



Investor &
analyst call -
Edited
transcript

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Company participants

- Fernando Mata Verdejo, Chief Financial Officer and Member of the Board
- Natalia Núñez Arana, Investor Relations & Capital Markets Director

Presentation

Natalia Núñez Arana

Hello, everyone. This is Natalia Nunez, Head of Investor Relations of MAPFRE. We would like to welcome you to MAPFRE's results presentation for the first 9 months of 2019. As in previous quarters, our CFO, Fernando Mata, will take you through the main trends and figures of the year. Just as a reminder, during the Q&A, we will answer all questions received at the Investor Relations email address. Afterwards, the IR team will be available to answer any pending questions you may have.

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

Fernando Mata Verdejo

Hello, everyone. It is a pleasure to be here with you for the presentation of our third quarter results. Looking at the key figures for the period, our top line is growing at a good pace. Revenue is up 6.5 percent, mainly due to the rise in premiums and higher financial income, on the back of the rally in financial markets, as well as positive exchange rate differences. Overall, premiums are up 2.5 percent, with Non-Life growing nearly 4 percent, and Life premiums down around 1 percent. Our combined ratio has improved 170 basis points. The net result of almost 463 million euros has fallen 12.5 percent, largely driven by goodwill write-downs at MAPFRE ASISTENCIA. Excluding these write downs, the net result is in line with last September.

Before we move on, I would like take a few minutes to comment on what we are doing in the Assistance business. As a result of the performance in our units in the UK, affected by the current socioeconomic context in this country, and the business structure in the U.S., we wrote-off close to 66 million euros of goodwill from companies in both countries. In addition, we will be restructuring our operations in six countries, and these expenses have also been fully booked this quarter, with a negative impact on the attributable result of 11 million euros.

Shareholders' equity is up 12 percent, mainly as a result of the fall in interest rates, as well as currency appreciation. The ROE, excluding the goodwill write downs, would have been slightly over 8 percent. And our capital position continues to be strong, with the Solvency II ratio at 198 percent at the close of June, in line with our target. Just as a reminder, the goodwill write-downs booked this quarter will have no impact on our cash position nor our regulatory solvency ratios, maintaining our strong capacity to pay dividends.

On the next slide, we will take a look at the key figures by unit. On the right side, you can see the main figures regarding attributable result. I would like to highlight the contribution from our insurance units, that reached 568 million euros, up nearly 8 percent. IBERIA continues to be the largest profit contributor, with a net result of close to 350 million euros, very much in line with last year's results.

There were strong improvements in Brazil, up 31 million euros, with the implementation of a new business model and the absence of extraordinary impacts. In North America, profit is up nearly 44 million euros, on the back of improved underlying performance after the exit from five states. LATAM North and South continue contributing to results, which is reflected in their combined ratios and all countries contributing positively to the Group's results.

Lastly, EURASIA continues facing profitability challenges in Turkey, where we are managing the business with a defensive approach. MAPFRE RE continues to be an important profit contributor with a net result of 102 million euros. Results have been affected by Typhoon Faxai and the drought in Brazil, as well as two industrial claims, which had a large impact on the Global Risks segment, while the reinsurance business has proven resilient. In the Assistance business, excluding extraordinary items, there was a net loss of 9 million euros.

Regarding premiums, growth is very strong in Brazil and LATAM North, the latter fueled by a large multi-year policy in Mexico, which we already mentioned in last quarter's presentation. In IBERIA, premiums are slightly up with strong performance in Non-Life, offsetting the fall in the Life business. In addition, appreciation of the U.S. dollar and other Latin American currencies have also supported premium growth, while the Brazilian real is still a drag on premiums, but to a much lesser extent than previously.

On slide 4, we will look at the adjusted attributable result. Let's look at the extraordinary events. Regarding weather-related and NatCat claims this quarter, IBERIA was affected by the heavy rain and storms in Spain, with a net impact of around 10 million euros, while the reinsurance business was affected by Typhoon Faxai, with an attributable impact of 30 million euros. There have been a few other large events, both in MAPFRE RE, as well as the impact of the drought in Brazil, but we consider these events business as usual.

The reorganization of our U.S. operations has had a positive net impact of 5 million euros this year, compared to 7 million euro loss in 2018. There were two important real estate transactions last year for approximately 30 million euros. We have not completed any transactions this year, but some units are currently in the final stage of sales. As for the actively managed portfolios in Europe, gains have been quite stable. The adjusted attributable result, excluding all these impacts, is up by around 4 million euros.

Regarding the Life business, we've seen a strong performance in IBERIA. The result is up over 21 million euros, stemming from Life Savings, due to higher realized gains driven by asset sales from surrenders. Life Protection premiums are up 8 percent with improving combined ratios.

As we already mentioned in June, we have been gradually provisioning for the new actuarial tables for longevity, based on an estimated impact of around 50 million euros. Excluding prudence margins, at the end of September, the outstanding provision is negligible. Nevertheless, the Spanish supervisory body is currently carrying out an impact study based on more prudent actuarial tables. The result of this study and the decision regarding the final tables to be enforced, and the transitional period, if any, will be announced by year-end.

