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Earnings Call

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Call Participants

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Presentation

Felipe Navarro Lopez de Chicheri

Corporate Director of Capital Markets & Treasurer

Good afternoon, and welcome to Mapfre's activity update for the first 9 months of 2023. First of all, I would like to apologize, due to some technical issues we could not start on time, and we are almost 15 minutes in delay. Sorry for that. This is Felipe Navarro, Corporate Director of Financial Markets and Treasury of the Group. Thank you for being here today.

It is a pleasure to have with us Mr. Antonio Huertas and -- who is the Mapfre's CEO. He will give us an overview of recent trends and corporate developments. It is also a pleasure to introduce Fernando Mata, the Group's CFO, who will also walk us through the main financial figures. We also have here with us Leandra Clark, Deputy Head of Investor Relations, who will be moderating the Q&A session.

You can use the Ask A Question link at any point during the call, and we will open up the question-and-answer session at the end of the presentation. Let me now turn the call over to Antonio. The floor is yours.

Antonio Huertas Mejias

Chairman & CEO

Thank you, Felipe. So sorry for the delay. We have to start again. Good morning, everyone. I wanted to be here today in this analyst call to comment on some important decisions made yesterday by the Board of Directors, which were just made public. These decisions are related to Mapfre's corporate governance as they involve changes in some of the most important management appointments as well as relevant positions within the Board of Directors.

I'll take this opportunity to also share my take briefly on Mapfre's financial results for the first 9 months of the year. Premiums are growing 10.9% above EUR 20.6 billion. Revenue is growing at a similar rate, and it stands at over EUR 24.5 billion at the end of September, which means that by the year-end, we could exceed EUR 30 billion in revenues.

The Group's recurring result is EUR 546 million, up 12%. As Fernando will explain later, we have taken a prudent approach by applying a \$75 million goodwill write-down to our insurance operations in the United States now, ahead of the full year final accounts. With these adjustments, the Group's net results comes down to EUR 471 million, a reduction of 3.6% year-on-year.

Profitability is up, supported by an improvement in technical management with a reduction of close to 2 percentage points in the Non-Life combined ratio, which stands at 96.8% versus 98.4% 12 months ago.

Furthermore, ROE has improved, reaching 9.1%, excluding the goodwill write-down. Finally, the Solvency 2 ratio in June 2023 stands at 197%, nearly twice the required minimum, proof of the strength and resilience of Mapfre's balance sheet.

If you allow me, before handing the floor to Fernando Mata, I would like to comment on the key highlights of the year. In the Life business, premiums have grown 20%, accompanied by a 7% improvement in the overall result, supported by strong technical performance and robust financial income, particularly in Latin America.

In Non-Life, premium growth reached 9%. This figure includes diverging trends. On one hand, technical margins are under pressure, but on the other, the investment result is making remarkable progress. Regarding the latter, the increase in interest rates, particularly Latin America, together with active investment management have led to a more than \$150 million increase in recurring financial income, up 26%.

Regarding the technical result, the profitability of some lines of business is constrained by an increase in claims costs as a result of higher frequency and average costs due to inflation. We are gradually reversing premium [SOFRs], but it will still take us a few months more. This is the case for Auto, which despite 4%

growth in premiums as a result of ongoing tariff adjustments is still reporting high claims with a combined ratio of 105.9%, slightly below yields level.

We are starting to see positive data in some key countries such as Brazil, the first country to implement a plan to return to profitability, and also in Spain, which give us confidence in the success of this plan in other countries.

By region, I would like to highlight the strong improvement in Iberia, which leads the Group's growth with a 17% increase in premiums as well as the excellent performance of Latin America, which is now the main contributor to the group's earnings with an almost EUR 300 million net result.

Furthermore, within Latin America, it is worth highlighting Brazil, which has doubled its results, earning more than EUR 180 million, thanks to improvements in both the technical and the financial results. Mapfre, which includes the reinsurance business as well as global risks has also shown a very positive development with a net result of EUR 190 million, double the previous year, despite the net cost of Turkish earthquake, which amounted to EUR 100 million.

On the other hand, ongoing tariff adjustments already implemented in North America have not yet managed to counterbalance the adverse scenario node. Therefore, we'll need to wait a few more quarters before returning to profitability.

I will now hand the floor over to our Chief Financial Officer, Fernando Mata, to continue going over the details of Mapfre's figures. Fernando?

Fernando Mata Verdejo

Group CFO & Executive Director

Thank you, Antonio. Good morning, everybody. And again, sorry, apologies. Now I will walk you through the key figures as of September. Here, we are -- we had the breakdown of premiums by segments. And also we disclosed in the blue charts premium growth at constant exchange rates.

