

Investor &
analyst call –
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transcript

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- Fernando Mata Verdejo, MAPFRE SA, Vice Chairman & Chief Financial Officer
- José Luis Jiménez, CIO & Deputy CFO
- Felipe Navarro López de Chicherí, MAPFRE SA, Deputy General Manager – Finance Area
- Leandra Elizabeth Clark, MAPFRE SA, Head of Investor Relations

Presentation

Leandra Clark

Good afternoon. Welcome to MAPFRE's Earnings Call for the September 2024 Results. This is Leandra Clark, Head of Investor Relations at MAPFRE. Joining us today are key members of our management team, Fernando Mata, CFO, and Third Vice Chairman; Jose Luis Jimenez, Deputy CFO; and Felipe Navarro, Deputy General Manager of the Finance area and treasurer. We appreciate you joining us for today's call. We will provide an overview of our financial performance for the third quarter and business trends. And after, we will open the floor for Q&A. You can use the Ask a Question link at any point during the call.

I will now hand the floor over to Fernando Mata.

Fernando Mata Verdejo

Good morning, everyone. Thank you, Leandra. Thank you all for joining us today. I'm pleased to present our results for the third quarter. Net income is up 39% and stands at EUR654 million after a EUR90 million impairment and goodwill in Verti, Germany. Without this effect, we will have posted an excellent EUR744 million for the first nine months over EUR280 million in the third quarter, and an adjusted ROE of 12%.

Growth remains strong, although we're facing a drag from currencies, and tariffs are normalizing in some markets. Premiums are up 4.6% and 6% at constant exchange rates. Profitability was driven by improvements in technical management across all markets. The balance sheet is stronger both on the asset side with the goodwill write-down as well as the liability side with an even more prudent approach to reserving. The write-down of the Verti, Germany goodwill 70% of this book value was a result of the challenging situation in motor in Germany and Verti's lack of diversification. MAPFRE continuously monitors and reviews the goodwill of its different operations, writing down all over EUR800 million through P&L or reserves over the last six years.

Our balance sheet is now much stronger with only EUR1.2 billion of goodwill remaining, of which 600 -- sorry, EUR600 million is from the US business and EUR400 million from Spanish life and bancassurance businesses. We're confident in the future of the German business and we will further invest in its digital capabilities. A EUR30 million capital increase was approved by the board and will be dedicated to IT as well as strengthening the capital base.

Non-Life continues to improve with a combined ratio of 94.8%, 92.9% in the third quarter. General P&C contributed the most to this reduction in the absence of relevant CAT events. In addition, there was a significant contribution from recurring financial results. Our capital base remains strong with shareholders' equity up 4.5% to over EUR8.4 billion and the Solvency II ratio at 197% at June. These robust results have allowed us to increase the interim dividend to EUR0.065 per share, representing an increase of over 8% compared to last year. Our diversified business models allows us to leverage the most profitable segments. Life and

General P&C lines are performing exceptionally well. We have seen a significant turnaround in the motor segment in North America and across LatAm.

In Iberia, recent figures are showing the changing trend, although not as fast as expected and the business is clearly on the right path. In EMEA, we're still facing pressure on claims costs in Germany which was mitigated by the significant improvement in Turkey. In Iberia, profit is up 15% to EUR283 million over 30% when excluding extraordinary impacts. In North America, results have improved by EUR89 million on the back of technical measures. LatAm, including Brazil, remains the largest contributor to the group's profit providing EUR305 million, a nearly 8% increase with technical improvements as well as strong contribution from financial income. Lastly, our Reinsurance and Global Risks business delivered a solid result of EUR207 million, up 9% supported by premium growth and the absence of significant Nat Cat impacts.

Now I will hand the floor over to Jose Luis to walk us through the main figures.

José Luis Jiménez

Thank you, Fernando. As Fernando mentioned, premiums were up 4.6% supported by the non-life tariff updates and the positive performance of the life business, but with headwinds from the Brazilian Real and other Latin American currencies. The US Dollar is also slightly down. By market Iberia, LatAm, and Reinsurance continue performing positively.

