



Investor &
analyst call -
Edited
transcript

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Company participants

- Fernando Mata Verdejo, Chief Financial Officer
- Natalia Núñez Arana, Investor Relations & Capital Markets Director

Presentation

Natalia Núñez Arana

Good morning, this is Natalia Núñez, Head of Investor Relations. We would like to welcome you to MAPFRE's results presentation for the third quarter of 2018. We have here with us Mr. Fernando Mata, our CFO and member of the Board, who will take us through the main trends of the period.

Just as a reminder, during the Q&A, we will answer all questions received at the Investor Relations email address.

The IR team will be available to answer any further questions you might have after that.

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

Fernando Mata Verdejo

Thank you Natalia, and good morning everyone. It's a pleasure to be here with you for our third quarter 2018 earnings call. Let's begin on slide 2, where I will run through the main figures. First of all, I would like to highlight that we are still facing significant headwinds from foreign exchange movements, especially from our two largest exposures, the US dollar and the Brazilian real. At constant exchange rates, premiums are up 2.2 percent, and the net result stood at around 529 million euros, up nearly 19 percent, largely driven by lower NatCat losses. At constant exchange rates, it would have grown close to 26 percent. Shareholder's equity is down 4% year to date, again mainly as a result of currencies. I would like to highlight that currency movements have lowered net equity by over 850 million euros since January 1st last year. Our combined ratio closed at 98.1% and includes the snow storms in the US, balance sheet adjustments in Brazil and the recent Typhoon Jebi in Japan. The ROE was over 9 percent, improving 2 percentage points compared to September 2017.

Please turn to the next slide and I will briefly comment on the main highlights. Currency headwinds have been quite strong and they are expected to continue being a drag on P&L during the coming months, but to a lesser extent, that's the good news. Regarding Brazil and the USA, the restructuring process needs to gain momentum. In Brazil, we will introduce the MAPFRE business model when we close the transaction with Banco do Brasil, which will be key to improving results in Motor.

In North America, Puerto Rico has had a solid recovery after 2017 NatCat events. As mentioned, the Northeast USA was affected by winter storms during the first quarter of the year, and the Non-Northeast combined ratio is improving, but it is still too high and is being carefully monitored. We expect 2019 to be a turning point for both USA and Brazil.

Iberia, LATAM NORTH & SOUTH and MAPFRE RE are the strongest units in terms of profit contribution. Asistencia and Global Risks showed significant improvements in results.

Trends are improving in the Life business. In Spain, growth in Life-Savings has been quite strong, even when excluding a large policy issued in the third quarter. Underlying profitability is also growing. In Brazil there has been return to growth in Life-Protection, but results still need to catch up.

Talking about our capital position, it remains strong, with a Solvency II ratio above 200 percent at June. Our financial flexibility was underpinned with the successful issuance of 500 million euros in subordinated debt in this quarter. Finally, MAPFRE's strong financial situation has been confirmed by the main rating agencies throughout the year.

Please turn to the next page. In this challenging context, I would like to highlight MAPFRE's resilience, which allows us to reaffirm our commitment to stable and growing dividends, within our 50 to 65 percent payout range. Of course the main driver of dividends will be results. Our goal is to surpass last year's net result, around 700 million euros, assuming ordinary NatCat losses in the fourth quarter. We are currently working on our new three-year Strategic Plan. It will be announced at our AGM next March and will continue to be focused on profitable growth and business transformation.

Please turn to slide 5. On the right side you can see the main drivers of results by region and business unit. IBERIA continues being a strong driver of profitability, with a 354 million euro net result. Excluding real estate gains and last year's extraordinary benefits from the cancellation of a bancassurance provision, profit would have grown by over 3 percent. Again, these are outstanding results from Iberia.

MAPFRE RE was the second largest contributor with a 113 million euro net profit. Results in LATAM NORTH and SOUTH are consistently improving year on year, while Brazil is still facing headwinds. The turnaround at MAPFRE ASISTENCIA and absence of CAT losses at GLOBAL RISKS helped us improve results this year.

Please turn to slide 6. This slide shows the effects of currency depreciation on P&L. The Argentine peso and the Turkish lira were the worst performers with a 39 percent and 25 percent fall in average exchange rates, respectively. The Brazilian real is still down over 17 percent year on year. We have also seen an over 7 percent decline in the Mexican peso, and the US dollar has fallen over 5 percent.

