



Investor &
analyst call –
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transcript

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Company participants

- Antonio Huertas Mejías, MAPFRE SA, Chief Executive Officer
- Fernando Mata Verdejo, MAPFRE SA, Chief Financial Officer
- Felipe Navarro López de Chicheri, MAPFRE SA, Corporate Director of Capital Markets and Treasurer
- Leandra Elizabeth Clark, MAPFRE SA, Deputy Head of Investor & Analyst Relations

Presentation

Felipe Navarro López de Chicheri

Good afternoon, and welcome to Mapfre's Activity Update for the first nine 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 this.

This is Felipe Navarro, Corporate Director of Financial Markets and Treasurer of the Group. Thank you for being here today. It is a pleasure to have with us Mr. Antonio Huertas, who is the Mapfre's CEO. He will give us an overview of recent trends and corporate developments.

It is also our 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.

As a reminder, 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 Mejías

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 nine months of the year. Premiums are growing 10.9%, above EUR20.6 billion.

Revenue is growing at a similar rate and it stands at over EUR24.5 billion at the end of September, which means that by the year end we could exceed EUR30 billion in revenues. The Group's recurring result is EUR546 million, up 12%.

As Fernando will explain later, we have taken a prudent approach by applying a EUR75 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 result comes down to EUR471 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 II 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 a 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 in Latin America, together with active investment management, have led to a more than EUR150 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 shortfalls, 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 June's 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 gives 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 EUR300 million net result. Furthermore, within Latin America, it is worth highlighting Brazil, which has doubled its results, earning more than EUR180 million; thanks to improvements in both the technical and the financial results.

MAPFRE RE, which includes the Reinsurance business as well as Global Risks, has also shown a very positive development, with a net result of EUR190 million, double the previous year despite the net cost of Turkey's earthquake, which amounted to EUR100 million.

On the other hand, ongoing tariff adjustments already implemented in North America have not yet managed to counterbalance the adverse scenario in Auto. Therefore, we will 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 the market figures. Fernando?

Ferenando Mata Verdejo

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 have 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 EUR1.3 billion, nearly 13% growth in General P&C, 8% in Accident & Health, and 4% in Auto. Life premiums are up over EUR700 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. Within the Life business, it 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 above 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 continued contributing positively with combined ratios of 98% and 67% respectively.

Financial results continued improving and the net result stands at EUR246 million. The result includes a EUR46.5 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 EUR29 million and EUR16 million -- sorry, EUR17 million in Life and Non-Life, respectively.

Business in LatAm is consolidating strong trends with a result of EUR284 million, the largest contributor to Group earnings. Brazil is showing strong growth and its result 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 Auto combined ratio remains 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% put 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 EUR18 million. Financial income is significantly down, 26%, mainly due to lower realized gains. As you are already aware, following prudent criteria, the Group recorded at September EUR75 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. It's approximately 11% of its 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 yearend according to interest rates and the final business plans to be approved by the Board.

In EMEA, premium reached over EUR1 billion, representing a 1.9% decrease, which reflects the deceleration in the Life business in Malta. The region recorded EUR31 million in losses mainly related to the complicated Auto environment worsened by the heavy rains and also hail storms 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 Risks business, is consolidating very strong trends. Premiums grew 9.3%, reaching nearly EUR6.1 billion. The combined ratio improved significantly, reaching 95%, in that case supported by general tariff increases in the Reinsurance market.

The most relevant event, you know very well, has been the earthquake in Turkey with EUR100 million impact on the Group net result. There have been other relevant events, including the summer hailstorms in Europe, which have been offset by a benign Atlantic hurricane season.

The financial results also grew with a EUR97 million gross contribution to the Non-Life result. Realized gains, net of impairments, had an EUR8.4 million impact positive on net results. And finally, all in all, earnings reached almost EUR190 million, nearly double the previous period.

The Assistance 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 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, with premiums growing 5% and the portfolio relatively stable, down only 1.1%. In Brazil, premiums are up 2.5%, with insured fleet down 18%. In North America, premiums grew 2.6% with insured units also down almost 5%.

Motor is still reporting a net loss of around EUR42 million, mainly from the U.S., while Spain is approaching break-even. Brazil is reporting a modest profit, in that 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 faced in summer in Germany -- in Italy and Germany, which was aggravated by the storms - the 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 standalone combined ratio for this quarter of 100.5%, and under 103% as at September, down 14 points year-on-year. Iberia had a slight increase in the combined ratio in the quarter due to higher frequency and adverse summer weather, reaching 101.6% in the third quarter standalone and 102.9% as of September.