The fall in Brazil is explained by the non-recurring reversal of a provision in 2018. There has also been an increase in acquisition expenses this year in the bancassurance channel in order to boost sales.

In LATAM South, the fall is mainly driven by the gains realized in September 2018 from the sale of a property in Chile, with a 10 million euro pretax gain. There were negative adjustments in Colombia affecting annuity runoff portfolios, which were offset by the strong performance in Peru and Uruguay. Please turn to the next slide.

On the left, you can see the breakdown of the capital structure, which amounted to 13.3 billion euros. Our credit metrics remain quite strong, with leverage around 22 percent, which we feel comfortable with. Interest coverage is around 18x earnings before interest and tax, quite stable as well. And on the next slide, we'll take a look at our equity position.

Shareholders' equity is up over 12 percent, reaching nearly 9 billion euros. The most relevant changes are, first, an almost 891 million euro increase in unrealized gains on the available-for-sale portfolio, net of shadow accounting, driven by the sharp fall in rates in Europe. Second, the appreciation of the U.S. dollar and, to a lesser extent, the Mexican peso, which have helped offset the fall in the Brazilian real. And finally, the decrease of 447 million euros corresponds to the 2018 final dividend already paid in June, as well as the 2019 interim dividend to be paid in December.

On the bottom right, you can see the details of the available-for-sale portfolio in IBERIA, which represents 3 quarters of MAPFRE's total available-for-sale portfolio. There are currently 4 billion euros of unrealized gains in these portfolios, practically the entire amount at group level. The largest share of unrealized gains are in immunized portfolios, with 2 billion euros, followed by the actively managed and conditioned portfolios, which are mainly products with profit-sharing elements. Net of shadow accounting adjustments and after taking into account policyholder's participation, there are 1 billion euros of net unrealized gains, and the majority are in actively managed and free portfolios. This is new information and we hope you consider it quite interesting.

Please turn to the next slide to take a look at the investment portfolio. On the right side, you can see that assets under management are up over 10 percent, driven by improvements in stock and debt markets, after an important correction at the end of 2018 as well as currency effects. The breakdown of the investment portfolio is on the left. Asset allocation has been relatively stable throughout the year and exposure to government and corporate debt remains mostly unchanged.

Our cash position is up to 2.7 billion euros and includes short-term investments and temporary cash balances. The largest exposures correspond to the Spanish sovereign debt, with nearly 19 billion euros, and Italian debt with 2.9 billion euros. As we have mentioned in the past, the majority of these investments are in immunized portfolios.

On the next slide, we will look at our actively managed investment portfolios. Yields are still relatively high given the current market context, 1.9 percent in Non-Life and 3.6 percent in Life. Nevertheless, the downward trend continues hurting our financial income. We are mitigating this trend by allocating part of reinvestment to alternative assets, as well as keeping duration around 8 years. Realized gains in the euro area reached nearly 84 million euros during the first nine months of the year, around 7 million euros less than the previous year. The fall in IBERIA is explained by the real estate gains in Portugal last year, which were around 11 million euros pretax.

We have been cautious with asset sales, as we prefer, as we mentioned in the last presentation, to protect the recurring yield of our fixed income portfolio. Regarding our portfolios in other geographies, which is new information as well, on the right, you can see diversification is playing an important role in protecting recurring financial income, with accounting yields well above those in Europe. On the following slides, we will look at divisional performance in more detail.

Let's start with IBERIA, on page 10. In Spain, Non-Life premium growth has been excellent and we are outperforming the market in our main lines of business. On the other hand, the low interest rate environment has been a drag on growth of the Life business. Motor premiums are up 1.7 percent, with 1.4 percent growth in retail lines and 4 percent in fleets. They're small and medium-sized fleets. General P&C growth was mostly driven by Homeowners and Condominiums, which were up by around 5 percent and 9 percent, respectively.

Regarding profitability, in Motor, the combined ratio is 93 percent - an excellent ratio in a very competitive market. We've seen rising claims costs affecting property damage and slightly rising frequency trends in full coverage products, but both in line with our expectations. In General P&C, we have seen a two percentage point improvement, thanks to Homeowners and Commercial lines. There was a negative impact on the quarter as a result of the severe rains and storms in the Mediterranean area. It was the worst in 8 years; the last heavy rains in Spain were in 2012. But these losses were partially offset by the excellent performance in other regions.

Regarding other business activities, our asset management business, MAPFRE INVERSIÓN, continues as a strong contributor, with a net result of over 30 million euros, helping offset expenses from the launch of our digital health initiative. The strong reduction in the combined ratio in Portugal is also worth highlighting, mainly in Workers' Compensation. Let's take a look at Brazil now.

Premiums grew 5 percent in local currency, especially in the Life Protection, Agricultural and Multi-Risk segments. There was a fall in Motor premiums as a result of greater underwriting discipline and cancellation of loss-making policies. The attributable result amounted to 70 million euros, up over 30 million euros. And the Non-Life result is up 52 million euros due to the absence of extraordinary negative adjustments, but also the underlying result is improving.