Regarding Non-Life, premiums are up over EUR 1.3 billion, nearly 13% growth in General P&C, 8% in Accident & Health and 4% in Auto. Life premiums are up over EUR 700 million, driven by savings, which is up over 40%, mainly due to Spain and protection is growing 9% on the back of strong trends, particularly in Brazil. As you can see on this chart, our business mix is highly diversified with around 80% in Non-Life and 20% in Life. We in the Life business is fairly evenly split between savings and protection.

Overall, General P&C is our largest line of business with 32%, which includes Homeowners, Commercial, Agricultural and Burial business. Motor represents 22% of total premiums, while Health & Accident represents 10%. This diverse business profile is helping us [weather] the difficulties in the Motor segment.

On this slide, I would like to discuss the key trends in our main business units. We'll start with Iberia, where we're growing about the market, both in Life and Non-Life. Life business is growing over 48% and Non-life premiums are up nearly 8% and reflect the positive development of General P&C, driven by commercial lines, 12% up, as well as Health 9% up, while Auto is up over 5%.

The Non-Life combined ratio has been affected by Auto, which I will explain later. General P&C and Life Protection continue contributing positively with combined ratios of 98% and 67%, respectively. Financial results continues improving and the net result stands at EUR 246 million. The result includes a EUR 46.5 million net impact from the arbitration. We discussed as well this issue in the press presentation for the end of the Bankia alliance, just over EUR 29 million and EUR 16 million -- sorry, EUR 17 million in Life and Non-Life, respectively.

Business in LatAm is consolidating, strong trends with a result of EUR 284 million, the largest contributor to Group earnings. Brazil is showing strong growth and its results has more than doubled. Premiums are up 7%, driven by Agro Insurance and Life Protection, which grew 10% and 9%, respectively.

The combined ratio has reduced significantly to 78% due to the strong improvement in Motor as well as a good year for Agro Insurance. The General P&C ratio stands at 69%. And the Life Protection business

also has a solid combined ratio under 80%. High interest rates continue to be a tailwind, but the interest rates, particularly in Brazil, are expected to trend downward. Results are improving in the rest of LatAm with relevant contributions from Peru, Mexico and Colombia.

Moving to North America. Premiums are up over 4% on the back of tariff increases in both Motor and Homeowners. The combined ratio remained high at 107.4% despite tariff increases. In General P&C, the combined ratio stands at 111% affected by the adverse weather condition in the U.S. and the increase in the cost of reinsurance protections, which mainly affected Homeowners.

We will continue applying for tariff increases in this segment in addition to the 15% pull-through in May in order to adapt prices to cover the growing costs. Puerto Rico, which is included in this region, has had excellent performance, reaching a net result of EUR 18 million.

Financial income is significantly down 26%, mainly due to lower realized gains. You are already aware, following a prudent criteria, the Group recorded September EUR 75 million provisional impact. I say provisional because we usually book at year-end. For a goodwill write-down for its insurance operations in the United States is approximately 11% of this book value. This write-down is based on the current context of rising interest rates and also the adverse auto environment. The estimate will be updated at year-end according to interest rates and the final business plans to be approved by the Board.

In EMEA, premium reached over EUR 1 billion, representing 1.9% decrease, which reflects the deceleration in the Life business in Malta. The region recorded EUR 31 million in losses, mainly related to the complicated auto environment, worsened by the heavy rains and also hailstorms in Italy and Germany. In Turkey, the positive performance of the euro denominated financial investments has offset the impact of the earthquake.

Mapfre RE, which includes the Reinsurance and Global Risk business is consolidating very strong trends. Premium grew 9.3%, reaching nearly EUR 6.1 billion. The combined ratio improved significantly, reaching 95%, [that] case supported by general tariff increases in the reinsurance market.

Most relevant event, you know very well, has been the earthquake in Turkey with EUR 100 million impact on the Group net result. There had been other relevant events, including the summer hailstorms in Europe, which have been offset by benign Atlantic hurricane season. The financial results also grew with EUR 97 million gross contribution to the Non-life result. Realized gains net of impairments had an EUR 8.4 million impact positive on net results.

And finally, all in all, earnings reached almost EUR 190 million, nearly double the previous period. The systems business continues to generate a slight profit after some troubled years. And finally, hyperinflation adjustments as well as the fall in the result for other activities, which includes holding expenses, negatively affected results. On the right side of the slide, you can see the main ratios.

Now let's move on to the Motor business. The premiums are up over 4% and units are down by 3%. In Iberia, tariffs continue to be gradually adapted to inflation. Average premiums are up around 6.2%, higher than the 4.4% increase for the market. Premiums growing 5% and the portfolio relatively stable, down only 1.1%.

In Brazil, premiums are up 2.5% with insurance fleet down 18%. In North America, premiums grew 2.6% with insure units also down almost 5%. Motor is still reporting a net loss of around EUR 42 million, mainly from the U.S., while Spain is approaching breakeven. Brazil is reporting a modest profit in the case, supported by high investment yields.

