Call for Analysts and Investors

Transcript

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Speakers:

CFO Carlos Rodríguez-Ugarte

IRO Beatriz Izard

Presentation

Beatriz Izard: Good morning and welcome to our conference call to discuss September 2022 results. I am Beatriz Izard, Head of Investor Relations. As usual, our CFO Carlos Rodriguez Ugarte will first walk you through the slides and then we will be happy to take any questions you may have.

Now let me turn the call over to Carlos.

Carlos Rodríguez-Ugarte: Thank you, Beatriz, and welcome from my side as well.

We start, as usual, with the highlights for the period in slide number 5.

Overall, our fundamentals are intact, yet our performance is not immune to inflationary pressures. The unique combination of macro factors has resulted in sky-rocketing prices impacting the cost side of the P&L. On the other hand, we are pleased to present a strong performance on the commercial side of the business and on our efficiency metrics:

- Policyholders grew 3.5% and premiums 4.1%. By line of business, we are displaying very solid development across all segments. Motor grows at 2.9%, with an acceleration in the third quarter.
- Combined ratio stood at 92.9%. Expense ratio stood at an excellent 20.1%, a ratio even better than that of 2021.
- Solvency ratio as of September was a comfortable 189,1% and return on equity stood at 24.2%.

Moving on, slide 7 provides our regular update on the Spanish Motor market, clearly affected by a record high inflation and hence, a very complex environment.

- CPI rose to 8.9% in September, with underlying inflation rising to 6.2%. These numbers are directly translated into a sharp increase in the cost of claims for the industry, especially in the second and third quarter of the year.
- Sector premiums are up 3.2% as of September. Average premiums are clearly on the rise, although its positive impact in terms of P&L will be seen in future quarters as gross premiums convert into earned premiums.

Turning to slide number 8, Home continues with a positive development. Home sales continued at a good pace although slowing due to the increase in borrowing costs. House sales were up 21% in July.

Sector revenues grew 5.7% in September with prices rising across most of the sector.

As with regards the Spanish Health market, while the inflow of new customers is slowing, turnover for the industry continues to report significant growth. Premiums reflect higher healthcare costs and hospital tariffs.

Let´s move on to the main figures for the year.

In the complex environment I just described the company's performance on the commercial side shows a positive trend:

- Premiums were up 4.1% on the year, 3.5% in this quarter and 5% in September. Customers increased by 3.5% accompanied with outstanding retention rates.
- Our technical result is fully explained by the unprecedented increase in the cost of claims in all lines of businesses and also by higher frequency in Motor and Home.
- Financial result includes realised gains of 7.8 million, mainly in mutual funds with the aim of reducing P&L volatility prior to the entry into force of IFRS 9 in 2023. We also realised capital gains in foreign currencies in the 3Q as the US dollar rallied. Excluding such effect, financial result would have grown 4.5% driven by higher dividends on the equity portfolio.

So, all things considered led to a solid combined ratio of 92.9% and a profit after tax of €58 million, down 32.4%.

Please turn to page 12, where you see the breakdown of policyholders and Gross Written Premiums by line of business. The portfolio increased by 3.5%, supported, as I explained before, by excellent retention ratios. Policyholders reached 3.4 million, with solid growth across all segments.

Company premiums grew 4.1%. Motor displays positive momentum with premiums up 2.9%. Home and Health continue their very positive trend.

More specifically, if we turn to next page, the Motor segment grew 2.9%. Again, the portfolio recorded a solid growth in a still very competitive environment. Average premiums are clearly on the rise, in both new business and the portfolio. This pricing trend will be gradually reflected in the coming quarters.

On the technical front, combined ratio stood at a noteworthy 91.9%:

- Expense ratio, again, was superb; and
- The performance of the loss ratio was driven by sharp cost inflation, having strong impact in the second but, mainly in the third quarter. With the rise in the unearned premium reserve, premiums are earned at a lower rate as compared to GWP.
- Combined ratio is well below the sector, 4.5 p.p. Please bear in mind we are comparing with the sector's latest available data as of June and

we expect the market's technical margin to deteriorate sharply in the first nine months of the year.

Moving to the next slide, Home continues its excellent performance during the first nine months of the year:

- premiums keep its very positive trend, up 10.2%, a growth 4.5 p.p. higher than the market.
- combined ratio stood at 93.4%, which is 3.1 percentage points above that of 2021. We had remarkable performance in the expense ratio which is gradually taking distance from the market average. On the negative side, loss ratio was affected by higher cost of claims and frequency.

Moving now to next slide, Health keeps on track. Premiums grew more than 11%, although we are seeing slowing growth as economy deteriorates. We continue with a prudent subscription policy and a careful risk selection while making the business more efficient quarter by quarter.