The largest profit contributor was General P&C. Losses in Motor are down with a 14 percentage point reduction in combined ratio, thanks to stricter claims management, greater underwriting discipline and new pricing tools. We are now on track to meet our 105 percent Motor combined ratio target for year-end. Financial income is up, mainly in the Life business, due to opportunistic realized gains, mainly during the first quarter, as well as resilient portfolio yields. We already discussed the main drivers of the result of the Life business earlier in the presentation, so please turn to the next page.

In LATAM North, I would first like to comment on the solid local currency growth trends and the extraordinary combined ratio, which stands at 95.8 percent in a better currency environment. Excluding the multi-year PEMEX policy, Mexico has had strong local currency growth of 12 percent, driven by Motor and Life segments. The Motor combined ratio improved over 7 percentage points to below 94 percent, thanks to tariff and risk selection measures. Central America continues to contribute significantly to results in the region.

In Panama, we are applying stricter underwriting guidelines and tariff increases to correct recent negative trends. The loss ratio in Health is improving, which mitigates the uptick in Motor and General P&C. Technical measures are underway in Motor as well. And Honduras, Guatemala and El Salvador are all seeing solid growth and profitability trends. In the Dominican Republic, premiums are up over 15 percent in local currency and the combined ratio continues improving.

Please turn to next slide. Regarding LATAM South, we're seeing excellent local currency trends, but with some volatility. Average exchange rates for the Argentine, Chilean and Colombian pesos are down year-on-year, while the Peruvian sol is up over 4 percent. Local currency growth is good in most of our main markets, and we continue developing bancassurance operations across the region as well as our agreements with car manufacturers. Peru shows excellent premium growth and ratios, maintaining the same positive trends as the last 5 - 6 years.

In Colombia, the result has been impacted by negative adjustments in the annuity runoff portfolios as a result of updating long-term financial assumptions. The investment portfolio was restructured in July, improving ALM significantly, and we don't expect further negative adjustments in the fourth quarter. Chile saw local currency growth of 8 percent, and the fall in results is explained by the 2018 real estate gains. Excluding this impact, underlying results have been rather stable despite a higher combined ratio in Motor. Argentina saw a decline in premiums driven by currency depreciation, and the fall in results is due to hyperinflation adjustments in 2019, which were applied starting in December last year.

Let's move to North America. The appreciation of the dollar has positively impacted both premiums and results. Premiums are down around 9 percent in local currency as a result of the exit from 5 states in 2018, as well as the cancellation of non-performing business. The attributable result is up over EUR39 million in the U.S. and last year was affected by

extraordinary winter weather, as well as the cost of the exit of 5 states. Excluding extraordinary items, underlying results have improved significantly, over 15 million euros. Further, 2019 results are also benefiting from a 5 million euro net positive adjustment already discussed last quarter.

We continue reducing exposure to unprofitable business segments. And as we announced last quarter, we have stopped commercial line renewals in all states but Massachusetts. This business represented around 44 million USD in premiums in 2018 and had a combined ratio of over 128 percent. Going forward, this move will help profitability. Outside the Northeast, we've seen a reduction in losses and combined ratios across the regions. Finally, positive profitability trends continue in Puerto Rico, and this unit is contributing 15 million euros to the group's results, up over 4 million euros compared to last year and an excellent combined ratio below 92 percent.

Please turn to the next slide. Italy experienced a strong premium performance driven by the dealership channel and a strong improvement in the combined ratio, down over 5 percentage points. It is also important to mention that Italy is already delivering profit at 0.2-0.3 million euros on a standalone basis, by which I mean excluding consolidation adjustments. As we announced last quarter, we are working on the process of transforming our Italian entity into a VERTI Spain branch under EU regulations. The plan is moving forward behind schedule, unfortunately, and year-end is going to be a very challenging deadline.

In Turkey, we are still seeing a drag from exchange rates, and we continue with a defensive business model in this market, with premiums up around 9 percent in local currency, below current inflation, as we continue reducing our MTPL exposures in a defensive strategy, as I mentioned. The attributable result has moved back into positive territory in September, 0.6 million euros, compared to over 20 million euros last year. There are several drivers behind the fall in results.

First, inflation and currency depreciation are having a negative impact on spare parts and other claims costs, partially offset by investments in euros. And second, MAPFRE's participation in the compulsory high risk MTPL pool has had a negative impact of 5.1 million euros, mainly booked in the second quarter. In Germany, premium trends continued to be positive, with an improving attributable result and a resilient combined ratio. Please turn to the next slide to discuss MAPFRE RE.

Premiums are up over 7 percent, fueled by the reinsurance unit and the Non-Life business. Growth is also benefiting from currency movements, especially the U.S. dollar. On the other hand, we continue working on the non-renewal of unprofitable business in the GLOBAL RISKS segment, which explains the fall in premiums. We also recently announced the discontinuation of facultative underwriting business in our London office. In 2018, this business represented 115 million euros and 39 million euros gross and net premiums, respectively.