On the left side, you can see both premium and operating profit figures at constant exchange rates. Premiums grew 2.2 percent at constant exchange rates, and 3.4 percent excluding the two following extraordinary policies: the biannual PEMEX policy, for approximately 500 million euros, issued in 2017, and a Life group policy, for 282 million euros, issued in Spain in the third quarter of 2018. Regarding the result of insurance business, which was stable year on year, we have grown over 9 percent at constant exchange rates, with strong growth in both Life and Non-Life.

On the next slide I will go through the main highlights by the different regions. In IBERIA, we are seeing strong underlying growth, both in Non-Life, at 7 percent, and Life at 11 percent. The combined ratio is under 94 percent, with an outstanding 90.7 percent in Motor, well below the market average. In Brazil, we are beginning to see a pick up in local currency growth, 10 percent in Life, and 3 percent in General P&C, while Motor growth is more modest. Regarding profitability, there were further balance sheet adjustments in the third quarter, mainly in the Motor business. Even excluding these adjustments, this line is still underperforming. Lower financial income and higher acquisition expenses are also still weighing on results. We expect profitability measures in Motor to begin to deliver in the coming quarters, and we reaffirm the 3-year combined ratio target of below 100 percent.

In North America, the Northeast USA is growing around 1 percent in US dollars, on the back of tariff increases, while premiums in the Non-Northeast region are still being reduced. In Puerto Rico premiums are up 26 percent in dollars as a result of higher tariffs in commercial lines.

And finally, in LATAM NORTH and SOUTH, there are positive premium trends across the region, with Mexico up 14 percent in local currency, in that case excluding PEMEX. Peru is up 14 percent, and we are seeing relevant growth across Central American countries. Premiums in Chile are still down year on year due to cancellations of unprofitable business, which is having a positive impact on results. In addition, the sale of a building this quarter has had a 22 million euro net impact on Group results. Finally, in Colombia, additional provisions have been made in Annuity and Workers' Compensation run off portfolios as a result – as mentioned in previous presentations – of updating long-term financial assumptions, as usual following MAPFRE's quite prudent valuation policy.

Please turn to slide 8. In Eurasia, Italy continues growing both premiums and results. Turkey is facing a reduction in its Motor portfolio which has a higher combined ratio due both to the already noted 2017 MTPL regulation as well as higher inflation. In Malta, premiums are up 10 percent year on year, thanks to Life Savings, which is performing very well.

Profitability is excellent at MAPFRE RE, as I mentioned, despite an increase in attritional claims and a large event during this third quarter.

Finally, ASISTENCIA and GLOBAL RISKS continue reducing premiums as a result of ongoing business restructuring. As you can see, the improvement in underlying results in ASISTENCIA was 36 million euros, and in GLOBAL RISKS around 18 million euros. Again, these are underlying results, because in absolute terms the reduction in Global Risks was around [100] million euros.

Please turn to slide 9. Here I would like to talk about extraordinary impacts that affected results. Weather-related and Nat Cat claims are down over 150 million year on year. Hurricanes and earthquakes affected direct insurance, MAPFRE RE and Global Risks in 2017, as you know. This year there have been severe winter storms in the US in the first quarter, with an 11.5 million euro net loss for MAPFRE USA and 7.6 million for MAPFRE RE due to the quota share reinsurance

agreement. Also, MAPFRE RE was affected by Typhoon Jebi in Japan, with an initial estimated net loss of 39 million.

There were several corporate transactions in 2017 and they're fully disclosed in the footnote, with a total net impact of 15.7 mn euros. This year, corporate transactions include the negative 7 million euro impact from the US exit plan and a 4 million hit from closing the GLOBAL RISKS office in Germany, this last one was taken in September of this quarter. Realized gains are stable year on year, as real estate is up and financial investments, on the other hand, are down in a volatile market context. This year's transactions include the sale of 2 buildings in Chile and Portugal, with a 22 and an 8.5 million euro net impact respectively, both in the third quarter. Finally, 2017 figures also reflect a 27 million euro net gain from the reversal of a provision for contingent liabilities in bancassurance. Taking into account all these effects, the adjusted net result is down around 2 percent.