Non-Life premiums which are 80% of our business are growing at 4.3% reaching nearly EUR17 billion. There is noteworthy performance in the accident and health line, plus 6.4% and a significant improvement in auto, plus 4.4%. The general P&C business is up 1.1% due to the slowdown of Agro in Brazil and the depreciation of the Real. The life business which is 20% of premiums has grown by 5.6%. In life savings, premiums are up 8.2% supported by Iberia and other LatAm. Life protection is up 6.8 with notable growth in Mexico and Spain. At constant exchange rates, premiums are up 6.1% with Non-life and life up 5.7% and 7.3% respectively.

I will now discuss the key trends by region. In Iberia, net profit has reached EUR283 million, up 15% with an ROE of 13%. Last year results included a net impact of EUR46.5 million due to the arbitration following the breakup of the alliance with Bankia as well as higher net realized gains. Excluding these extraordinary impacts, profit growth was more than 30%. Non-life premiums have grown over 6% driven by homeowners, condominiums, and health. Life premiums are up 6% with a recovery in savings and solid trends in protection.

LatAm continues to be a significant contributor to profit, generating EUR305 million with an ROE of slightly under 18%. Non-life profitability has improved across the region and both the life business and financial income are performing very well. In Brazil, we continue to see exceptional profitability with an ROE of 24% and the net result has risen to EUR188 million despite the drag from the Brazilian real. The non-life combined ratio improved nearly 4 points to 74% with improvements in general P&C and motor.

Life Protection has also made a strong contribution to these figures. The rest of LatAm continued to show strong profitability contributing EUR118 million with improvements in technical results in most markets and tailwinds from financial income. North America, the net result was EUR71 million, up nearly EUR90 million compared to losses the previous year. This is driven by underwriting measures and significant tariff increases which will continue to positively impact our P&L. The combined ratio has decreased by over 8 points now at 98.5%.

In Puerto Rico, net profit was nearly EUR15 million. In EMEA, Turkey posted a profit of EUR24 million with a strong improvement in the combined ratio, down over 13 points, and high financial income. The auto sector remained challenging in Germany and Italy bringing the losses in the region to around EUR19 million by showing a EUR12 million improvement compared to last year. Net profit at MAPFRE is excellent, up over 9% to EUR207 million. The combined ratio remains stable at 95.5%. The most significant event in the third quarter were the storms in Europe, with no other major catastrophes. However, we continue to reinforce our prudence in reserve due to the ongoing rise in secondary perils and the recurrence of CAT events due to an atypical hurricane season. This reserve in exercise added 1.5 points to the combined ratio.

MAWDY continues to grow, posting a net result of EUR5 million. I would like to address two specific items. First, the positive tax adjustment had a EUR35 million impact and second, the EUR90 million goodwill write down for Verti, Germany is recorded in the holding and adjustment line. Last year, in the same line, was the EUR75 million from the write-down of the US business. On the right, you can see the combined ratios by segment.

General P&C, our main line of business, both by premiums as well as profit, has delivered outstanding performance. Premiums are up over 1% and the combined ratio has improved 6 points to 81%. The net result stands at EUR307 million, a EUR136 million increase. In Brazil, premiums have decreased by 7% with nearly 6 points from currency depreciation and the rest due to the slowdown in agriculture issuance, as a result of the high interest rate environment. The net result is EUR170 million and the combined ratio remains excellent under 65% with no relevant events during the quarter.

In Iberia, premiums have risen by 6.6%, fueled by ongoing tariff adjustment in homeowners and condominiums. The result has more than doubled to EUR121 million and the combined ratio has improved by nearly 5 points to 93.4%. It has been a benign year so far regarding weather, as more events were covered by the Spanish consortium compared to last year. In North America, the net result reached EUR37 million compared to breakeven in 2023, with an excellent combined ratio of 85% supported by tariff adjustment in homeowners and benign weather.

Other LatAm has also increased its contribution to the result by nearly EUR40 million. In summary, General P&C continues to be highly profitable and diversified.

The third quarter results for the motor segment confirmed the trend seen in previous quarters, already reaching breakeven during the last three months. At the group level, the average premium is increasing more than 11%. Premiums are up 4.4% with some drag from

currencies, especially in LatAm. And Insured units are down by nearly 7% due to selective underwriting. The losses year-on-year have been reduced by more than EUR25 million to EUR17 million, with the combined ratio around 104%. This reflects an outstanding turnaround in North America, while Brazil and the Rest of Latin America are operating at combined ratios near 100% or below, which is satisfactory given the interest rate environments in this market.