As for the Life business, the fall is due to timing differences in policy issuance. The combined

ratio has proven resilient, especially in the reinsurance segment, at 95 percent, in line with the historical average. Year-on-year, we have seen an increase in large losses, which especially affected the Global Risks segment. Specifically, there were two large industrial claims, one in Asia in the first quarter and another this quarter. The total net impact was 29 million euros, of which, 21 million euros is in the Global Risks segment.

Typhoon Faxai had an over 32 million euro net impact based on preliminary estimates. Regarding Hagibis, it is still too soon to have an estimate, but we don't expect the combined impact of both cat losses to be higher than Jebi and Trami last year. Finally, the impact of the Brazilian drought had a 10 million euro net impact.

Please turn to the next slide where we cover MAPFRE ASISTENCIA. On this slide, you can see results from MAPFRE ASISTENCIA as well as the breakdown of extraordinary items and underlying results by business region and product line. This is new information as well. We have been monitoring the Assistance business very closely, and have exited 7 countries since 2015, with relevant restructuring expenses in 2016 and 2017. As a result of that, the majority of countries in LATAM and EURASIA are currently contributing with profits. On the other hand, the U.K., France and roadside assistance in the U.S. are still running losses, as the first round of restructuring was carried out in a different context and with a different expected outcome.

Margins have been going down in these businesses, and products have been gaining in complexity, which has made us more selective. Furthermore, the complex socioeconomic context in the U.K., with uncertainties surrounding Brexit, and our business scenario in the U.S., with the lack of scale in roadside assistance and the streamlining of operations in this country brought about lower expectations of future profits in both countries. Following MAPFRE's prudent approach, we wrote-down goodwill amounting to 66 million euros. Full disclosure by company is on the slide. In addition, we will continue streamlining the organizational structure in six additional countries. We have already fully booked a provision for restructuring, with a negative impact on our attributable result of 11 million euros. Going forward, the Assistance business will be simpler.

Please turn to the next slide. The Solvency II ratio increased to 198 percent at June 30, in line with our 200 percent target and evidence of our strong solvency position. 87 percent of eligible own funds are high quality unrestricted Tier 1 capital and the remainder is Tier 2. On the right, you have a breakdown of the variation of the different components of Eligible Own Funds. And more detailed information regarding Solvency II figures can be found in our financial report.

Please turn to the next slide for closing remarks. In conclusion, we have had a good start to our new strategic plan, which is being temporarily eclipsed by, first, the Assistance unit restructuring; second, the unexpected increase in GLOBAL RISKS losses; and third, the unusual frequency of typhoons in Japan. Nevertheless, business fundamentals are stronger, with a clear turnaround in the U.S. and Brazil, where improvements should gain momentum in the coming quarters.

In IBERIA, both premium and profitability performance have been excellent and are in line with our expectations, even in a very competitive market. MAPFRE RE has had resilient results and continues to be an important contributor to our earnings. Right now, the focus is on reducing exposures in the GLOBAL RISKS business in order to lower P&L volatility. Growth trends are very good in Latin America with all 17 countries contributing profits -- all 17 means also Venezuela and Brazil -- and outstanding performance in Mexico and Peru. MAPFRE continues to boast a solid capital position and a high degree of financial flexibility, which should guarantee dividend stability and allow us to continue to meet our commitments with our shareholders.

And now I will hand the call back to Natalia to begin the Q&A session.

Q&A

Natalia Núñez Arana

Okay. Thank you very much, Fernando. Now, we can start the questions with one of our main regions, Brazil. Sofia Barallat at CaixaBank BPI, Ivan Bokhmat at Barclays, and Rahul Parekh at JP Morgan have the following questions:

Could you elaborate on the drivers of the combined ratio in Brazil in the quarter? The combined ratio in Motor insurance stands at 107 percent in the 9M19. Do you reiterate the 105 percent guidance for the full year 2019?

Fernando Mata Verdejo

Thank you, everyone. As you may remember, measures were implemented, starting just when we finished updating our agreement with Banco Do Brasil last year. We started first with stricter measures for claims management. It was the first thing we had to do in trying to reduce average costs. And this year, we're focusing on underwriting, as well as new coverage, new policies, and new tariff tools.

Obviously, these changes require a longer period in order to deliver performance, but we're quite satisfied with the measures already implemented. There has been a slight uptick during the quarter, but it is down over 14 percentage points year-on-year, and this is thanks to the technical measures, as well as portfolio cleanup and cost containment.

We're happy with our new business model and management team where, as I told you, we changed practically every position on the organizational chart. Brazil is clearly on the right path to reach the Motor target of a 105 percent combined ratio for year end.

Natalia Núñez Arana

Okay. Thank you. Rahul Parekh at JP Morgan has the following question: The combined ratio overall for Non-Life was 91.1 percent for the nine months, which is substantially better than the full year 2021 expected target of below 96 percent. Could you please comment on this?