Please turn to slide 10. There were additional extraordinary adjustments in Brazil in September as a result of the final - I want to emphasize final – review to achieve a more conservative balance sheet valuation, with a 22 million euro negative net impact during the third quarter, reaching 31 million euros total for the year.

This is good news - on November 6th, the last approval was received from the SUSEP and in this context, the transaction will be completed on November 30th. Full disclosure of these adjustments, which are mainly related to the Motor and Life business lines, is at the bottom of the slide.

Please turn to the next page to look at the main figures of the Non-Life business by region and business unit. Here, I would like to focus on the combined ratio. As you can see, there have been solid improvements in IBERIA and LATAM NORTH & SOUTH, thanks to the successful implementation of our profitable growth strategy in these regions. The combined ratios at MAPFRE RE and GLOBAL RISKS have been exceptional, especially when considering the current market context. Brazil has been affected by the balance sheet adjustments that we just commented on the previous slide and, excluding these adjustments, the Combined Ratio would stand at around 91%.

Please turn to slide 18 where I will briefly comment on the balance sheet and solvency. Shareholder's equity has fallen this year by over 340 million euros to around 8.3 billion euros. The net unrealized gains of the Available for Sale portfolio fell by over 200 million euros and currency conversion differences fell by over 210 million euros during the year. These declines were driven by several market movements: first, the depreciation of our main currencies, second, higher yields in Europe and in the US, and finally, the fall in European equity markets.

As you can see on the right, these currency conversion differences have been the largest in Brazil, followed by the Turkish lira. Also the diversification of our balance sheet has helped mitigate these changes as we have seen positive contributions from the US dollar and the Mexican peso.

Please turn to slide 19. On the left you can see that Assets under management are down slightly since the beginning of the year. This is driven by volatility in stock markets and peripheral bonds, as well as currency movements, mainly, again, the Brazilian real. The breakdown of the investment portfolio is on the left. Asset allocation has been relatively stable throughout the year. Our cash position is up from 2.2 to 2.6 bn euros during the quarter, mainly as a result of our recent subordinated debt issuance. The largest exposures correspond to Spanish sovereign debt with 16 billion euros. In Italian sovies our exposure is 2.8 billion euros, close to the 3 billion euro limit recently approved by the Board. It's worth highlighting that over two thirds of these positions are located in immunized portfolios, as you can see on the bottom right chart. This somewhat limits our risk exposure.

On slide 20 we will look at our actively managed investment portfolios. Our portfolio yields are quite high, 2.3 percent in Non-Life and nearly 4 percent in Life, well above market yields. Duration in Non-Life has slightly increased throughout the year, trying to keep accounting yields stable. Regarding realized gains, during the third quarter, Spanish debt has been very volatile. Realized gains reached 73 million euros in Non-Life portfolios, down around 36 million euros compared to last year. Gains are also slightly down in Life portfolios, due to MAPFRE RE.

Please turn to the next slide. On the left, you can see the breakdown of the capital structure which amounted to 12.3 billion euros. During the quarter, we issued 500 million euros in subordinated debt with an effective yield of under 4.2%, 20 basis points lower than the last debt issue from last year. With this bond, leverage has increased to over 20%, still at very low levels compared to peers. We now have 680 million euros undrawn on our credit facility, which gives us significant financial flexibility.

Let's move on to Solvency II figures. The Solvency II ratio stood at close to 202 percent at June 30th, above our 200 percent target range, confirming MAPFRE's strong and stable solvency position, even in a year marked by high market volatility. We have a high quality capital base with 93 percent of Eligible Own Funds in Tier 1. The new subordinated bond is Tier 2 debt and will be reflected in the September figures when we release them.

Let's move on to the last slide, and I will make a few closing remarks. Regarding currencies, we have faced significant headwinds during the recent quarters and we expect this to continue, to a lesser extent, in the coming months. Again, this is a consequence of our diversified business model, which in the long run provides us with balance sheet resilience, earnings stability and also growth opportunities. We have achieved our restructuring targets for Brazil and the US, and we expect these processes to gain momentum after the transactions are closed. As we previously mentioned, for MAPFRE, day one will be January 1 next year.

We are pretty confident in the outlook for Brazil. The economy is improving, the political situation is stabilizing after recent elections, and we will be able to optimize the new agreement with Banco do Brasil in a more favorable environment. In USA we are now beginning to see the effectiveness of the new profitability initiatives already implemented, and California is a good example of how we can implement the turnaround in other states.