The profit contribution from motor in Brazil and other LatAm has exceeded EUR30 million. In Iberia, premiums have increased by 6%. Our portfolio is down 3.2%. We are focusing more on retail in line with our risk appetite, and half of the portfolio reduction during 2024 is due to the fleet pruning. The average premium has risen by over 9%, outpacing the market, 7.2% increase. We are confident that the pricing is now ahead of expected claims inflation. The combined ratio improved nearly 2 points during the third quarter, reaching 102%. This was slightly higher than we were expecting in order to achieve the 100% for the second half of this year that we have guided to in June. However, the trend is clearly positive, and further improvements will be visible in the coming months.

In North America, premiums are up 6% with units down 5.5%. In local currency, the average premium is up nearly 12%. During 2024, we have filed over 11 increases, including the most recent one that will come through in December. This adjustment, together with prior year hikes which will continue to fit into P&L and improve the combined ratio. In 2025, rate hikes will converge with expected claims inflation. The combined ratio is down to over 6 points, reaching 100.8% in September and close to 100% in the third quarter, which was excellent considering the mileage and frequency increase during the summer months. The turnaround has been noteworthy with a net profit of EUR28 million, improving over EUR50 million compared to 2023.

In Brazil, premiums are down 7.6%, around 2% in local currency. The vehicle portfolio is relatively flat year-on-year as the fleet premium has already been executed. In Brazil, the combined ratio has decreased 1.7 points to 101.1%. In conclusion, LatAm and North America are already consolidating profitability trends, while Iberia is on the right path. And we expect the strong third-quarter reduction in the combined ratio to continue in future quarters.

The life business remains a key driver of profitability. Direct insurance premiums are up 7.5%. Both savings and protection have contributed significantly, growing near 8% and 7% respectively, especially in LatAm and Iberia. In Iberia, life protection premiums are up 4.3% outpacing the market with a combined ratio standing under 68%. The financial result was strong with net realized gains up from EUR1.6 million to EUR31.1 million, supported by real estate sales mainly in the second quarter.

In Brazil, life protection premiums are down 1% but growing almost 5% in local currency. There is some slowdown in investment and lending in the economy due to the recent rate hikes. This is a very profitable business and the combined ratio stands at an excellent 84% although up 4.5 points due to higher acquisition expenses. Across the rest of LatAm, volumes are up by over 30%. Mexico is noteworthy, growing 49% in life protection. The attributable

result for the life business has reached over EUR233 million in line with the previous year.

And now I will hand over to Felipe to discuss the main balance sheet items.

Felipe Navarro López de Chicherí

Thank you very much, Jose Luis. Shareholders' equity stands strong at over EUE8.4 billion, up 4.5% on the back of the excellent result achieved in this third quarter. The strong devaluation of the investment portfolio has partially mitigated the negative currency conversion differences from the depreciations of the Brazilian Real and the Mexican peso, 11.6% and 14.5% respectively.

Net unrealized losses in the portfolio were reduced by EUR194 million in the year. Leverage remains stable at 22%, reflecting our disciplined approach to capital and debt management. At the beginning of the month, we renegotiated and renewed our revolving credit facility which was set to mature in February next year, reducing from EUR1 billion to EUR500 million with identical conditions as the previous one. The cost is linked to the fulfillment of ESG targets.

Asset allocation has been relatively stable during the year, increasing corporate bonds and reducing Govies. The reduction in government was mainly due to Brazil, as a result of the dividend upstreaming and currency depreciation. The Spanish Sovie remains our largest exposure with EUR9.7 billion. Our portfolio is defensive and well-diversified. Falling yields have reduced the unrealized losses in our portfolio giving us more flexibility. We have over EUR13 billion in third-party assets, making us one of the leading non-bank players in Spain with an exceptional increase in pension funds this year up 7%. Our EUR45 billion investment portfolio together with the AM business brings total assets under management to nearly EUR59 billion up 3%.

On the right, you can see our main fixed-income portfolios. As a reminder, a large portion is immunized or matched. I will focus on the actively managed portfolios which are the main profit contributors. Regarding the Euro-area, yields are up over 25 basis points during the year, and MAPFRE and 10 to 15 basis points in Iberia. If we exclude linkers, yields are even 20 basis points higher. All portfolio yields are still significant below current market levels. In other markets, yields are up nearly 30 basis points in other LatAm and over 10 basis points in North America.