Fernando Mata Verdejo

Yes, this 91.1 percent is supported by the reduction in Motor, obviously, which reduced by 14 percent, as we already mentioned. But it is also supported by General P&C, which has improved by 7 points to 75.5 percent. This is an extraordinary combined ratio - 75 percent.

And frankly, we would like this to be sustainable in the future, but we consider it extremely difficult to keep this low level. When we set our overall targets, we do it with a long-term view. The main non-Motor lines basically include agricultural and industrial risks, which can be more volatile, due to climate change and obviously depending on the occurrence of weather-related or large claims.

Natalia Núñez Arana

Okay. Thank you. The next set of questions are regarding MAPFRE RE. Rahul Parekh at JP Morgan would like to know if we have any indication about the impact of Typhoon Hagibis.

Fernando Mata Verdejo

Thank you, again. For Hagibis, as we disclosed in our financial report in the subsequent events section, there is no estimate right now. It's too soon to say, and we're still waiting for communication from ceding entities, which we will have very soon. But so far, we have no indication of cost regarding Hagibis.

We know there were damages caused by winds, although less than previous events, but also by the unprecedented heavy rains and floods. This cat event in that sense has special characteristics, because there was more rain than winds. But as I mentioned, we expect the combined impact of Faxai and Hagibis to be lower than the combined effect of Jebi and Trami from last year.

Natalia Núñez Arana

Okay. Thank you. Ivan Bokhmat at Barclays asked, what industry loss does the 30 million euro loss from Typhoon Faxai correspond to? It's early days, but do you believe the impact from the two Japanese typhoons might exceed the 87 million euros you've booked for Japanese losses in 2018?

Fernando Mata Verdejo

Thank you, Ivan. The estimation made - and it is very well disclosed in our financial report - for Faxai was a top-down approach, based on our estimations and our portfolio data and the information received from our ceding companies. Let me tell you that we estimated this amount just for the closing of the financial statement at the third quarter. But the communication we're receiving currently in October from the ceding entities is quite similar to this estimate. So, maybe we were lucky or we are very well-experienced in the treatment of these cat losses, but the top-down estimate is quite similar to the current communication from the ceding entities. And as I said, we expect the combined cost of both typhoons to be similar to or lower than that reported in 2018.

Natalia Núñez Arana

Thank you. Alfredo Alonso at BBVA would like to know, what measures are you taking to reduce the negative impact from GLOBAL RISKS?

Fernando Mata Verdejo

Thanks Alfredo. This bad experience in GLOBAL RISKS is a worldwide trend, a global trend. It's not only MAPFRE that is affected, but the entire business segment. For the last two years, we have been cancelling non-performing business and focused on those that are more profitable. But the best example is, as we unveiled in this presentation, the discontinuation of the facultative business written through our London office. Because we believe that this segment, which is a loss-making portfolio, doesn't fit our current risk appetite, or our businesses strategy.

On the other hand, the proportional treaty reinsurance business in London remains unchanged, and we will continue providing comprehensive insurance solutions for our clients in aviation, oil-gas and other risk segments in London.

In general, we are confident about the measures we've taken. We're on the right path, and we are doing what we had to do. And the integration of the Reinsurance and Global Risks

businesses will be positive, and performance will be better in coming quarters.

Natalia Núñez Arana

Okay. Thank you. Now, there is a question regarding the investment portfolio and assets under management. It comes from Rahul Parekh at JP Morgan. Realized gains came in at 62 million euros for the first nine months of 2019, and you mentioned that MAPFRE would aim for roughly 100 million euros for the full year. Does the target still hold?

Fernando Mata Verdejo

Yes. The 100 million euro target is basically the average for the last periods, and it's a target in a quite standard economic scenario. It's challenging, but we have a prudent approach to gains and prefer not to touch our fixed income portfolio in Europe to protect our ordinary yields. As I mentioned in the presentation, our unrealized gains exceed 1 billion euros, but if we use capital gains we would have a worse financial income performance in the coming years.

In any case, our investment team continues working hard to meet the 100 million euro target in capital gains that has been budgeted for this year. It is important to keep in mind that we have not completed any real estate transactions in 2019, but there are several units on the market - two medium-sized and another smaller - which are currently in the final stages of sales. And we would be really surprised if these transactions - or some of these transactions - were not completed in the last quarter.

Natalia Núñez Arana

Okay. Thank you very much. Now, regarding North America, Ivan Bokhmat at Barclays has the following question:

U.S. Motor profitability appears to have deteriorated for many of your larger U.S. peers, including both Commercial and personal Auto. Can you talk about the market trends and whether this can become a headwind to the improvements you are seeing in the business? What are trends like in Massachusetts?

Fernando Mata Verdejo

Thank you, Ivan. First, this trend of the deterioration of the combined ratio in Auto lines in the U.S. is not new. And it has been discussed for many presentations that there is a combination of risks affecting Auto business in the U.S., and they are still valid.

But in any case, our performance in Motor and the evolution has been excellent. Underwriting measures are being implemented, including tariff increases. I don't remember the exact number, but as we mentioned in previous presentations, there were around 20 increases in tariff across the U.S., as well as the cancellation of non-profitable business and agents, and the exit from five states.