We believe that MAPFRE's capabilities are greater than what current numbers are showing. Several important units are performing well: IBERIA, LATAM NORTH and SOUTH and MAPFRE RE, which is proof of our ability to successfully implement our profitable growth strategy.

Finally, MAPFRE has a solid capital position which will underpin dividend stability and allow us to continue to meet our commitments with shareholders.

That's all from my side. Thank you and now I will hand the call over to Natalia to begin the Q&A session

Natalia Núñez Arana

Thank you, Fernando. But before the Q&A, I would like to make one quick announcement. I am pleased to let you know that we will be hosting our next Investor Day on April 8, following the AGM in March. We will provide you with the specific details at a later date, but we can anticipate that the agenda will cover the main topics from the new strategic plan, and we look forward to sharing this opportunity with you again.

So, now we can start with the Q&A session.

Q&A

Natalia Núñez Arana

The first question comes from Ivan Bokhmat from Barclays, and it is regarding the combined ratio in Iberia. The combined ratio appears weaker in 3Q across the board, Motor, General P&C and Accident & Health, is there a trend behind the losses?

Fernando Mata Verdejo

Thank you, Ivan. First, a general comment about the weather and seasonality in Spain. Usually severe rains happen before summer. This year, it happened mainly in September and also in October. So, these rains are increasing the combined ratio both in Auto and Homeowners, but it is seasonal. We have to look at the combined ratio in the long run in order to see future trends.

We maintain our best-in-class combined ratio in Iberia, we're extremely satisfied with all the measures implemented, and we are pretty satisfied with the excellent performance in the country.

The combined ratio in Spain goes from 93.5% in June this year to 93.7% at the end of the third quarter. And it was, as I mentioned, due mainly to weather-related claims affecting these three lines – Motor line, also Homeowners and Agriculture lines, which is very important. I would like to mention the very positive evolution of the combined ratio in Portugal from 101% in June this year to 97.2% at the end of the third quarter. And it was thanks to a relevant improvement in our claims experience. In particular, Workers' Compensation, which is a line of business we are leaving due to the high loss ratio.

Natalia Núñez Arana

Okay, thank you. Another question from Ivan is, what is MAPFRE's competitive strategy in Spain at this moment? You mentioned at the second quarter 2018 that low combined ratio left room for market share gains.

Fernando Mata Verdejo

Let's say, Ivan, that growth is important, but profitable growth is even more important. And this is the main message I want to send to you and to the rest of your colleagues. Iberia has a leading position in the main Non-Life segment in Spain and a very low combined ratio, approximately below 94%.

In the Motor line, what we've seen is further improvement year by year. And our view is that the current 90% level will be quite challenging to maintain in the future, especially to gain market share. In the long run, what we see 92% combined ratio for Automobile as a more reasonable level. Obviously, this gap allows us to be a little bit more competitive in terms of tariffs, but keeping our stricter underwriting policies and also our prudent guidelines. With the recent insurance data published by ICEA in June 2018, we're still maintaining a gap of nearly 5 percentage points versus the market in the combined ratio.

For growth opportunities, we're looking at the different opportunities we can see in the market, but always focused on profitability. As we already mentioned in a previous presentation, we have begun to grow again in the fleet segments, small van fleets, after several years of reducing exposure. It will give us room for growth in automobile, which is very important for MAPFRE.

In other Non-Life segments, we've seen some room for improvements in Homeowners and Third-Party Liability combined ratios, where our view is that currently there is room for improvements in both lines of business.

Natalia Núñez Arana

Okay. Thank you very much. Looking at another question regarding Iberia. This question comes from Farquhar Murray from Autonomous. Could you outline where you expect the tax changes related to unit link to have a material impact on the sales, reserves and operations of MAPFRE VIDA in Spain?

Fernando Mata Verdejo

First of all, this is not a change, this is a proposal. We have to see whether or not it will come to be confirmed as law. And so far, I wouldn't like to comment on this topic. But anyway, in the end, if there is a levy on these products; I don't think it will affect either our balance sheet or our sales in MAPFRE VIDA.

Natalia Núñez Arana

Okay. Thank you very much. Now, Ivan Bokhmat from Barclays asks about the increase in the loss ratio in the reinsurance and Global Risks businesses in the third quarter, and if we could give more details of the geographic distribution of losses.