Please let's move now to slide number 16, where we breakdown management ratios by line of business:

- Motor loss ratio increased by 7.6 p.p., in a very difficult context of cost inflation and, to a lower extent, a rise in frequency. Also, the loss ratio in the Home segment increased by 4.9p.p. On the other hand, Health is having an excellent performance improving the loss ratio by almost 8 p.p.
- Expense ratio dropped to 20.1%. It is noteworthy to mention the 17.4% cost ratio achieved in the Motor Line of business.
- Overall, these ratios reflect the impact of strong inflation on the claims' side and robust performance on the Company's expenses.

If we move to slide number 17, consolidated loss ratio was driven by hyperinflation and higher frequency, especially in Motor but also in Home. 47% of claims experience is explained by higher cost of claims for the nine months of the year and, 89% in the third quarter standalone. In addition, frequency accounts for 53% of the increase in the first nine months, which is reduced to 11% in the quarter standalone.

Loss ratio in Home was also impacted by inflation (as of September 2022, 24% of the YoY increase is explained by higher average cost of claims). Frequency was also higher as compared to the previous year.

On the next slide we elaborate on the expense ratio, which again and recurrently, was remarkable. We continue with our strategy of efficiency and commitment to technology together with a strong control of overheads. Acquisition expenses are contained thanks to higher retention ratios.

Let's please now move to slide 19. As I mentioned before in the first six months we used a window of opportunity to realise gains in equities and mutual funds portfolios with very high average returns. In the last quarter we took advantage of the US dollar rally to realise some gains on foreign currency. Excluding those gains, investment result would have grown by 4.5%, on the back of higher dividend income.

On slide 20 you can see equity mutual funds have fallen from 8 to 7% of the total portfolio composition. As with regards investment returns, the rolling 12 overall return of the portfolio stands at 3.5% (2.7% excluding realised gains).

Moving on to our solvency position, the Company's solvency margin stands at 189%. The main impact on eligible own funds was the drop in the mark to market of the AFS portfolio, particularly in the fixed income portfolio a s a result of rising rates.

For its part, SCR was flat in the quarter. This is largely explained by lower exposure to equities and the symmetric adjustment dropping to minus 8.1% (from minus 5.3% in June).

To conclude, I will say that inflation clearly affected this quarter results and also might have damaged the entire sector. On the positive side, premium development is encouraging. We are confident that our strategy of pricing, strict cost control and high retention ratios should and will provide positive performance in the medium and long term.

Thank you. I will now hand the call over to Beatriz to begin the Q&A session.

Q&A

Beatriz Izard: Thank you very much for the presentation, Carlos. First, we'll begin with the questions received from the conference call.

Conference call operator: Thank you. If you would like to ask a question, please press *1 on your telephone keypad. If you'd like to withdraw your question, please press *2. When preparing to ask your question, please ensure that your line is unmuted locally. And our first question comes from Maksym Mishyn at JB Capital. Please go ahead, your line is open.

Maksym Mishyn: Thanks. Good morning. Thank you for the presentation and allowing us asking questions. I have three. The first one is on home insurance. Combined ratio almost reached 100% and that was in the third quarter. And I was just wondering if you could give us a little bit more colour and what was the reason? And how do you see the outlook? Whether it was some one-off or is something if changing in the trend? And then the second is on motor insurance. Do you think that there are chances we get another update on *baremo* next year? The pension inflation is high, and this could be another headwind for the industry. And the last one. There was some news in the Spanish press on the appeal made by repair shops and pricing practices for motor insurers. Do you see any risk to your business from this appeal? Thank you.

Carlos Rodríguez-Ugarte: Thank you very much Max. First of all, regarding the home insurance, as I tried to explain during the presentation, the evolution of the year was very positive until the third quarter, and the combined ratio reflected that. In the third quarter, we have some increase in the frequency, especially due to atmospheric events, you know, some fires and some rain. My expectation is that the combined ratio for this business will keep on improving looking forward. I mean, we depend very much on atmospherics, but I think we're doing a great job on the expense side of the combined ratio. That is what we have to do. Of course, we have increased our combined ratio this quarter, but I think it should be an isolated event and my perception is that we will keep on improving that in the expense ratio, and hopefully in the loss ratio, as frequency will start to mild or will start to go back on the same numbers as the first half of the year.

Regarding motor and your question about the *baremo*. Yes, I think we won't have an update on the *baremo* itself, but I think the costs will increase due to the inflation impact on some of the indemnities. So, my perception is that the *baremo* next year will also have an impact. Probably less than this year, because it will only affect new business, but my perception is that yes, the *baremo* will increase next year.