Regarding the market as a whole, the same main trends with higher frequency and severity are a result, as I mentioned, of distracted driving, the cost of technological and sophisticated spare parts, and also higher mileage and gas consumption, which point to higher frequency. So, in conclusion, tariff increases will continue to be necessary to keep up with the cost of risk, or to decrease the cost of risk.

Overall, we're happy with the execution of our strategy so far. The decision to leave commercial lines outside of Massachusetts where profitability has been challenging will also be a positive driver going forward, in this case for auto.

Natalia Núñez Arana

Thank you very much. And the next set of questions is regarding the ASISTENCIA business. Rahul Parekh at JP Morgan, Ivan Bokhmat at Barclays, and Alfredo Alonso at BBVA have the following questions regarding the goodwill write-down: Could you please let us know the goodwill left on the ASISTENCIA books, mainly the goodwill amount left in the UK ASISTENCIA unit? What are your comments on the likelihood of any further write-downs or provisions at ASISTENCIA?

Fernando Mata Verdejo

First of all, the units that had goodwill write-downs this quarter have no remaining goodwill as they were write-offs. This means that we wrote off the entire goodwill booked in our accounts. But there are two other units in ASISTENCIA with remaining goodwill. Roughly talking, we wrote-down approximately two-thirds of the goodwill at the opening balance at the beginning of the year.

The two other units in ASISTENCIA with remaining goodwill is Warranty in Italy and Century in the U.S., with around 32 million euros. We have projected business plans for the future and so far we do not expect any additional write-downs in the following quarters. We're quite satisfied and confident with these two goodwills that remain on our balance sheet.

Natalia Núñez Arana

Okay. Thank you. Rahul Parekh wants to know, regarding this unit, in your presentation, you

mention on slide 17, the updating of business forecasts for the Assistance and special risks business. Could you please elaborate on your outlook for the business going forward? Could you provide any numbers guidance? Also, have you considered disposal of the UK ASISTENCIA unit?

Fernando Mata Verdejo

Thank you, Rahul. Over the last five years, we've been monitoring the Assistance business very closely, even exiting, so far, seven countries, with relevant restructuring expenses in 2016 and 2017. The accumulated losses for the last five years are huge, and we have to recognize that our strategy wasn't the proper one in this business. We grew quite quickly, and then we had to streamline our operations in order to keep the pace of profitable growth.

As I explained in the presentation, most countries in Latin America and across Eurasia are currently delivering profits. That means that the first wave of restructuring was, for these countries, successful. But -- and there is always a but -- the UK, France and roadside assistance in the U.S. are still currently running losses. There have been profitability challenges in this. MAPFRE ASISTENCIA has had difficulties due to its lack of scale, and strong restructuring measures have already been taken. But with the current macroeconomic and geopolitical situation in Europe, and especially in the UK, we have realized that further measures will be necessary, in line with the strategic plan of profitable growth, as profitability, particularly in the UK, is not predictable so far.

Further restructuring could be either a natural and gradual reduction of our exposure, closing offices, or sale of business. When I say restructuring, this means perhaps reduction of exposure because, as we did in the U.S., we're selling renewal rights, or just selling portfolios. But also it could mean the shutdown of countries or even the sale of business. So, let's say that restructuring is a quite comprehensive concept and any decision could be taken in the future. All options are on the table, and these measures will affect operations in six countries.

This is still under analysis. There are only two countries where the processes have already started, mainly in France. But for now, we can't provide any further details on other countries since the restructuring hasn't been unveiled and it could deteriorate our position.

Regarding InsureandGo in the UK, this is a strategic segment of business for MAPFRE. It has a strong market position in the UK. What we have to do is really analyze in depth both businesses - the B2C and the B2B2C segment of business - in order to get profitability in both.

Let me tell you that also InsureandGo is quite profitable in other countries such as Ireland and Australia. So, my conclusion is that the business model is good, the operational structure is good as well, the way we reach our clients works well. But we have a problem in the UK and we have to solve it.

Natalia Núñez Arana

Okay. Thank you very much. Ivan Bokhmat wanted to know, if we can remind him of the breakdown in goodwill by business units.

I can tell you, Ivan that regarding the breakdown in goodwill by unit, you can find it in our annual accounts on page 148. If you need further assistance or you have further comments, we can talk later on, but we understand that this is the information you wanted to know. So, it's in our 2018 annual accounts.

Fernando Mata Verdejo

The largest is the U.S. and Life operations in Spain. But we're quite comfortable with the goodwill that we currently keep in our books.

Natalia Núñez Arana

Right. Thank you. Andrew Sinclair from Bank of America Merrill Lynch asks: Even after stripping out the ASISTENCIA write-downs, results from other activities is a much bigger loss than would typically be expected in Q3. Why has this line jumped so much?

Fernando Mata Verdejo

Thank you, Andrew. I expected this question. This is a very smart question. And basically what we're unveiling is the net effect of the restructuring impact on our profit and loss account, which is 11 million euros. If we split into gross and net, the gross figure is much bigger, amounting to approximately 30 million euros. But we have some tax relief because we didn't book deferred tax assets from previous losses in this country. So if we sell these operations, or we shutdown operations, there will be a big tax relief that will somehow lower the gross figure, which is higher than 11 million euros, obviously.