In North America, there was a sharp improvement in the combined ratio from 112% to 105% on a standalone quarterly basis, continuing, on the other hand, to show high volatility. Frequency is stable, but the severity continues to rise. The already implemented tariff increases in our main market, the U.S., more than 20% accumulated since 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 break-even, while the U.S. will still need some time.

On the left, you can see the breakdown of financial resources. Shareholders' equity increased by EUR300 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 with 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 our 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 sovereign debt continues to be the largest exposure in our portfolio, with almost EUR9 billion. And as a reminder, a large share of these positions are allocated to immunized 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 is 6% during the period.

On the screen, you have the information regarding our fixed income investment portfolio. First of all, I would like to remind you that a large share of our EUR29 billion fixed income portfolios is immunized or matched. So, we will focus on the actively managed portfolios on this slide, as 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 EUR11 billion. Duration overall is 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 would 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 EUR5.8 billion. Duration is slightly down in Brazil and North America, but up by close to 1 percentage point in the rest of LatAm.

Regarding portfolio yields, in North America they are slightly up; in Brazil, they are 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 Mejías

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 part of our DNA. Mapfre's Board of Directors has decided to approve a EUR0.06 interim dividend for 2023, the same amount as last year. It will be paid on November 30. Total dividends paid to Mapfre's shareholders during 2023 reach EUR447 million and as usual are paid fully in cash. During the last five years, Mapfre has paid out more than EUR2.1 billion in dividends to our shareholders. The average dividend yield over the last four years has been 8%, well above most peers.

Now, I 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 two main reasons. Firstly, the market context. It's far from being supportive 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 is low. The energy crisis, political changes, armed conflicts, et cetera, all point 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 needs 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 retirements. 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 of January 1, which are another step forward in the direction we initiated a decade ago. This new boost for our business has a twofold target, simplifying as well as adapting the Group's structure to a new stage.

First, we have two 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 second in command. The other one is going to be our CFO, Fernando Mata. Congrats, Fernando. Welcome on board as new Vice President of Mapfre's Board.

From an organizational point of view, the simplification has been applied both horizontally 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 and Sustainability area in order to align ESG and strategy to focus on the heart of this Group, our people.

Regarding operations, they will be grouped into four vertical units, reinsurance and three insurance units: Iberia, which is our domestic market, a new international insurance unit that will comprise the LatAm business together with the EMEA and Global Risks 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 Senior Executives positions are affected. Now, we have a younger team that boasts many years of experience within the Group. This team will be the keystone of the design, 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 strategy targets. In terms of growth, at constant exchange rates, we are growing 12%, well above the target of 5% to 6% for 2023 to 2024. The average combined ratio 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 standalone ratio was around 96%.

We maintained our target of average ROE of 9% to 10% for 2023-2024. As of September, excluding the goodwill breakdown in the U.S., it was over 9%. Regarding our financial reference framework, both the Solvency II 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, strengthening personal relationships, and taking care of all 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 have the call over to Leandra to begin the Q&A session.

Q&A

Leandra Clark

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 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 Mejías

This is Antonio speaking. 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

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

Antonio Huertas Mejías

In any case, it's still a strategic market for Mapfre.

Fernando Mata Verdejo

Absolutely.

Leandra Clark

Thank you, Antonio. Thank you, Fernando. The next question comes from Paz Ojeda in Banco 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 non-cash and extraordinary items.

Fernando Mata Verdejo

Yeah. Thank you, Paz. And look, Felipe can also complement my statement, but traditionally in previous years, 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 López de Chicheri

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 Clark

Thank you. The next set of questions are related to the Motor business in Spain. Carlos Peixoto from CaixaBank as well as Max 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.

Fernando Mata Verdejo

Yeah, thank you. Quite interesting question. We saw, I would say, an unexpected uptick in the combined rates 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 EUR30 million, and approximately half, a EUR15 million increase compared to last year. So, what we're doing regarding tariffs is the same that we did in the previous quarters. Applying increases following an individual criteria, applying underwriting guidelines based on individual risk basis.