Fernando Mata Verdejo

First of all, let me take a positive view on both entities, and highlight the excellent combined ratios in MAPFRE RE and Global Risks, which are both around 96%, and are both improving in comparison with last year when we were affected by the five catastrophic events in the third quarter.

I'd say that the improvement is a result of our strict technical management, underwriting guidelines and our effective reinsurance strategy based on a quite low risk appetite. With regard to this quarter, we have seen an increase in non-catastrophic losses, what we call attritional losses, in both units, which has led to a slight increase in the third quarter in some regions, Europe and the U.S. regions are worth mentioning, for example, but all in all, we are very proud of this technical management, especially in a quarter affected by large catastrophes.

Natalia Núñez Arana

Okay. Thank you so much. Now, another one from Ivan from Barclays is regarding LATAM. Strong improvement was seen across LATAM North and LATAM South in both Life and P&C. How sustainable is this result?

Fernando Mata Verdejo

Thank you, Ivan. It was said many years ago that MAPFRE wouldn't achieve a combined ratio in LATAM North and LATAM South below 100%. Fortunately, those forecasts were wrong, and we're happy with the current performance that we have seen in both regions. Last year, they were around 98% and this year they're below that, with a 2.4 percentage point decrease and a 1.9 percentage point decrease in both regions. MAPFRE has proved to have a high level of expertise and track record in emerging countries. And now, we are harvesting the fruits of the initiatives implemented in the majority of the countries and also the know-how and the expertise that MAPFRE is able to deliver in these regions.

In LATAM North and LATAM South, the main driver is value creation and long-term resilience, as we said, earnings stability and also strong capital position. So, despite the economy, which is cyclical, and the insurance market, which is quite complex, we are extremely confident about our current footprint in both regions, LATAM North and South.

Natalia Núñez Arana

Great. Thank you. Now, there's a question from Michael Huttner from JPMorgan, regarding strategy and targets. What is the sustainable profit run rate once the planned Brazil and North America restructurings are complete?

Fernando Mata Verdejo

We're about to complete both countries' restructuring processes. Michael, as we said, day one for MAPFRE in both countries is January 1. And also, you know that we are currently preparing the new strategic plan, which will be finalized over the next few months and approved by the board at the end of the year, beginning of next year, and presented at our AGM in March 2019. At that point, we'll be able to provide you with a clearer picture and also the new financial targets.

In any case, we do not expect any major change from our current strategy, as we are convinced that the current one is correct, but there will be a greater focus probably on transformation and innovation, in order to adapt the company to the new market trends.

In a nutshell, we're looking at where we want MAPFRE to be in the longer-term, not only a three-year plan. So, at the AGM, we'll give you more information regarding the financial targets.

Natalia Núñez Arana

Okay. Thank you very much. Now, also from Michael Huttner, the commitment to at least flat earnings for the full year 2018 versus full year 2017 seems relatively undemanding. Year-end 2017 was affected by extraordinary Nat Cats. What is your view, and also in line with this question, given the strong Solvency II of 203% at June and that the full year 2017 comparable period was

affected by extraordinary net cats, the commitment to a stable dividend seems to be relatively modest. Why not to pay more?

Fernando Mata Verdejo

Thank you, again. And as we mentioned, our target is stable and growing dividends within our 50%-65% payout range. Stable dividends for the current year 2018 makes sense when taking into account the current economy and also the market context. The underlying result was down 2% year-on-year, and we didn't exclude the adjustments in Brazil that we're still facing. Also we're still facing currency headwinds, and the low level of interest rates, and in several markets and two key units the need to gain momentum in the restructuring process.

Overall, we are satisfied with the results we've seen. Iberia continues with an excellent performance. MAPFRE RE and Global, as I mentioned, have combined ratios around 95% even after a higher Nat Cat quarter, and LATAM is proof of the success of our effective profitable growth strategy. Further improvements in results and ROE will help us to continue to grow dividends in the medium-term. So, all in all, we're looking at improving our results and also improving dividends, but both figures have to be together.

Natalia Núñez Arana

Okay. Thank you, Fernando. The next question regarding LATAM was sent by Francisco Riquel from Alantra. As for Argentina, what is the impact from hyperinflation accounting expected in Q4 both in P&L and in equity?