Other markets in Latin America and Malta in Europe are performing quite well, mitigating the complicated situation that we face in summer in Germany -- in Italy and Germany, which was aggravated by the storms and hailstorms.

The Group's Auto combined ratio was down 1 point in the third quarter to 105%. Brazil continues improving after tariff updates reaching a stand-alone combined ratio for this quarter of 100.5%, and under 103% as of September, down 14 points year-on-year.

Iberia had a slight increase in the combined ratio in the quarter due to higher frequency and other summer weather, reaching 101.6% in the third quarter stand-alone and 102.9% as of September.

In North America, there was a sharp improvement in the combined ratio from 112% to [105%] on a stand-alone quarterly basis, continuing on the other hand, to show high volatility. Frequency is stable, but the stability continues to rise. We already implemented tariff increases in our main market in the U.S.. More than 20% accumulated in January 2022 along with the expected future increases give us a more favorable outlook.

In conclusion, across the Group, we've seen a more positive midterm outlook. We are committed to adapting tariffs as much as necessary. Brazil is already performing, Spain near breakeven, while the U.S. will still need some time.

On the left, you can see the breakdown of financial resources. Shareholders' equity increased by EUR 300 million since 2022 year-end, supported by higher currency conversion differences, mainly the Brazilian real and the Mexican peso.

Leverage has decreased to 24.8%, returning naturally within our reference framework. The fall is mainly driven by the increase in our equity base with a slight reduction in our bank financing. Debt levels have been extremely stable over the years, even when changes in the structure.

One new figure, our cost of debt remains extremely low, around 3.2%. And finally, the solvency ratio remains close to the midpoint of reference framework.

Let's move to the financial investment portfolio. There was no relevant change in asset allocation during the third quarter. We have reduced our exposure to equity and mutual funds and increased fixed income. Spanish office debt continues to be the largest exposure in our portfolio with almost EUR 9 billion. And as a reminder, a large share of these positions are allocated to immunize, portfolios consequently reducing our exposure to rate fluctuations.

And regarding the asset management business, on the bottom of the slide, pension funds are up close to 5%, while mutual funds 6% during the period. On the screen you had the information regarding our fixed income investment portfolio. First of all, I would like to remind you that a large share of our EUR 29 billion fixed income portfolios is immunized or matched. So we will focus on the actively managed portfolios on this slide, and they do not have any liability restrictions.

On the top are the details of our euro area portfolios, which have a market value of over EUR 11 billion. The ratio overall slightly down and yields are increasing at a steady pace. The accounting yields in Iberia, Non-Life and RE, both around 2.4% are affected by the investments in inflation-linked bonds. Portfolio [yields] will be around 20 basis points, higher when excluding these bonds.

On the bottom are the details in other main markets with a total value of around EUR 5.8 billion. Duration is slightly down in Brazil and North America, but up by close to 1 percentage points in the rest of LatAm. Regarding portfolio yields in North America, they are slightly up. In Brazil, they're relatively stable. And in the rest of Latin America, yields are up over 60 basis points.

Now I will hand the floor back to Antonio for a few closing remarks.

Antonio Huertas Mejias

Chairman & CEO

Thank you, Fernando. Fernando has just gone through the details of the Group's financial strength, which is allowing us to continue to be committed to shareholder remuneration, which is a part of our DNA. Mapfre's Board of Directors has decided to approve a \$0.06 interim dividend for 2023, the same amount as last year. It will be paid on November 30th.

Total dividends paid to Mapfre shareholders during 2023 reached EUR 447 million, as usual are paid fully in cash. During the last 5 years, Mapfre has paid out more than EUR 2.1 billion in dividends to our shareholders. The average dividend yield over the last 4 years has been 8%, well above most peers.

Now we would like to take some time to explain the scope of the management and organizational restructuring plans that were recently approved. We proposed these changes for 2 main reasons. Firstly, the market context is far from being supported and predictable, which is what we would need to manage our business in a normal fashion.

We are again suffering from volatility, uncertainty and complexity worldwide. Inflation persists, economic recovery slow, there is energy crisis, political changes, [armed] conflicts et cetera, all pointed to a complicated and uncertain outlook that we need to manage well with a very prudent strategy.

Secondly, our internal organization. Our current management team is very senior with a lot of experience. We need to combine this talent in an optimal manner and make the right decisions to pave the way for Mapfre's future in the coming years. Now is the moment to make changes that will allow us to adapt the team's capabilities to meet our organization's need better.

In addition, we believe it's time to bring on board new somewhat younger talent in the upper levels of management. This will help us begin preparing a succession plan for key positions, keeping in mind current and upcoming senior staff retirement.