In Brazil, they are down around 90 basis points during the year but with a high portfolio yield over 9% and 30 basis points improvement in the quarter due to rate hikes which are expected to continue next year. Duration was stable during the quarter. These growing portfolio yields are contributing to financial incomes. The EUR576 million contribution to non-life excluding goodwill write-downs increased 1.7%. Iberia is up 14% despite lower realized gains. MAPFRE continues to grow while North America has been stable. In Brazil, financial income is down over 5% due to currency depreciation. In EMEA, financial income is sharply down compared to 2023 as there were high ForEx differences due to the Lira depreciation in the second half

of last year. The financial result is expected to remain stable due to high interest rates. There were over EUR34 million of net financial gains between life and non-life portfolios, proof of MAPFRE's ability to generate alternative sources of income.

I will now hand the floor over to Fernando to make a few closing remarks.

Fernando Mata

Thank you, Felipe. MAPFRE SA Board of Directors approved a EUR0.065 interim dividend for 2024, 8% higher than last year to be paid on November 29th. This was the second increase in the year, bringing total dividends paid to EUR15.5 cents, over EUR477 million, fully in cash. This is the highest dividend paid in the calendar year ever. During the last five years, MAPFRE has paid out more than EUR2.2 billion to our shareholders. The average dividend yield for 2024 was 6.6% and close to 8% over the last six years.

To wrap up, we have now reported three quarters in a row of excellent results, confirming the success of our new strategic plan. Financial targets are on track, although we're seeing a slowdown in growth in some markets due to the normalization of tariff increases and currency movements. The adjusted ROE was 12% compared to a target range of 10% to 11%. The combined ratio was 94.8% compared to a target of 95% to 96%. Premium growth, excluding life savings was 4.2% and 5.8% at constant exchange rates in line with the target. These already strong figures will continue to be supported by the ongoing recovery of the auto business, especially in Spain and the US, as well as the already strong contributions from Latin America and reinsurance. Furthermore, financial income should continue to support results. The interim dividend announced this morning is proof of these solid results, our confidence in the future and our commitment to shareholders.

Thank you for your attention. I will now hand the floor over to Leandra to begin the Q&A session.

Q&A

Leandra Clark

Thank you, Fernando. As a reminder, you can use the Q&A tool at the bottom of your screen. We will organize questions as usual by topic, and the IR team will be available for any pending questions after the call. So now let's start with the first question.

The first question comes from Juan Pablo at Banco Santander, regarding investment income. He sees the accounting yield has increased quarter-on-quarter and would like to know how we see this evolving in a lower-rate environment in Europe and the US.

José Luis Jiménez

Thank you. Regarding the accounting yield, I think we still have some margin to improve. If you look at the book yield of our portfolio and the market yield, there is some, I would say, trend that we would like to cover. So we expect that equal increase in the coming quarters, perhaps not as much as it did in the past, but still we have some marginal money overall to continue improving on the income side. Regarding the interest rates, probably we don't have this view. I think that interest rates in Europe should stay probably in levels around 3% to 3.5%. So that's I would say for insurance and especially for us, these are very good news.

Leandra Clark

Thank you, Jose Luis. The next question comes from David Barma at Bank of America. He would like to know what we've done to strengthen the balance sheet in the quarter, i.e., referring both the reinsurance business as well as the Spanish business.

José Luis Jiménez

Okay, thank you, David, for your question. Well, we have done probably two things. One, on MAPFRE we have increased 1.5 combined ratio the reserve. And this is due because on the Nat Cat we are below budget but on the secondary periods we are slightly up compared to budget. This is something that we are seeing on a regular basis as secondary perils are growing. So in terms of prudence levels, we have decided to increase. The other point is related to the Spanish auto insurance where we have increased around 1 percentage point of combined ratio in order to cover the cost of the bodily injury claims.

Fernando Mata

If I may add, in order to clarify the impact of MAPFRE, it was approximately EUR50 million gross basis, I mean before taxes and minority, and is equivalent to 1.5% impact on the

combined ratio, the net combined ratio. Is that right, Felipe?

Felipe Navarro López de Chicherí

No, no, it's correct. And just I mean in fact it was a two-fold effect on this reinforcement of the balance sheet as Jose Luis and Fernando have already mentioned and this was quite accurate and correct. There was a reinforcement of the reserves. And as well there was this write-down of the goodwill that makes us -- our balance sheet more clear, more accurate, and more adequate to the business that we are underwriting right now.