Fernando Mata Verdejo

Thank you, Francisco. We have included a full disclosure of the hyperinflation accounting on page 22 of our Financial Report, "Management Discussion and Analysis", which is already available at the CNMV, but this is an approximation, because we haven't booked the hyperinflation effect in our financial statements.

Also, I have to mention that the importance of Argentina in the financial statements of MAPFRE taken as a whole is quite reduced. Our current MAPFRE Argentina equity is approximately €30 million without restatement, and after restatement it will grow to €45 million.

Regarding profit, with our restatement, the profit contribution from Argentina is €13.7 million, and restated it's €1.5 million, so the net impact will be a reduction of the benefit of around €12.2 million. My advice is that you shouldn't extrapolate these figures for the full year.

First, because for hyperinflationary countries, the currency rate applied is the one at the end of the period. So at September, the current exchange rate for the peso Argentine was ARS 47 for €1, and currently it's like 40. This means there is an appreciation of the Argentinian peso during the month of October. So probably the effect on the P&L will be lower, if the Argentinian peso keeps

the same trend for the remaining part of the year. But for sure, we will include the hyperinflation accounting rules in the annual accounts for the full year.

Natalia Núñez Arana

Okay, thank you very much. The next question comes from Ivan Bokhmat from Barclays, Silvia Rigol from BBVA, Michael Huttner from JPMorgan, Andrew Sinclair from Bank of America Merrill Lynch, and Paco Riquel from Alantra. This set of questions is regarding Brazil and, as you can see, it has raised a lot of interest. The first one is regarding the combined ratio in 3Q 2018, that continued to deteriorate. When should we start seeing an inflection point?

Fernando Mata Verdejo

First of all, just a general comment in Brazil. We have a quite well-diversified position in this country and what we've seen in the third quarter is deterioration of basically Motor line business. But in agricultural business, the combined ratio is quite low, and also we're seeing quite good profits coming from the Life business. We're pretty confident about the outlook in Brazil. The agreement with our partner has been reinforced and we will leverage MAPFRE's expertise and our proven track record in the Motor business.

As already mentioned in previous presentations, we are already implementing some of the initiatives and measures to streamline the organizational structure and processes, in order to have a more efficient decision-making process. There are several initiatives in the pipeline that were designed by the task force in February involving actuarial, technical and commercial functions. I said this is a pipeline, because some minor initiatives have already been implemented. But we have to wait, as you know in the insurance business, increases in tariffs, reduction of some agent accounts, and also the streamlining of some – or reduction of coverage in some products takes time to see the profits. So we have to wait a little bit longer and probably next year will be the first one to see a better performance in Automobile.

Natalia Núñez Arana

Regarding politics, do you anticipate a change in policy or economic direction from Brazil's presidential elections?

Fernando Mata Verdejo

We don't like to comment on political issues, but as a general view, greater political stability is always good news for a democracy like Brazil. Markets have reacted positively, with Brazilian real exchange rates recovering nearly 20% from minimum levels. Remember last month, we saw BRL 5 and now it's at 4.23 or 4.25, it's like we gained some lateral movements in the last weeks.

Let's say that the markets have welcomed the new government in Brazil. We are quite confident as well that the new government will help Brazil to enter this phase of economic recovery and they will adopt measures and reforms that we consider necessary to recover the stability that Brazil needs for its long-term growth.

But we are quite happy. There are three situations - the new agreement with Banco do Brasil, political social stability and macro-figures – these three things are good factors to improve and to grow our operations in Brazil.

Natalia Núñez Arana

Thank you. Another question regarding Brazil. Considering the restructuring costs booked in Brazil, the new measures and higher acquisition expenses to pay to Banco do Brasil, could we consider that the actual price for the operation is not €490 million, but that it could be higher? Were all these charges already included in negotiation talks and already discounted from the final price? Does your 10% ROI target for the operation include all these charges?

Fernando Mata Verdejo

Thank you, Silvia. Value of the business consideration has been discussed for many months since we announced this transaction. Frankly, this is an acquisition that is being made not from scratch. MAPFRE has managed this company – both companies – for almost seven years and we know the business very well, both the strengths and the weaknesses, and both were taken into consideration when we valued the business and the transaction.