This is why I believe it's the right moment for Mapfre to [begin] a new phase, which will give us a different vision, while also providing continuity as we are confident that most of what has been achieved so far, has been a key part of our strategy and should be the foundation for us to grow and improve profitability in the coming years.

For these reasons, Mapfre has announced relevant organizational changes effective as January 1st, which are another step forward in the direction we initiated a decade ago.

This new boost for our business has a 2-fold target, simplifying as well as adapting the group's structure to a new stage. First, we have 2 new Executive Vice Presidents of the Board of Directors. The first one is the current Iberia CEO, Jose Manuel Inchausti, who will act with me as a second in command. The other one is going to be our CFO, Fernando Mata. Congrats, Fernando. Welcome aboard as new Vice President of Mapfre Board.

From an organizational point of view, the simplification has been applied both or essentially across the corporate areas as well as vertically through the business units. In the corporate areas, we unified the business and the operational transformation areas under the first Vice President with greater corporate responsibilities within the group. In addition, strategy will be integrated within the people as sustainability area in order to align ESG and a strategy to focus on the heart of this group, our people.

Regarding operations, they will be grouped into 4 vertical units, reinsurance and 3 insurance units, Iberia, which is our domestic market, a new international insurance unit that will complete the LATAM business together with the EMEA and Global Risk businesses, and finally, North America, which reflects a very distinct insurance environment.

These organizational changes do not affect the legal corporate structure, which will remain the same. For this restructuring, we have appointed several key managers and are promoting new talent to the upper levels of management. In total, more than 15 15 senior executive positions are effective. Now we have a younger team that boasts many years of experience within the Group. This team will be the keystone of the designed implementation and execution of our future medium and long-term strategy.

Before wrapping up, I would like to review the current fulfillment of our public strategic targets. In terms of growth at constant exchange rates, we are growing 12%, well above the target of 5% to 6% for 2023 to '24. The average combined ratio was set up -- was set to be around 96% in 2023 to 2024. In September, this ratio stood at 96.8% initially, very affected by the earthquake in Turkey in the first quarter.

Trends have been improving throughout the year, and in the second and third quarters, the stand-alone ratio was around 96%. We maintained our target of average ROE of 9% to 10% for 2023, 2024. As of September, excluding the goodwill write-down in the U.S., it was over 9%. Regarding our financial reference framework, both the Solvency 2 and leverage ratios are within the range.

In conclusion, despite the challenges we have faced this year, we are on track to meet the strategic targets. The recently announced corporate changes will help us continue moving in the right direction and the next AGM will be a starting point for a renewed corporate roadmap.

We will continue committed to what has brought us this far. Financial strength, excellent service and proximity to our clients is strengthening personal relationships and taking care of all the stakeholders, ethical and social commitment, and last but not least, the need to improve profitability year-by-year. Thank you for your time today, and we'll now hand the call over to Leandra to begin the Q&A session.

Question and Answer

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Thank you, Antonio. As most of you are familiar with the process, let us just remind you to use the Q&A tool on the bottom of your screen to submit your questions. Although what -- we have already received quite a few questions, and we will try to answer them all as much as time allows.

So moving on, the first question we have is from Ivan Bokhmat. He would like you to elaborate a little more on why North America has not been included within the scope of the new international insurance business.

Antonio Huertas Mejias

Chairman & CEO

We have decided to maintain -- separated U.S. for one main reason. U.S. is a large unit in Mapfre. It's a specific unit with a large market, and we prefer to work directly from the corporation to the country. This is the reason.

Actually, U.S. insurance units has troubles. The combined ratio in auto is not good, it's still high. So we have specific plans to improve this combined ratio, and we prefer to avoid intermediaries in the relationship with the country and with its executive. Mapfre U.S.A has an extraordinary team in its executive committee. And we are totally sure that this is the best decision that we have now to improve the results in the country.

Fernando Mata Verdejo

Group CFO & Executive Director

Yes. From a business perspective, if I can remind you, we put together in the same region. Puerto Rico was -- originally was under LATAM and also Century was originally under Asistencia business. So we put together following the singularity of this market. So we believe -- we strongly believe that in order to be efficient, the 3 operations has to be together under the -- only one head and very well related with the top management, as Antonio mentioned.

Antonio Huertas Mejias

Chairman & CEO

[Puerto Rico] is still an strategic market for Mapfre.

Fernando Mata Verdejo

Group CFO & Executive Director

Absolutely.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

The next question comes from [indiscernible] in Banco de Sabadell. She'd like us to remind her about our payout policy, and if this payout policy is related to the reported net profit or to an adjusted net profit, excluding noncash and extraordinary items?

Antonio Huertas Mejias

Chairman & CEO

Yes,, and Felipe can also complement my statement. But traditionally, in previous year, we adjusted our payout policy in order to take into account goodwill impairments. As everybody knows, a goodwill impairment doesn't impact our cash position nor the cash generation and shouldn't impact the dividend policy nor the payout policy. Felipe?