Leandra Clark

Thank you, Felipe. Thank you, Jose Luis. I think we're going to continue on the reinsurance business. We have another question from several analysts both at Bank of America, JB Capital, and Sabadell. They would like to know how active is the fourth quarter so far at MAPFRE from a Nat Cat perspective. They make reference to the Hurricane Milton as well as French floods. And how do we see this market developing in pricing?

José Luis Jiménez

Well, in terms of pricing, we have just come from the last beat [ph] of reinsurance. I think prices will stay flat or probably slightly up. It will depend on the regions. And those regions where they had, I would say, severe Nat Cat events probably prices could increase. But on those parts of the world, where there were no major catastrophes, probably they will keep as they are. But from the one side and regarding the events that you have mentioned before, I think for us as we say, we are below budget, we have no big impacts and these are secondary events for us.

Felipe Navarro López de Chicherí

This -- for the fourth quarter, I mean there's no major event that is being reflected in our accounts on top of the ones that you were you were mentioning. But none of them has a significant impact. As we were mentioning before, I mean there's -- there was this reinforcement of the reserves of MAPFRE and it is coming mainly for -- from Nat Cat season that was below what we expected and how the evolution of the secondary perils is slightly above the budget. So all in all, the trend is quite positive. And as we said MAPFRE, is keeping a very, very prudent approach on the reserving. So this 1.5 percentage points on the combined ratio are going to be enough for these events for the moment.

Leandra Clark

Thank you. We had just a few more questions regarding -- just a little more color on if we are

within the Nat Cat budget for the year overall and if we could remind them how much is the total Nat Cat budget.

Felipe Navarro López de Chicherí

Okay. As I just said, for the moment and as far as we know, no major impacts from the hurricanes or even the floods that we saw in Europe during this year. And what we can say is that once again what we are seeing as the evolution of the reserves is that we should be on the high side of the margins. So if we should be reserving up to a 90% -- up to a 90% of confidence level, we are right now at this level already. And we are going to continue taking this approach. But for the moment, as I said, nothing significant that we should mention as Nat Cat events. So for the moment, we're quite well.

Fernando Mata

If I may add as well, the only two and I will qualify both as a mid-size event. One was the heavy rains in the South of Brazil that was already reported in the second quarter. And in the third quarter, the only -- perhaps remarkable mid-size event obviously, it was the heavy rains as well in Western Europe, but both are similar events. And regarding Nat Cat in the US, both the most relevant Helene and also Milton for MAPFRE exposure she will be in the high single digit frankly talking. So fortunately we avoid this season. There is still one month ahead, I mean the Atlantic basin is quite and -- but it is still one month November. But fortunately, this year has been practically a year with nothing regarding large Nat Cat events.

Leandra Clark

Thank you. We're going to move on to the Iberia business. The first question is regarding the life business in Iberia. It comes from Max at JB Capital. What is the reason for such a boost to life savings premiums in Iberia in the third quarter of 2024? Do you expect this growth to continue in coming quarters?

José Luis Jiménez

Yeah. Thank you. I mean the growth in the life business was related to what we call (inaudible) So we were very active in providing saving solutions to our customer base. Probably we have less competition from banks right now. So we want to seize up this opportunity in order to offer competitive price to our customers. Also, we had as well some corporate pensions. We were very competitive as well on that business line. And this is a trend that we trust will continue in coming quarters..

Leandra Clark

Thank you, Jose Luis. We've also received some questions from David Barma at Bank of America. Continuing with Iberia, regarding the general P&C lines that had an excellent third quarter with an 86% combined ratio compared to the mid-90% in all the recent quarters. Was this due just to a lack of bad weather or is there anything else we need to flag?

José Luis Jiménez

Nothing to flag to be honest. The only thing that probably this year we have more events related to the consortium compared to previous years, but nothing significant and probably this will continue.

Leandra Clark

Thank you, Jose Luis. Moving on to motor in the Iberia business, our first question is from Max at JB Capital. He would like to know our expectations for the evolution of the motor portfolio in Iberia. And both Max and David Barma from Bank of America would like to know whether this acceleration in average motor premiums will continue or if the price increases will revert in line with inflation to protect our portfolio.