What I mean is that the value we announced at the origin of the transaction was a fair estimation, a market valuation, and we consider that it is absolutely valid at this moment. Also I would like to reaffirm that when we made the targets we knew the situation of the company. We are quite confident with the three-year targets that we announced. There are no changes. We reaffirm the targets for the three-year period that we announced some months ago that I don't mind repeating: Combined ratio below 96% in Non-Life and below 100% in Motor.

If you eliminate the effect of those adjustments in the Motor line, you will get an underlying combined ratio for Automobile lower than the numbers published, and you see that the reduction in combined ratio is quite achievable.

Natalia Núñez Arana

Thank you very much. Regarding Brazil, we have seen adjustments to reserves every quarter since you announced the deal. What is the reason for these adjustments?

Fernando Mata Verdejo

Yes, thank you. First of all, again, a general comment. We have to put this adjustment to reserves in the proper context. MAPFRE has been extremely prudent on balance sheet valuation. This is part of the tradition, our conservative view and our DNA. And we have seen this when we booked a special reserve for the Baremo implementation in Spain, and also when we increased our mathematical provisions in some countries in Latin America in order to mitigate possible future increases in yields. And particularly regarding Brazil, these adjustments are a result of the valuation process, that we started at the beginning of this year, and they're quite normal in this sort of transactions.

What we're trying is to apply the more conservative and prudent valuation basis in the companies. The review has been a gradual process and some of these adjustments were booked in the first quarter, some in the second quarter and other minor adjustments were booked in the third quarter and let's say, as I mentioned during my presentation, the analysis, the final analysis was made at the third quarter, and we shouldn't expect any relevant deviation from those estimates during the fourth quarter or next year.

Natalia Núñez Arana

Thank you very much. Now we have more questions about Brazil. This one comes from Paz Ojeda from Banco Sabadell. Day one in Brazil from 1st January 2019 - could you elaborate, please? Does it mean day one in order to start executing restructuring and clean up portfolio measures or day one to start bearing the fruits of the balance sheet clean up made in 2018 so far?

Fernando Mata Verdejo

Day one means that in January, we will have a proper organizational, a new organizational chart, a new business model ready to be implemented. And also, through 2019, we expect to see the fruits of some of the restructuring and cleaning up the portfolio.

Natalia Núñez Arana

Okay. Thank you very much. Now the next set of questions is regarding the reinsurance business. Farquhar Murray at Autonomous has sent us the following questions. Is there any risk of adverse loss development emerging on Hurricane Maria in the future? And what are the reinsurance covers remaining against this? Also, Paco Riquel would like an indication of the NatCat losses expected in the fourth quarter for the reinsurance business.

Fernando Mata Verdejo

First of all, let me emphasize again the strength of our reinsurance protection, cat reinsurance protection, which is supported by top quality counterparties. And regarding the covers remaining for Hurricane Maria, we still have a significant – and I will repeat significant – excess reinsurance capacity to cover any further potential deviation.

The net retained losses are not expected to change. And you see, it was quite a small increase during the second quarter in our net loss and there has been a small release in the third quarter. But I would also like to highlight MAPFRE's capacity to assess five cat events like those that happened last year, and to be one of the first insurers to come out to the market with an estimate and have quite a small variation from the initial estimate to the final loss.

Also, as we discussed in previous presentations, there has been a small increase in claims in Puerto Rico but it wouldn't affect our net retention. In summary, in Puerto Rico, practically 95% of the claims have been settled. And in another line of business that was a little bit controversial, we have low exposure to business interruption coverage.

Natalia Núñez Arana

Regarding the question from Paco Riquel, would you like to give us an indication of the NatCat losses expected in the fourth quarter of this year from the reinsurance business?

Fernando Mata Verdejo

Thank you, Paco. Nobody knows what is going to happen in Cat exposure. But so far, and we have disclosed this information in the Management Discussion & Analysis in the subsequent events section, there has been another Cat event in Japan, Hurricane Trami, and we disclosed that the impact is much smaller than Typhoon Jebi. Also, Hurricane Michael, that affected the U.S., the effect on our U.S. operation is practically negligible. And for other runoff of third quarter catastrophes, it's too early to say, but we shouldn't expect any relevant deviation from our current or from our preliminary estimate of Typhoon Jebi in MAPFRE RE.

Natalia Núñez Arana

Thank you. Andrew Sinclair from Bank of America Merrill Lynch asks, can you please give us an estimate for your losses from Hurricane Michael as your peers have done?