Felipe Navarro Lopez de Chicheri*Corporate Director of Capital Markets & Treasurer*

Just to add, I mean, that in past years, we went way over this 50%, which is the approved payout target for the -- I mean, which is -- will be over 50%, which is the approved payout target from what was approved in the AGM. And the commitment with the dividend, I think that was clear in the statement by Antonio this morning. So everything is quite -- should be quite clear for all.

Leandra Elizabeth Clark*Deputy Head of Investor Relations*

The next set of questions are related to the motor business in Spain. Carlos Peixoto from CaixaBank as well as Maks at JB Capital, would both like to know, what trends we're seeing in average premiums in motor in Spain, and if we are seeing any impact on our churn and retention rates?

Antonio Huertas Mejias*Chairman & CEO*

Yes. Quite interesting question. We saw, I would say a non-expected uptick in the combined ratio in the third quarter, as we explained. It was mainly due to severe weather conditions, particularly due to the [Danas]. The accumulated net effect on both homeowners and also auto for the [Danas] was well above EUR 30 million and approximately half a -- a EUR 15 million increase compared to last year. So what we're doing regarding tariffs is the same that we did in previous quarters, apply increases following an individual criteria, applying underwriting guidelines based on individual risk bases.

We're happy with the numbers that we're publishing, almost a 6.2% increase in average premium, well ahead of the market. It was 4.2%. The toll we pay in -- is a small reduction in the fleet, is 1.1% for the annualized comparison of the fleet. So let's assume that -- there is something that can we assume, but there is no other way that the increased premiums watching obviously the persistence of our portfolio.

The main objective was to protect our portfolio. So let's say that things are going as we expected, and we shouldn't expect further reductions. Let's keep our fingers crossed, and there is no severe weather in the fourth quarter, but we should expect further decreases in combined ratio in automobile in Spain.

Another figure that we haven't discussed in previous quarters is the reverse of the premium earned in the unearned premium provision per unit. And it's good to say the unearned premiums reserve is growing well over -- well ahead 6% in Spain, in other markets as well, particularly in the U.S. After 20% increase -- the accumulated increase in premiums, the unearned premium reserve is growing 14% compared to last year. So let's say, the deferred income for future quarters, that make us to be more positive in our outlook.

Felipe Navarro Lopez de Chicheri*Corporate Director of Capital Markets & Treasurer*

Just to clarify one thing on the -- or to insist on one thing on the churn ratio. I think that we mentioned in previous quarters that our churn ratio was quite stable. The numbers that we are showing us -- showing today are concerning mainly what is the participation on the new business, which -- where Mapfre is not very much competitive right now, because we prefer to preserve our old portfolio which has a better performance than the new business that could come from other companies or from price seekers. So that is something that we mentioned previously. Churn ratios are extremely good, continue to perform very, very well, and this make us proud of the evolution of the portfolio.

Leandra Elizabeth Clark*Deputy Head of Investor Relations*

We have one more question focused on the motor business in Spain, comes from Maks at JB Capital and Carlos from [Caixa BB]. And what was the reason for the increase quarter-on-quarter in the combined ratio in motor in the Spanish market?

Fernando Mata Verdejo*Group CFO & Executive Director*

Yes. As I mentioned, Carlos, the main reason was the severe weather, particularly in September. And also it was a slight increase in frequency due to the increase of mobility in summer, which is quite common in Spain.

Antonio Huertas Mejias

Chairman & CEO

Yes, that's the main reason. I think that the combined ratio, it was affected in more than 2 points in the -- for the motor business just for this effect.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

We're going to stay with the motor business, but move on to some of our other main markets. Ivan Bokhmat from Barclays would like to know, do you expect the motor combined ratio in Iberia, Brazil or the U.S. to return below 100% before year-end? When do you expect this to happen for these markets?

Fernando Mata Verdejo

Group CFO & Executive Director

We hit in some stand-alone months combined ratio lower than 100% in -- particularly in Spain and also in Brazil. The accumulated in Brazil is 101%. So it's good. In Spain as well is close to 101%. So I'm assuming the increase in the unearned premium reserve, as I mentioned before, we should expect the combined ratio to be lower than 100%, particularly in Iberia in the coming quarters.

U.S. is a different market, and it will take some more time. And let's say that the 2024 should be the -- probably at year-end when we see hitting a turnaround and breakeven in the U.S. But we're quite positive with the current trend. It could be some up and downs, but the general trend is quite positive with decreases across the Board.

There are some entities as well with a combined ratio lower than 100%, particularly Mexico, Peru and also Malta, Puerto Rico. VERTI is performing very well in Spain. So let's say there're sunny areas, shades as well, but the long run, I mean, it looks more positive.

