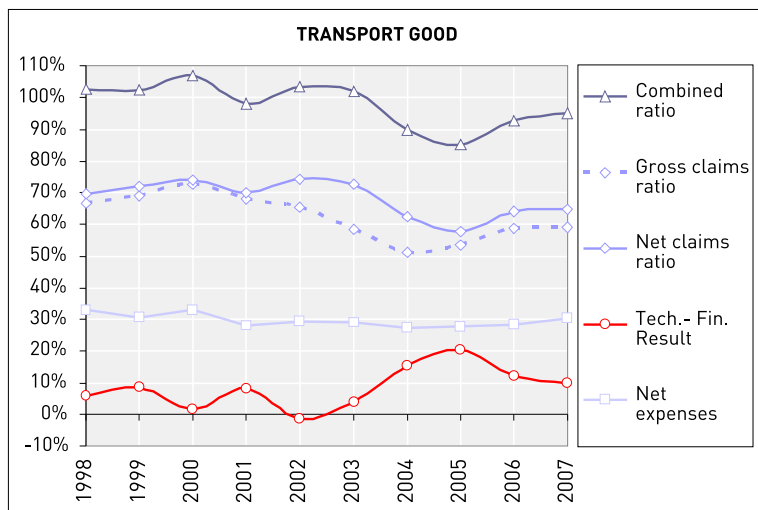


Chart 39. Transport, Goods

Evolution of results of Transport insurance, Goods category. % of net earned premiums

Source: FUNDACIÓN MAPFRE with data from DEC (DGSFP)

6.10. ENGINEERING

The Engineering sector, (Machinery Breakdown, Construction Multi-Peril, Ten-Year Construction Insurance, Erection, Electronic Equipment and Product Warranty) has broken with the stable growth it posted in recent years, going from 899 million euros in 2006 to 859 million in 2007, a decline of 4.5%¹⁰.

The crisis in the residential construction sector and a fall in rates due to the soft market that this line of insurance is enduring have led to a fall in premiums in **Construction Multi-Peril and Ten-Year Construction Insurance**,

especially starting in the second half of 2007. They ended the year with declines in premium volume of 5.4% and 4%, respectively.

Machinery breakdown insurance mainly covers equipment used in construction, and Leasing/Renting operations by financial companies. Its links to the construction sector are causing a significant decline in premiums: in 2007 it was 6.2% and in 2008 it could be 10%.

Insurance for **Electronic Equipment**, which is being increasingly “cannibalized” by Multi-Peril insurance, kept up the same pace of growth as in recent years, with an increase of 2%.

As for **Erection** insurance, we should note its premiums fluctuate significantly because of major, one-time operations, such as those related to renewable energy sources, which have undergone significant development in recent years. This is the only class within the Engineering branch to experience positive growth, which was 7%.

6.11. MULTI-PERIL AGRICULTURAL INSURANCE

The Spanish System of Multi-Peril Agricultural Insurance is a model of coverage for damage caused to agricultural, livestock, aquacultural and forest facilities, in which private and public institutions participate jointly. Insurance companies support the risk of this activity by pooling resources in a co-insurance arrangement known as (AGROSEGURO). The Consorcio de Compensación de Seguros acts as a direct insurer and a mandatory underwriter of some lines of business, but not in an exclusive way, and Spain’s central government and regional administrations subsidize part of the premium.

In 2007 this system continued to improve and perfect existing lines of insurance while also trying to develop new kinds of coverage.

With 516,438 policies issued, almost 10% more than the previous year, this agricultural insurance system posted premium volume of 599 million euros in 2007, a slight increase of 0.81% over 2006. Approximately 70% of the premiums correspond to so-called experimental lines, which expanded 0.82%. Chief among them were the lines called SRM and HRM, which

Millions of euros

Class	Premium	
	2007	% Var.
10-year construction	364	-4.0%
Construction Multi-Peril	238	-5.4%
Machinery breakdown	204	-6.2%
Erection	34	7.0%
Electronic equipment	20	-2.0%
Total engineering	859	-4.5%

Table 25. Distribution of Engineering insurance by class

Source: ICEA

¹⁰ Here we used figures from the ICEA because data from the DGSFP does not provide a breakdown by class of insurance. According to this supervisory body, premium volume in 2007 was 844 million euros, a decline of 3.5%.

contributed 422 million euros. The other 30% of the premiums came from viable lines, which posted growth of 0.79%.