We're happy with the numbers that we're publishing, almost 6.2% increase in average premium, well ahead of the market, it was 4.2%. The toll we're paying is a small reduction in the fleet, it's 1.1% for the analyzed comparison of the fleet. So, let's assume that there is something that we can assume. But there is no other way than increase 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 that 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 reversal of the premium earned is in the unearned premium provision per unit. And it's good to say the unearned premium reserve is growing well ahead 6% in Spain. In other markets as well, particularly in the U.S., after 20% increase in -- accumulated increase in premiums, the unearned premium reserve is growing 14% compared to last year. So, let's say, they are deferred income for future quarters that make us to be more positive in our outlook.

Felipe Navarro López de Chicheri

Just to clarify one thing or to insist on one thing on the churn ratio. I think that we mentioned 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 these make us proud of the evolution of the portfolio.

Leandra Clark

We have one more question focused on the Motor business in Spain. It comes from Max at JB Capital and Carlos from Caixa BPI. And what was the reason for the increase quarter- on-quarter in the combined ratio in Motor in the Spanish market?

Fernando Mata Verdejo

Yeah, 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.

Felipe Navarro López de Chicheri

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

Leandra Clark

Thank you. 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 to below 100% before year end? When do you expect this to happen for these markets?

Fernando Mata Verdejo

Well, thank you, Ivan. We hit in some standalone months combined ratio lower than 100, particularly in Spain and also in Brazil. The accumulated in Brazil is 101, so it's good. In Spain as well, it's close to 101. So, and 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.

The U.S. is a different market, and it will take some more time. And let's say that 2024 should be probably at yearend when we see hitting turnaround and break-even in the

U.S. But we're quite positive with the current trend. There could be some up and downs, but the general trend is quite positive, with decreases across the board.

There's 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 are sunny areas, shades as well. But in the long run, I mean, it looks more positive.

Felipe Navarro López de Chicheri

Just to insist on the figure that Fernando was sharing before, I mean, an increase of 14% of the average unearned premium reserve by exposed policy is a very hoping number that we'll

deliver in the next year.

Leandra Clark

Thank you. 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

Well, I'll take the last one. Retention, 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 most of the --

Felipe Navarro López de Chicheri

Just to recall, on the average premium in North America was growing by 2.6%. The units were down 5%. So, the already 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 will be the numbers that should be feeding into the profit and loss in the following months.

Fernando Mata Verdejo

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, but CPI, again, particularly core CPI, is up and down, I mean, month by month. So, what we are assuming is there will be a stabilization of CPI, particularly in Europe and also in the U.S. in order to get the break-even, the turnaround. But the inflation still is an uncertainty.

Antonio Huertas Mejías

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

Leandra Clark

Thank you. We have another question from Max. What was the reason you booked a EUR70 million negative net financial income in consolidated adjustments? I can take that question. Max, basically the goodwill write-down that took place in the quarter, it takes place at a holding company 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. again, is regarding the change in the organizational structure. It comes from Carlos Peixoto at Caixa BPI, 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

Yes, taking opportunity of your question, let me say that it was explained, but this question was 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, 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 our 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 it in three -- in four verticals. One is pretty clear, Reinsurance. The other three correspond to direct operations. And following a rationale is pretty clear business comparison. In domestic business, quite clear. This is the most relevant region for Mapfre. Second, LatAm and rest of EMEA and Global Risks. And as we mentioned, U.S. is a singular insurance market and it should remain as a standalone region.

Antonio Huertas Mejías

Yeah, 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 Clark

Thank you. We received a question regarding recent nat cat events, both from Farquhar

Murray at Autonomous; Ivan Bokhmat at Barclays; and Roger Franz. They all would like to know if we have any preliminary estimates for the impact Mapfre could have from the recent Hurricane Otis in Mexico.

Felipe Navarro López de Chicheri

There is not 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 our sympathy and support. There is no main issue 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.

Fernando Mata Verdejo

We should not expect any meaningful impact.

Leandra Clark

Thank you. 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 trend should we expect across the different business lines?

Fernando Mata Verdejo

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 ran a combined ratio close to 90, in the low 90s. I think it's a better estimate. The current one, the only thing is offsetting the bad results from the COVID in '21-'22 and also the bad results of Automobile due to inflation. So you put together, as we mentioned, and we get the average of the combined ratio for three years, it will be probably the average, which is the run rate expected for the coming years.

Leandra Clark

Thank you, Fernando. 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

Well, as we mentioned in previous press presentations, 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've got a strong agreement with the largest financial institution in Brazil. We've got an extremely powerful 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 it should be lower. But let's say overall, we should expect higher levels of premium volume, lower financial income, and as I mentioned, combined ratio in the long run in the low 90s.

Antonio, please?