Antonio Huertas Mejias

Chairman & CEO

Just to insist on the figure that Fernando was sharing before, I mean an increase of 14% of the average unearned premium reserve by [exports] policy is a very hoping number that we'll deliver in the next year.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

We're going to look a little more into the U.S. market in detail. We have a question again from Carlos Peixoto. What has been the evolution of the average premiums in this market, which we've slightly touched upon? And when should we expect those to feed through into premiums? And what type of impact is this having on retention?

Fernando Mata Verdejo

Group CFO & Executive Director

Well, I'll take the last one, retention, and we're quite comfortable. It was a 1% decrease, as we mentioned. And also the unearned premiums reserve per unit grew by 14%, which is quite positive in that way. So Felipe, I guess that's most of the...

Felipe Navarro Lopez de Chicheri

Corporate Director of Capital Markets & Treasurer

Just to recall on -- the average premium in North America was growing by 2.6%. The units were down 5%. So the already premium -- average premium increase on this market was over 7.6%. So that is what

we are having. I mentioned already what should we expect in the following months through the unearned premium reserve. So that is -- will be -- that will be the numbers that should be feeding into the profit and loss in the following months.

Antonio Huertas Mejias

Chairman & CEO

In any case, I mean, I would like to be a little bit prudent. I mean, we are assuming that there will be some stabilization of inflation. The CPI, again, particularly core CPI is up and down, I mean, month by month. So what we're assuming is there will be a [net] stabilization of CPI, particularly in Europe and also in the U.S. in order to get the breakeven, the turnaround. But the inflation still is an uncertainty.

Fernando Mata Verdejo

Group CFO & Executive Director

In any case, external conditions are not helping to the stability. So we should be very prudent waiting for this stabilization.

Antonio Huertas Mejias

Chairman & CEO

Absolutely. Next question, please.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

We have another question from Maks. What was the reason you booked a EUR 70 million negative net financial income and consolidated adjustments? I can take that question.

Maks, basically, the goodwill write-down that took place in the quarter, it takes place at a holding company level, which is included in this column, holding company and consolidated adjustments and the write-down affected the financial income line in non-Life.

The next question we have -- I don't know, did you want to add anything?

Antonio Huertas Mejias

Chairman & CEO

No, that's perfect.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Okay. The next question we have, again, is regarding the change in the organizational structure. It comes from Carlos Peixoto, [Caixa BB]. And he would like to know if this change in structure will lead to a change in the quarterly divisional reporting structure?

Fernando Mata Verdejo

Group CFO & Executive Director

Yes, taking opportunity to your question, let me say that it was explained, but this question were raised at the press presentation. It's very important. Our CEO, Antonio Huertas, which is present, he will remain as the main commander of the fleet for the midterm. That's so far. That's the most important, and no change in the current structure.

If you see at the bottom of the organizational charts, there is no change in the basis of operating structure. It means that the country, particularly is the main pillar of the flow of business and profit contribution to the Group.

We group in 3 -- in 4 verticals: one is pretty clear, reinsurance, the 3 correspond to direct operations. And following a rationale is pretty clear business in comparison, domestic business, quite clear. This the most

relevant region for Mapfre's. Second, LATAM and rest of EMEA and Global Risk. And as we mentioned, U.S. is a singular insurance market, and it should remain as a stand-alone region.

Antonio Huertas Mejias

Chairman & CEO

Yes, it's true. We have made these changes to help the growth of the business and to improve the supervision internally of these different units. But we are not changing the real structure of the business, and we have the same business units with the same strategic markets. So the reporting is not going to change in the coming quarters.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

We received a question regarding recent Nat Cat events, both from Farquhar Murray at Autonomous, Ivan Bokhmat at Barclays, Roger [France] and they're all -- would like to know if we have any preliminary estimates for the impact Mapfre could have from the recent Hurricane Otis in Mexico?

Fernando Mata Verdejo

Group CFO & Executive Director

There is no much information for the moment. We know that this area is not very much insured. So we would not expect an important impact on the numbers of Mapfre accounts. And the only thing that we can do is to make a comment on the victims of this hurricane and to give them the -- our sympathy and support. There is no main issue for this -- for the -- for us, for the moment, none in the reinsurance or in the direct insurance unit. So we should not expect any main impact on this.

Antonio Huertas Mejias

Chairman & CEO

We shouldn't expect any meaningful impact.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Well, we're now going to move on to the Brazil business. We've received several questions. The first one from Carlos Peixoto. He asks, how sustainable is the 78% combined ratio? What trends should we expect across the different business lines?