Natalia Núñez Arana

Okay. Thank you. So, now we are going to talk about Iberia. Sofia Barallat at CaixaBank BPI has the following questions. Could you elaborate on the evolution of Motor insurance premiums in the 3Q? What are your expectations on Motor insurance premium growth in Iberia going forward? The Motor insurance combined ratio reached the top of the 92-94 percent combined ratio guidance. Do you maintain this guidance or foresee further deterioration going forward? In this sense, Alfredo Alonso at BBVA has also asked about the Motor combined ratio going

forward, and if we are seeing much pressure in Motor business in Iberia.

Fernando Mata Verdejo

Thank you, everyone. Regarding Motor premiums, we're seeing good trends both in retail, with a 1.4 percent increase, and in small and medium fleets which grew 4 percent. Insured units are also growing, 3 percent. This means that if you do the numbers, the average premium is decreasing. It is a change of trend from previous year in which we had an average premium well above the market. This was basically due to our different strategy, focusing on more experienced drivers, leaving young drivers, where, obviously, the average premium is smaller.

Let's say that overall going forward, Motor premiums should continue to be supported by economic growth in the Spanish economy. But assuming that there is a slowdown of the economy it should also be supported by the profitable growth strategy. There has been a decrease in the growing trend of insured units, which is currently up. The market, in September, had an approximately 1.8 percent increase, much smaller than the previous quarter.

The Motor combined ratio of MAPFRE is slightly above 93 percent - an excellent figure, in the midpoint of our guidance. When we were running a combined ratio below 90 percent we pointed out then that it was unsustainable, and as guidance for combined ratio we feel very comfortable in a range between 92 and 94 percent.

What else? Let's say that MAPFRE is outperforming the market and we maintain around a 1.5 percent gap with the industry figure. Recent trends, both claims inflation, particularly in body shops because of the increase of salary in Spain, as well as higher frequency, because of the higher gas assumption, are more temporary than structural, and it's not something that we should worry about.

The uptick has been offset in Auto by improvements in other General P&C lines of business that we already mentioned in the previous presentation, particularly condominiums and homeowners. In the past we ran combined ratios well above 95 percent and there have been relevant reductions for both lines of business. So, overall, let's say that both things were somehow predicted - a slight deterioration of the Automobile combined ratio, and a relevant improvement in combined ratios for both Condominiums and Homeowners.

Natalia Núñez Arana

Thank you very much. Now, from Caixa BPI, Sofia Barallat asked about the revision of the DGS of the biometric tables. Could you also update us on the revision of the mortality tables, the expected impact, and the amount booked so far? Also, Carlos Peixoto from Caixa BPI, would like to have more color on the sensitivity and the impacts from the change in mortality table.

For instance, what would be the impact for a one year increase in mortality tables across segments/genders?

Fernando Mata Verdejo

Thank you, both. First of all, a couple of things before going through your questions. What MAPFRE is doing is the same as what we did with the Baremo. We're trying to anticipate the effect of this updating, or this expense. So it was already scheduled for this year, and the amount to be expensed this year is practically fully booked at June, and also at the third quarter. The outstanding balance to be booked is practically negligible.

Second thing, for MAPFRE, this exercise is the best example of the MAPFRE commitment to transparency in this market. Maybe I'm wrong, but as far as I know, MAPFRE is the only entity unveiling this effect to the market. And it is part of our commitment to our stakeholders - particularly two groups, policyholders and investors. Correct me if I'm wrong, but the other leading entities in Life Savings in Spain haven't published any impact, so far. Only MAPFRE, again, is leading this transparency in Spain.

Having said that, let's say that MAPFRE is actively participating at a technical level with UNESPA - the association of insurers in Spain - in the discussion between the sector and the DGS, the supervisory body. The Spanish supervisory body is currently carrying out a quantitative impact study based on more prudent actuarial tables. The fundamentals for the tables are the same, but the amount we booked was based on pure vanilla tables, while the impact study is being carried out on more prudent actuarial tables. This means that there's a margin for prudence, a buffer, cushion, or whatever you want to call it.

The result of this study is still unknown, and we don't know the decision yet regarding the final tables to be enforced and the transitional period, if any. We expect the DGS to announce this by year end. Our view is that if the DGS decides in the end that there is an additional margin to be booked, then the most likely scenario will be that a transitional period -- the thing is nobody know the number of years -- will be introduced in order to mitigate the impact for the sector. Meanwhile, MAPFRE is fulfilling our commitment to our policyholders, and we fully booked the best estimate in our third quarter accounts. We are comfortable with the current assessment and the majority of the industry is in the same position as MAPFRE. In any case, we will keep you updated with any further developments.