Antonio Huertas Mejías

In any case, I would like to remember that we have an extraordinary platform selling insurance for Mapfre in Brazil. It's the alliance with Banco do Brasil, the largest bank in the country. And the forecast is very positive because the bank is fully aligned with Mapfre's interests. We are increasing our distribution network there, increasing the penetration of 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 Clark

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

Fernando Mata Verdejo

Correct me, if I'm wrong, Felipe, but I guess the current Banco de Brasil agreement lasts till the beginning of the 30s, so it means like eight 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've renegotiated in the past and we will be more than happy to sit down again at the termination of the agreement and try to renegotiate, because there are two operations that are working perfectly, very well together in terms of business growth and also profitability. But that's basically. Antonio, I don't know, yeah.

Antonio Huertas Mejías

Yeah, 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 Clark

Thank you, Antonio. 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

Yeah, thank you. The goodwill, the net value at the beginning of the year was like EUR650 million. And also, it varies due to the exchange rate, obviously. So, as I mentioned, the EUR75 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 an exercise of transparency for the analysts and investors.

The main trigger is, well, I will say there are two. 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 other trigger was 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 considered which is provisional 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 we discussed in previous meetings. And the 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've done in the past as well. Doesn't represent any problem in our cash generation. So, let's say that it's

not a big deal and it just was a prudent decision in the current context.

Leandra Clark

Thank you, Fernando. Paz Ojeda 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 tests? I think Fernando just mentioned the 9% discount rate, but maybe you can comment on future impairments.

Fernando Mata Verdejo

Frankly, to be honest, what we did is an anticipation of our year-end estimation in order to avoid any misleading in the current intangible asset analysis. And let's say that 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 are not applying the year-end, also an average for December or the third quarter, so let's say that we shouldn't expect any further deterioration impairments of goodwill.

Leandra Clark

Thank you, Fernando. And the last question from Paz is keeping in mind the increase in interest rates, are there other subsidiaries at risk of impairment? For example, Germany, where the recoverable value was close to valuation at 2022 year-end.

Fernando Mata Verdejo

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. 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 expect significant further goodwill impairments

Leandra Clark

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

Antonio Huertas Mejías

Not in the short-term. We don't expect a few -- sorry, a big shake-up in the organization in terms of cost reduction. We have in place a big plan to reduce cost, 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 resources that we need on board to impulse the growth and to help get back to profitability in some units.

Leandra Clark

Thank you. 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 NatCat, do you see a risk of pressure on pricing?

Fernando Mata Verdejo

Well, the first question, let's say this is a fairly estimation, 95%, is we assume that 96% is the whole Group combined ratio. The reinsurance should be lower than the average, so 95% is a fair 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 main storms has affected to Europe. So we should expect an increase in rates, particularly in Europe for P&C.

Felipe Navarro López de Chicheri

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 there will be no main changes in the reinsurance market for the moment.

Leandra Clark

Thank you. There seem 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 2. You should have already received an invitation. We will also be holding two 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 27, and the second in Madrid on November

30. Anyone who is interested in attending and hasn't received the invitation yet, please reach out to us. Thank you for your time today.

Fernando Mata Verdejo

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

Antonio Huertas Mejías

Yeah, firstly, before to the end, I would like to insist on the importance of the restructuring 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, our values remain the same. Our transformation is still focused on sustainable and profitable growth. It continues with improving internal efficiency and launching more innovation, more innovative products and services.

We have taken the opportunity for this thing to apply the expertise to new areas of 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, perspectives, solutions and ways of working. So, we are very happy. The Board is pretty confident considering that it's a new time for improving our operations and our international development in insurance and reinsurance services. Thank you very much for being today with us.

Felipe Navarro López de Chicheri

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

Fernando Mata Verdejo

Thank you, Leandra. Thank you, Felipe. I would like to end this presentation just with our apologies. We know that this IFRS is pretty complex, and the business and also the footprint of MAPFRE is also complex. So there are two complexities together. We're trying to enhance our presentation following your requests and also following your inputs and feedback. As Felipe mentioned we should improve disclosure on numbers and also explanations regarding trends for our business model.

We are looking forward having a similar capillarity by line of business and also by geographies under IFRS that there were under local GAAP, so in the future we have a better way of explaining our business. And we're working hard in order to reach this objective.

For those who are starting well-deserved summer holidays, I hope you have a resting, wonderful time. Enjoy. Bye-bye.

Felipe Navarro López de Chicheri

Thank you very much, everybody.

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