José Luis Jiménez

Okay, some words regarding the auto business in Spain. I would say frequency is still moderate, but also we have seen an increase in gas consumption as well as raw fatalities have risen during the year. We see that the more claims are decreasing. Meanwhile, several claims involving bodily injuries are up. So these are the trends that we are seeing right now. And bodily injury claims, which accounts for around 30% of total claim costs will continue to have an impact in the combined ratio. So for this reason, I wouldn't say that we will reduce tariff, we will continue with the current trend trying to adjust the tariff to the cost. And I see as well that the competition remains high and moving in the same direction. It's important to say that we are confident that the 4 point reduction in the combined ratio between Q2 and Q3 is proof that we are taking the right measures and going in the right direction. So probably, we will continue in the -- so probably we will continue in the same line.

Leandra Clark

Thank you, Jose Luis. We have another question in the same line from Juan Pablo at Santander. And he would like to know if we confirm the 100% combined ratio guidance for motor in Iberia for the second half of 2024 or are we seeing anything that could change our outlook.

José Luis Jiménez

We are working hard to achieve that goal. If it happens in November, December, or January, I would say it doesn't matter. Important thing here is the trend and the trend is quite positive to achieve the goal.

Leandra Clark

Thank you, Jose Luis. We also have another follow-up question in Iberia regarding the previous question in general P&C is, do we expect the current level to be a normalized level going forward or was this last quarter in general P&C in Iberia an exceptionally good quarter?

José Luis Jiménez

I think it's a stable rate. We do not expect big swings in one way or the other. So if nothing happens, we will continue with the current trend.

Leandra Clark

Thank you, Jose Luis. Moving on, so we have one more question that just came in on Spanish motor. I think it's from Alex MacKenzie, Exane. I think it's been more or less answered. I'm going to read it out loud and you can decide. I think we've just answered it right now. It's how do you feel about the trade-off between profitability and growth? You're still shrinking while some peers show willingness to grow. And how easy has it been to pass on price increases with the combined ratio target you want to target? I think we could elaborate on how we're seeing the reception of our clients to the price increases.

José Luis Jiménez

Probably here I would like to say that our retention and conversion rates remain high and we are seeing a very low impact from coverage reductions which make us confident that we can continue with adjustment. This is a general trend that we are seeing in the market. It is important to remark that when we look at the vehicle portfolio, we have reduced fleets from 10% to more or less 6.6% of our total portfolio. And this could be as well a tailwind for profitability as the fleet business has combined ratios as much as 15 or 20 points higher than individuals. So that's what we see and probably we will continue with the same.

Leandra Clark

Thank you, Jose Luis. We're going to move on to a different region. We've received a few questions regarding Brazil. The first comes from Carlos Peixoto at CaixaBank. He's asking

about the life insurance business in Brazil. The margin seems to have deteriorated. Could you give a reason for this? And how do you see it evolving in the end of this year into 2025?

José Luis Jiménez

As we have said before, when we have an economy with high interest rates, almost 11% have pros and cons. On the pros [ph] side, we see more financial income coming quarter-after-quarter. But on the business side we see a reduction on premiums because with this high interest rates, credit is not flowing as good as it did in the past. So what's the trend? Probably in the short term, we will see more hikes coming from the Central Bank from now till the end of the year. And for the next year, we will see, it will be expected some kind of reductions [ph] in the rates from the SELIC and this will help us well to the business. But in the short term, probably this trend will continue.

Felipe Navarro López de Chicherí

If I may add something, I mean regarding the life protection business in Brazil, we are seeing that we already mentioned that we increased the commissions that were paid for the distribution of this business to the -- to our partner, which is Banco do Brasil. So, what we saw in the first half of this year should continue because I mean this composition of the combined ratio that is going to include a higher acquisition part of the acquisition costs and it's going to continue. But nevertheless, I think that we are still posting excellent combined ratios for the life protection business in Brazil. And they're going to continue delivering exactly the same -- at the same levels as Jose Luis said, maybe with more or less success on distributing this kind of business because of the highest interest that are going to consider or to reduce the activity in Brazil. But in any case, this is going to continue an excellent source of profit with combined ratios that are going to continue be excellent in the future.

Leandra Clark

Thank you. We have two more questions regarding the Brazil business, in particular, one related to the slowdown in gross written premiums and another one related to the historically low combined ratio. I think both of these are very much driven by the agricultural insurance business. So I think I'm going to ask the first question. What was behind the slowdown in 3Q and could you expect a recovery in the fourth quarter?