Fernando Mata Verdejo

Group CFO & Executive Director

Well, as we mentioned, the current combined ratio in Brazil is extraordinary. It shouldn't be sustainable for the mid and long run. In the past, we run a combined ratio close to [90%], in the low 90s, I think is a better estimate. The current one, the only thing is offsetting and in the bad results from the COVID in '21, '22 and also the [bad] results of automobile due to the inflation. So you put together, as we mentioned, and we get the average of the combined ratio for 3 years, it will be probably the average, which is the run rate you expect for the coming years.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Ivan Bokhmat from Barclays would like to ask about earning contribution from Brazil. It reached over 50% of group operating profit result at the end of September and 38% on a group net profit level. Is this run rate sustainable? What options do you have to further improve profit contribution?

Fernando Mata Verdejo

Group CFO & Executive Director

Well, as we mentioned in previous press presentation, Brazil is key. This is the first thing a, strategic market for Mapfre. Brazil has a lot of potential. Don't focus, please, on the current level of business.

We got a strong agreement with the largest financial institution in Brazil. We've got extremely power salesforce in our business -- in our operating entities.

Obviously, we should grow premium income, which is the top line and also the main driver for further increases in net income. But what is clear is the 10% yields on financial investment is not sustainable. So we should be lower. But let's say, overall, we should expect higher levels of premium volume, lower financial income, as I mentioned, combined ratio in the long run in the low 90s. Antonio, please?

Antonio Huertas Mejias

Chairman & CEO

Yes. In any case, I would like to remember that we have an extraordinary platform selling insurance for Mapfre in Brazil, is the alliance with Banco do Brasil, the largest banking in the country. And the forecast is very positive because the bank is fully aligned with Mapfre [interest]. We are increasing our distribution network there, increasing the penetration insurance, which is very low in the country.

So we can expect more positive growth in coming years with very good results because the products distributed by the bank are very profitable, like protection products, like Agro products and others. So it's -- our vision about the country is very positive. The country is very stabilized in terms of economics. So we can expect good news coming from Brazil in the next future.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

We've actually received a lot of interest about this agreement. And Ivan Bokhmat from Barclays would like to know what is the timescale when your current arrangement with Banco do Brasil could be renegotiated once more?

Fernando Mata Verdejo

Group CFO & Executive Director

Correct me if I wrong, Felipe, but I guess the current Banco do Brasil agreement last till beginning of the [30s] or so, it means like 8 years. But we're quite happy, as Antonio said, that there is an extraordinary business relationship with the bank. There is -- the current agreement is a win-win transaction. We renegotiated in the past and our -- will -- we will more than happy, I mean, to sit down again and at the termination of the agreement and trying to renegotiate, because there are 2 operations that they're working perfectly very well together in terms of business growth and also profitability. But that's basically -- Antonio, I don't know, yes.

Antonio Huertas Mejias

Chairman & CEO

Yes. Our conversations with the senior managers and the President of the bank are very positive. They are happy -- very happy I would say with the Mapfre relationship,, with our performance. We don't expect -- we don't have any negative input about our future with our common relationships.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

We've received a few questions regarding the recent goodwill write-down in the U.S. as well as the remaining goodwill and other operations on our balance sheet. The first question comes from Carlos Peixoto. How much goodwill related to the U.S. remains on our balance sheet after this write-down? And what was the trigger for the markdown this quarter?

Fernando Mata Verdejo

Group CFO & Executive Director

Yes. The goodwill -- the net value at the beginning of the year was like EUR 650 million and also [average] due to the exchange rate, obviously. And -- so as I mentioned, the EUR 75 million goodwill impairment is equivalent to 11% more or less of the net value of the goodwill.

We booked this impact in the third quarter as an anticipation. It was just [a necessary] transparency for the analysts and investors. The main trigger is -- I will say, there are 2. First is the increase of rates. So the current -- I don't mind disclosing this information. The discount rate was 9%, a little bit higher than last year. And also the trigger were the losses of this year and also the current inflation problem that we're facing in the U.S., frankly talking.

And we had another scenarios, probably more bullish, that didn't take us to deteriorate the goodwill, but we were prudent and the business plans that we consider, which is provisional, [which] has to be approved by the Board in December, considers a combined run rate -- combined ratio at the fifth year of the projection of 97.5%, which is the combined ratio that we discussed in previous meetings.

And perpetuity, it will be quite conservative as well and also similar to inflation of 2.1%. So let's say that the assumptions are pretty prudent. And for us, it's not a big issue, something that we [thought] in the past as well. Doesn't represent any problem in our cash generation. So let's say that is not a big deal, and it's just that was a prudent decision in the current context.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

[indiscernible] would also like to know if we should expect another impairment in U.S. in the fourth quarter of the year? Could you comment on the discount rate used in the goodwill impairment test? I think Fernando just mentioned the 9% discount rate, but maybe you can comment on future impairments?