Natalia Núñez Arana

Thank you very much. Now, there is another question regarding Motor in Iberia from Ivan Bokhmat at Barclays. It is about the Iberia Motor combined ratio, which continued to move up a bit from 93 percent to 94 percent in 3Q. Is this the level it should stabilize on? Policy growth

of 3 percent year-on-year appears ahead of premium growth of 1.7 percent year-on-year.

Fernando Mata Verdejo

I've mentioned that we consider the range 92 percent to 94 percent a quite reasonable and sustainable range for the future. In addition, this year, we sold more policies to more experienced drivers and less to young people. We're also growing in fleets, and fleets only have a TPL cover, so a lower average premium. So in the end, the final mix results in a lower premium due to both factors - average premium for fleets and lower average premiums for more experienced drivers.

Natalia Núñez Arana

Okay. Thank you. Regarding Iberia, Ivan also asks, you have had a strong improving result in Iberia Health and Accident, but we have also heard that MAPFRE has launched a new large scale promotional campaign in Health insurance in 3Q '19. Do you think the 95 percent combined ratio will be sustainable in this segment?

Fernando Mata Verdejo

Thank you, Ivan. Yes, we're launching a new health campaign focused on digital solutions and also more features in order to keep clients even more satisfied. But let's say that this campaign is the traditional one, it's quite seasonal, and focused on renewals and new business for next year. Remember that in Spain, Health policies, like in Germany, are for the entire calendar year. So, this means the total renewals are from January 1st. And regarding the combined ratio, we do not expect any significant impact in the mid-run.

Natalia Núñez Arana

Okay. Thank you very much. Alfredo Alonso from BBVA has sent the following question. How much do you expect lower interest rates to affect Life business?

Fernando Mata Verdejo

Alfredo, I don't have a crystal ball. Sorry. And I guess nobody, not even the most experienced seniors in these financial markets, are able to predict future performance of yields, not in Europe nor in the rest of the world. But what we know is that this low interest rate environment is lasting longer than anyone could expect. As we mentioned before, and Jose Luis, our CIO, has said in some of these presentations, and also about the Japanization of

Europe, the low yield scenario is here to stay for longer. But let's say that we're prepared, and we consider our portfolio to be very privileged, and we increased duration a little bit in order to keep yields.

It is also worth pointing out, that an additional 500 million euros were allocated to alternative investments to keep yields. And we're encouraging the sale of Life Protection products, which are showing strong profitability, volume of growth, and also the combined ratio is improving. We'll focus on our asset management business as well, as a new way to boost profits. We're quite happy with the recent agreement with Abante that will help put MAPFRE in a better position.

Natalia Núñez Arana

Okay. Thank you very much. Now, let's talk about dividends. There are several questions about them. First of all, Ivan Bokhmat at Barclays asked, how should we think about this year? Last year the 0.145€ dividend was above the 50-65 percent target range and with the nine months results profit run rate a flat dividend will also exceed that range. Would you consider reducing your dividend for 2019?

Fernando Mata Verdejo

Thank you. MAPFRE has shown in the past that we're flexible when we have to be, above all regarding impacts on our P&L, that are non-cash items, particularly deterioration of goodwill. So, let's say that, in the future, we will keep this flexibility.

And regarding our policy, our main target of stable and growing dividends remain unaltered. And as I said, the charges at ASISTENCIA this year have been largely non-cash items. Our financial position and liquidity and capital numbers remain quite strong, so therefore the dividend-paying capacity is fully maintained.

Natalia Núñez Arana

Okay. So, I guess this also answers the question from Farquhar Murray at Autonomous, who wanted to know whether or not a goodwill write-off would have an impact of on the dividends for full year '19, which you've already answered.

Fernando Mata Verdejo

Yeah, the deterioration of goodwill wouldn't affect the 50 to 65 percent payout ratio.

Natalia Núñez Arana

Okay. Thank you very much. And also Andrew Sinclair at Bank of America Merrill Lynch asked, you mentioned guaranteed stable dividends. Are you ruling out a dividend increase at full year 2019 results?

Fernando Mata Verdejo

It's too early to comment on. So far, the Board has approved the interim dividend. We have to wait for the fourth quarter to deliver results, and as usual, the final dividend will be approved at the AGM next year.

Natalia Núñez Arana

Thank you very much. Farquhar has a question regarding taxes. Were there any one-off elements to the tax line this quarter, since the tax rates seem to be higher than the norm? But equally could it be just distorted by the goodwill write-down?

Fernando Mata Verdejo

If I remember well, the only, let's say, extraordinary impact on tax is the one I mentioned, regarding the Asistencia restructuring. And also there has been a reduction in Brazil from the agricultural business; it's a reduction in the rate from 20 percent to 15 percent. I don't think there have been any other additional tax impacts rather than those commented.

Natalia Núñez Arana

Okay. Thank you very much. We don't have any more questions.

Fernando Mata Verdejo

Okay.

Natalia Núñez Arana

So, thank you very much, Fernando.

Fernando Mata Verdejo

Thank you all very much. And for those living in Spain, hopefully you enjoy the long weekend ahead and with good weather. Thank you, and bye-bye.

Natalia Núñez Arana

Thank you. Bye.