José Luis Jiménez

First, we have to comment on the currency which is on average is around 6% down, but if we take year-to-date, probably is around 12%. So in some of the business that we are growing even in local currency but when we convert this into Euros, we have a lower unit. But on the

other hand, when we look at -- about the future and see what will be the trend, the ratio is really, really good, and probably it will continue at the same level. Probably is difficult to say that we are going to be better off. But last year we had the same view, we thought probably 2024 could be maybe slightly worse than 2023 and there here we are. So probably we don't have any clue in order to see that this kind of business could deteriorate unless something happens which is not on the cards.

Leandra Clark

Great, thank you. I think we've answered these questions then. The next set of questions is regarding EMEA. Juan Pablo from Santander would like an update on our strategy in the region and if we have plans to grow the business either organically or inorganically.

Felipe Navarro López de Chicherí

Okay. EMEA is a very diverse region. I mean, we have four different companies in four different markets that could have a totally different behavior. If we look at Turkey, Turkey is right now going out from a situation that was hyperinflationary. I mean, the measures that have been taken by the government are positive and we think that they can feed into the full economy and to move in the right direction. We are seeing already less volatility in the currency. We are seeing that the remuneration of the deposits is enough in order to cover the depreciation and the cost of the currency. And we are quite happy to continue in the market as we said. Inorganically, we should not be increasing our exposure to Turkey because it's not one of the key drivers that we mentioned already.

Looking at the rest of EMEA, we have Malta which is performing very well and it's no news. So it's still one of the best, but still a very small market in there for MAPFRE. And looking at the two other companies that are Monoline or almost Monoline like Verti in Germany and Italy, we already mentioned that, first of all, we continue thinking that organically we are going to continue moving forward in our activity and inorganically that Germany could be a country that we could see with better approach if needed in the future since it's one of the main markets in Europe and we have already a presence and we have been known by the regulator for a long period of time.

We have a small company, a small activity that doesn't compete with other big companies in the market. And we think that the -- in the consolidation of the medium-sized companies we can find -- we can -- we may find opportunities in the mid or long term. Nothing immediately. But I mean this is something that we have been considering..

Fernando Mata

Yes, Felipe. I may add in both the countries, Italy and Germany, I would like to remark that we fully focus on revert the current situation in automobile. So we do not have any appetite to grow our fleet, the number of units but to focus on tariffs in order to achieve as soon as possible the turnaround in the operations in both operations.

Leandra Clark

Thank you, Fernando. Thank you, Felipe. The next set of questions is regarding the North American and US businesses. I would just like to clarify before we move into the questions. During the presentation we mentioned that the tariff increases that have taken place this year are an 11% accumulated increase, the last approval which will be coming into force at the end of the year.

And David Barma from Bank of America asked about the USA motor business and about the improvement we've seen in recent quarters. He thought he would see the third quarter ratio already go below 100% due to these already mentioned price increases. And he would like to know whether there was anything in the claims experience that was unhelpful during the quarter.

José Luis Jiménez

Okay, David, thank you very much for your question. I think motor in the US is behaving much better than expected. Although there is always some kind of volatility, the trend is clearly positive. The average motor premium is up around 17.5%. Considering premium growth in local currency around 12% and vehicles down 5.5%, as we said before. We are confident that these underwriting measures that we have taken in that market will continue to deliver a new more control -- in a new more controlled, friendly environment, very good results. So that's what we see. It is true that we have originally guided to hit 100% in the last quarter of this year and everything suggests that we should reach that level soon.

Leandra Clark

Thank you, Jose Luis. That was very clear. And the last question for the US Business is regarding the home insurance. What we report is general P&C that it was a very strong performance -- that it was -- sorry, 85% versus 90% in June. This performance -- the question is if this performance was driven by very favorable weather conditions and what could be a sustainable level?

José Luis Jiménez

Well, in this case, I think there are two factors. One is that we have increased tariff. We have to adjust the tariff to the situation -- to the market situation. And secondly, it is true to say that the weather was more benign than expected.

Leandra Clark

Thank you. We finished with the questions regarding the business units and we're going to move into questions related to the dividend and strategy. The first question is from Max at JB Capital and he would like to know if we have any update on our M&A ambitions.