Fernando Mata Verdejo

As I already mentioned, it is practically negligible.

Natalia Núñez Arana

Okay. Thank you. Now, we are moving to MAPFRE USA. Paco Riquel from Alantra asks, can you update on the restructuring plan in the U.S., and what states will you be looking to exit?

Fernando Mata Verdejo

Thank you, Paco. Our exit plan has been executed in line with expectations. I will say that probably it was in quite a short period. We expected it to be quite long at the beginning, but in the end we finished before schedule. And we're looking at strong improvement in the non-Northeast region with a strong reduction in losses, under €15 million compared to €18 million last September and over three points in the combined ratio.

As you know, the final closing for the transaction in New York and New Jersey is expected at year-end and we don't expect any major impact from now until then. It's an ongoing business, but we must keep in mind that the New Jersey and also New York businesses will remain on our balance sheet until then. Our best estimation is that we expect to complete both transactions by year-end.

Regarding other states, there have been a few relevant states that have reported profits over the last few months, including California. I would like to mention that the California combined ratio was approximately 113% if I am not wrong, with a reduction of almost 10 points in two years.

So we're quite happy with California, that it will be a key state for future development. On the other hand, Florida is still underperforming. It's a more complicated state. In California, we are operating only in personal lines while in Florida we have homeowners and also commercial auto lines, which is more difficult. Tariffs are more challenging as well and CAT reinsurance coverage costs are affecting our Florida exposure too.

Regarding VERTI, the business plan and initial launch have both been conservative. VERTI will play two different roles, quite similar to Spain: it will be a business unit, but it will also be a sort of business laboratory for MAPFRE and, for instance, technology. The new insurance software we implemented in VERTI will help us to have a more efficient technology platform in the future in the traditional business in the U.S. So we have to look at VERTI with both views, I mean business unit and also the innovation of this business insurance laboratory for MAPFRE.

Regarding further exits, we're constantly analyzing all the states, profitability in all markets, and what we have seen is that we have enough flexibility to reduce exposures or to exit other states, if necessary. But so far, we are happy with the first wave of reduction of states, and I don't see any further reduction in the short term. Again, for us, 2019 will be the turning point, day one for Mapfre USA.

Natalia Núñez Arana

Okay, thank you very much, Fernando. This is the last question. There are no more questions, so the last one is from Paz Ojeda, Banco Sabadell. She asks, net profit above €700 million implies close to €180 million of recurrent net profit in Q4 adjusted for inflationary impact in Argentina. This seems to be quite challenging, taking into account the current pace and the usual claim seasonality of this quarter. How confident are you on reaching this level on what could be the driver supporting this level?

Fernando Mata Verdejo

Thank you, Paz. As I mentioned before, we're happy with the results we've seen even in a very complex environment. We have to look at MAPFRE's capabilities and to look at the good performance of MAPFRE Iberia, MAPFRE RE, LATAM NORTH and LATAM SOUTH as well, in order to have a proper projection for the fourth quarter. And also at MAPFRE's flexibility in realizing gains in both financial instruments and also real estate.

As you know, the third quarter was extremely difficult for both the bond market and also the stock market, but this flexibility allowed us to sell a couple of [real estate] units and there are more [real estate] units in the pipeline. This is part of the rotation, the schedule of unit rotations, and we will be able to come back to the normal pace of realizing capital gains.

We are confident about retaining this level. We said €700 million because we're quite confident that we can reach this. If not, we wouldn't have given this guidance. We did mention that this target depends on our ordinary NatCat loss experience, and so far only Typhoon Trami has been relevant during the fourth quarter. But if we have a standard loss experience for the fourth quarter, we're pretty sure, I'm pretty sure. That's why we have given this guidance and we will achieve €700 million. We even said that we're trying to improve last year's results, which means that we will achieve this number and also, we will repeat the dividend, as we mentioned.

Natalia Núñez Arana

Thank you very much Fernando. And this is all of the questions we have received. So, thank you very much to you all, and thank you, Fernando, for your explanations.

Fernando Mata Verdejo

Okay. Thank you for joining us today. We hope the information has been interesting. We'll be back again next year when we release our full year results. And as we mention in every presentation, there is plenty of financial information available both at the CNMV and our website, which we hope to be of your interest. Thank you, and enjoy the long weekend. Bye.

Natalia Núñez Arana

Thank you.