Fernando Mata Verdejo

Group CFO & Executive Director

Yes, [indiscernible], frankly, to be honest, what we did is an anticipation of the -- of our year-end estimation in order to avoid any misleading in the current intangible asset analysis. And let's say the -- we booked at the third quarter is because it's our best estimation as well for year-end projection. So let's say that, assuming that there is no significant fluctuation in the 10-year U.S. note and also we now apply in the year-end also on average for December of the third quarter. So let's say that we shouldn't expect any further deterioration impairments of goodwill.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

And the last question from [indiscernible] is, keeping in mind the increase in interest rates that -- are there other subsidiaries at risk of an impairment, for example, Germany, where the recoverable value was close to valuation at 2022 year-end?

Fernando Mata Verdejo

Group CFO & Executive Director

Well, let's say that we analyze on a quarterly basis, if there is any goodwill at risk. Currently, Germany is not at risk. Let's assume that the current setback that we see in Germany is due to the severe weather condition in summer, and inflation is being offset by increases of rates and the current market outlook for the U.S. is completely different than the one we have in Germany. So let's say that the job is done, and we shouldn't [spare] significant further goodwill impairments.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Moving on to another topic. Ivan Bokhmat at Barclays would like to know if the corporate reorganization will involve restructuring costs?

Antonio Huertas Mejias

Chairman & CEO

Not in the short term. We don't expect a few -- a big shakeup in the organization in terms of cost reduction. We have in place a big plan to reduce costs, increasing efficiency, changing many parts of the

organization, but it doesn't depend on this restructuration. This is a continuity plan to align better the management and to have the better resources that we need in -- on board to improve the growth and to help the [back] to profitability in some units.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

We have one last question. Carlos Peixoto from CaixaBank would like to know more about the reinsurance business. Do you see the 95% combined ratio as sustainable? And given the absence of large Nat Cat, do you see a risk of pressure on pricing?

Fernando Mata Verdejo

Group CFO & Executive Director

Well, the first question, let's say, is a fairly estimation. 95% is -- we assume that 96% is the whole Group combined ratio. Reinsurance should be lower than the average. So 95% is a fairly estimation.

Regarding price pressure, as long as there is no big Cat events, we assume that probably the U.S. market is well priced. But we mentioned as well that Europe is underpriced. And again, the main weather conditions -- the severe weather conditions and [mainly] storms has affected the Europe. So we should expect an increase in rates, particularly in Europe for P&C.

Antonio Huertas Mejias

Chairman & CEO

The comments that we received from the Monte Carlo Meetings was in this direction -- this precise direction that Fernando was mentioning. We are in a hard market right now, which is quite beneficial for insurance industry. The situation of Mapfre that was not affected by any Nat Cat, or any main Nat Cat on top of this earthquake in Turkey. And these hailstorms in Europe is not across all the reinsurance companies. So we should not expect a change -- a main change in the situation of the market. There is no new capital coming to the reinsurance market in general. So we should expect that this will be an ongoing situation and we would -- there would be no main changes in the reinsurance international market for the moment.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

There seems to be no further questions. Before we go, first of all, we would like to thank you for your patience today. If anyone connected later, please feel free to call us and we can catch you up with anything you may have missed due to the technical difficulties. And also, we would like to mention the upcoming events.

We will be holding a virtual group meeting on Tuesday, November 2nd. You should have already received an invitation. We will also be holding 2 investor and analyst meetings with Antonio Huertas, Fernando Mata and other members of the management during the month of November. The first one will be in London on Monday, November 27th, and the second in Madrid on November 30th. Anyone who is interested in attending and hasn't received the invitation yet, please reach out to us.

Thank you for your time today.

Felipe Navarro Lopez de Chicheri

Corporate Director of Capital Markets & Treasurer

Thank you again for your presence, and Antonio, you got the floor just to say bye-bye and...

Antonio Huertas Mejias

Chairman & CEO

Yes. Firstly, before -- to the end, I would like to insist the importance of the [restructuration] that we have presented today. I think it's a good opportunity to maintain our evolution. It's not -- actually, it's not a radical change. It's a way to improve our operations. With this new structure, our purpose, our vision

and our values remain the same. Our transformation is still focused on sustainable and profitable growth, continues with improving internal efficiency and launching more innovation -- more innovative products and services.

We have taken the opportunity for this [team] to apply their expertise to new areas, the responsibility, bringing a fresh approach to face current challenges. In addition, it's important to consider that a younger management team will help us to create new opportunities, perspective, solutions and ways of working. So we are very happy. The Board is pretty confident considering that it's a new time for really improving our operations and our international development in insurance and reinsurance services.

Thank you very much for being today with us.

Felipe Navarro Lopez de Chicheri

Corporate Director of Capital Markets & Treasurer

Thank you very much, everybody. And once again, I will apologize for these technical issues that we had during the meeting today. Thank you.

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