Felipe Navarro López de Chicherí

No, no update. I mean the ambitions of M&A are quite stable in the group and we are looking exactly for the same ambitions that we had in the past. So as I said, I mean, the first point is to go back or rebuild the bancassurance exposure of MAPFRE in Iberia, mainly in Spain. Second, would be to try to find out a way of growing in Europe in the countries that we are already. So that will be Germany or -- Germany mainly. The third one should be how to grow in a market that is already very important for us in LatAm, which is Brazil, which is, I remind you, two-thirds of LatAm GDP and where we have an excellent presence and excellent partnership with Banco do Brasil. But if we can find something that doesn't jeopardize our relationship with Banco do Brasil, we will be very happy to deploy some capital there.

Mexico is another opportunity for us. We think that we are underrepresented in the Mexican market and will be happy to increase our exposure. And last, and taking into account the stability of the US Dollar is to find quite a niche opportunity that could help us to go into another state, nothing to be nationwide or nothing that will expose us to any kind of casualty, perils, or similar in the US but something that we could manage and we could add into our operations and that is the last opportunity. I remind you that what we are looking right now is that our organic growth and our delivery of the present operations is the one that we are concentrated and the one that we want to continue moving forward.

Leandra Clark

Thank you, Felipe. We have a question from Paz Ojeda at Banco Sabadell regarding the underlying ROE at 12%. She comments that this is significantly above our 2026 target. And do we think this is sustainable?

José Luis Jiménez

Well, we are working hard to try to achieve that return on equity. And it is true that as Fernando has said before, we are in the middle of the hurricane season and we have to wait to the end of the year. But it is true that all the business and all the geographies are doing pretty well. So if the trend continue, we expect to get around 11% or above.

Leandra Clark

Thank you, Jose Luis. And now we have several questions for the end of this Q&A session regarding the dividend. I think I'm going to include them together and then we can go over them again. Max from JB Capital wants to know, one, why increase the interim dividend and not the final dividend? Two, what kind of payout ratio should we expect in the coming years?

Question three from Farquhar, does this increase of the interim suggest a similar increase for the final dividend? And question four is what would need to happen for MAPFRE to feel comfortable increasing the total dividend by a full cent for the full year.

Fernando Mata

Well, I'll take the first one. Max, what was taken to the board and was approved was the increase of the interim dividend, was the perfect timing. Whether or not it will be a stable dividend at the final, will be approved at the board in February and then at the AGM. Is not the time to discuss what the final dividend will be at the current moment.

Felipe Navarro López de Chicherí

Okay. On the rest, I think that our -- I think that our message has been quite clear in the past. First, that there will be at least a distribution of 50% of the profits of the company. Second that there is an upper limit or there should be a upper limit that we already have broken several times, which is a 65% distribution. But that was broken several times in the past. And I think that what is more important is that, what we are all -- what the board tried to do to send us a message is that there is some kind of comfort with the situation, I think that the board is proud of the results that we are delivering already and is a kind of a message of hope into the future of the company.

So at the end of the day, what is going to happen in the month of February when the board is going to propose to the AGM the new dividend is still unknown. It will depend very much on how the three months of the -- that remain in order to fit into the profit and loss account are going to move forward. And how the trends are going to be in those -- in the -- for the future. So nothing to say for the future. But I mean I think that we are quite clear on the appetite that this company has for the distribution of dividends.

Leandra Clark

Thank you, Felipe. We have no further questions. I'd just like to comment, we did receive a few questions through the platform that were quite technical and we would prefer to look into them and get back to you after the call. If not, please contact us directly.

And just a few comments on upcoming events. We'll be holding two in-person meetings with analysts and investors, one in Madrid on November 5 and the other in London on November 11. You should have already received the invitation. We're also planning on being in Paris November 19th to 20th. If you're interested in meeting with us, please reach out and contact us directly. And guests, if you have any remaining questions, we're available after the call. Thank you for your time today. I'll hand the floor back to Fernando for him to make a few closing remarks.

Fernando Mata

Well, thank you everybody for your attendance. Thank you, Leandra, for your logistics. I mean, extremely helpful as usual. Thank you, Felipe and Jose Luis, for your answers and comments, pretty clear and comprehensive as well.

I would like to conclude this presentation saying that again, MAPFRE is delivering. We have reported an extraordinary quarter in terms of profitable growth. The fundamentals of our results are pretty robust and there is still room for improvements in certain areas, particularly auto, in Spain. So we remain pretty positive for the rest of the year. And that's all for me.

Thank you again for your attendance and goodbye.

Leandra Clark

Goodbye.

José Luis Jiménez

Thank you. Goodbye.

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