In 2007 the distribution of policies was as follows: 59% for agricultural insurance and 41% for livestock. Altogether the insured sum was 10,005 million euros, which corresponded to 27.5 million tons of agricultural production, 73,087 hectares of protected crops and forests, 224 million animals of the SRM and HRM lines and seven million animals from other lines of livestock insurance. By kinds of production, penetration was 42% in agriculture, 11% in protected crops and forests and 54% in livestock insurance. Worth noting are the high levels of insurance of winter grains (72%) and fruit trees (61%).

Government subsidies for premiums hit 58.8%. The private contribution to the system, as of 31 Dec., 2007, was led by MAPFRE with 21.6% of the total.

Weather conditions for the farm year 2006-07 can be described as having had a high degree of atmospheric stability, which yielded a positive technical-financial result. The most noteworthy loss events of 2007 were the following:

- In the first quarter of the year, frost in several areas; it mainly hit crops of fruit, almonds and persimmons.
- Throughout the second quarter (mainly in May) rain and hail storms caused major damage to grain crops in Castilla-La Mancha and Castilla-Leon, and in vineyards in Castilla-La Mancha. In this latter region and in the Ebro River valley, there was also damage to fruit tree crops because of improper setting.
- Summer storms that affected fruit trees, vineyards, vegetables, tobacco and olive trees.
- Adverse weather throughout the year which impeded development of crops of winter tomatoes.

In 2007 more than 1 million claims were processed, of which 876,000 corresponded to insurance covering collection and destruction of dead animals. Claims incurred (payments plus reserves) totalled 446 million euros, with 29% of this corresponding to viable lines and the rest to experimental lines. In the agricultural sector 87,000 claims were filed. The Spanish System of Multi-Peril Agricultural Insurance had an overall claims ratio of 78.5%, four points higher than in 2006 (74.6%).

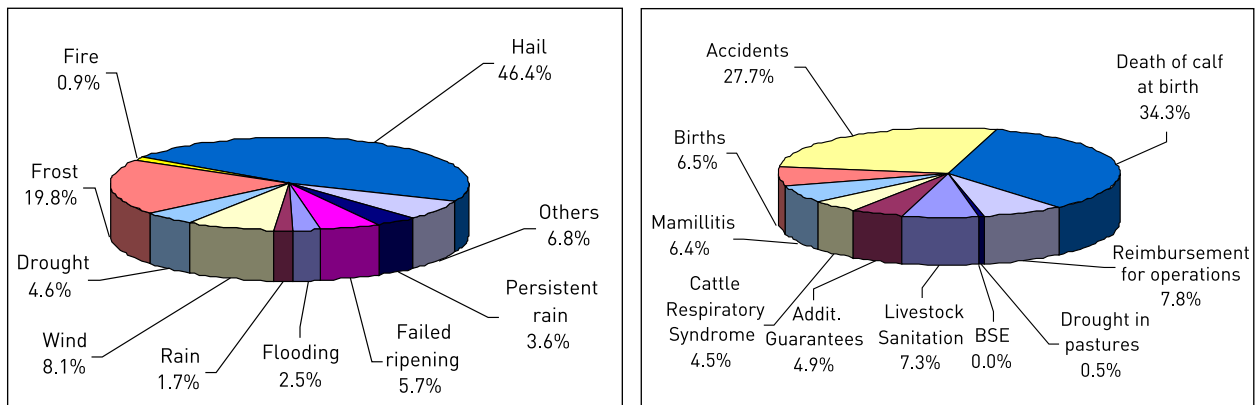


Chart 40. Agricultural and Livestock insurance. Distribution of losses by risk in 2007

Source: Agroseguro

In 2008, coverage in some lines of insurance has been extended and improved. Highlights include:

- Extension of coverage for damage caused to protected crops by diseases of viral origin.
- New kinds of coverage for damage affecting quality of grapes used in winemaking, and a new line of insurance for the cut-flower sector.
- Inclusion of frost in insurance for grape and loquat nurseries, and for damage from improper setting of cherries in Cáceres due to adverse weather.
- Improved coverage for citrus-growing.
- Protection is broadened for livestock species vulnerable to foot-and-mouth disease. In the specific case of pigs, a product is now being sold to cover damage from foot-and-mouth disease, *Aujeszky's* disease and classic swine fever.



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