And regarding the repair shops issue. Well, this is true. I have read the same news you are telling us. Well, in that case, we'll see what happens. So, what I can say is that we are one of the few companies that we own our own repair shops, that they manage close to 20,000 cars a year. So, we have a lot of cost control there, and that is an advantage for us. Keep in mind, as I always say, that we buy directly from the suppliers, as we don't allow our repair shops to buy supplies. So even with that news, we are able to cope with that. Let me say one thing. I mean even though the loss ratio has increased in the motor insurance and the inflation had really an impact on the evolution of repair costs, looking at the market, the positive gap on costs, on the repair side of the business of Linea Directa is still there. I mean, what has happened to Linea Directa is the same thing that probably happened to the market. But when I look at the numbers of average cost per repair, Linea Directa is still well, well below the market.

Maksym Mishyn: Thank you very much.

Conference call operator: Thanks for your question, Maksym. Our next question from Francisco Riquel at Alantra. Please go ahead, your line is open.

Francisco Riquel: Yes, good morning, thank you for the presentation. I wanted to focus on the relative performance more than the absolute one on the motor insurance business. So first, the average premium for the sector is up over 2% in the first nine months, as you mentioned in the slide, and for Linea Directa is less than 1% up. So I wonder if you can elaborate on what you are seeing in terms of average premium prices for Linea Directa and for the sector in general, both for the new business and for the retention of the portfolio? Because it seems to me that you are slower in the adjustments to the higher inflation environment.

And second, on the combined ratio in motor, you are at 97%. The sector was at 96 in the second quarter. So I wonder how do you see the traditional gap that you have maintained in terms of the combined ratio versus the sector, if you feel that you will be able to maintain it during this cycle or not. And in particular, how do you feel that your frequency and severity of claims in motor is performing relative to the sector. Thank you.

Carlos Rodríguez-Ugarte: Thank you very much, Paco. Nice to talk to you. First of all, in terms of average premiums, well, it is true, I mean, in our case, probably the uprise on the average premiums has happened more in the second half of the year, than in the first half of the year, especially in the third quarter. I mean, we have seen, our average premiums go up. That should be the trend. Maybe I'm lagging a little bit about the overall average market. But it's an average, If we compare to many of the companies, we are rising average premiums above. But it is true that during first quarter, average premiums were more or less flat. I think I explained that in my first call of the year. During the second quarter, they start to increase, but really, really the heat on the uprise has been on the third quarter. You should expect that to keep on going on the fourth quarter. Of course, you should expect that average premiums will keep on rising in 2023. In our case, we started with a new business, but now we are rising also average premiums on the portfolio. So even though we might… we're a little bit slower than some competitors, we are in that trend and that should be positive for the fourth quarter and for 2023.

The second question was…

Beatriz Izard: Yes, related to the combined ratio

Carlos Rodríguez-Ugarte: Well we'll see what happens. I mean, you will see numbers coming up next week, you will see market numbers coming up in November. My perception is that what has happened to Línea Directa in terms of inflation, which is really the bulk of the hit on the combined ratio motor business is something that is going to happen to the market to the same extent or even worse, you know, because I think we manage costs much better. So, my expectation is that our positive gap in terms of combined ratio will remain with the market. Remember that, in the June numbers of the industry, many companies, they were already above 100%. So, we'll see what happens. So, comparing to the market, I'm very positive that our combined ratio will be very competitive.

And the third question was on frequency. Frequency during summer has been very bad for the entire industry. Even if you take a look at the number of people dead on the roads, it's been the worst July in the history. September frequency came down, you know, and my expectation is that the last quarter is going to be milder. I'm not saying that it's going to be a frequency similar to COVID periods, but I think fourth quarter frequency will be milder. So, in that regard, I am concerned, but I'm not as concerned as on the cost side of the business. Frequency will tend to stabilize, and you know, and numbers and frequency. We have seen on the last quarter that the weight of the frequency in the cause has been much less than in previous… in July and August. So, my expectation is positive.

Francisco Riquel: Thank you.

Conference call operator: Thank you for your question. Our next question comes from Carlos Peixoto at CaixaBank, please go ahead.

Carlos Peixoto: Yes. Hi, good morning. Thanks for taking my call. My question, sorry. So, the first question would actually be related with the combined ratio evolution and any inflationary pressures. I guess in the first half of the presentation, you're guiding towards the combined ratio of 91 to 92% for the full year. What should be the updated guidance on that front? And my question would be, in what extent did inflation surprise you in the quarter? Because I'm assuming, right, in whether there's some specific areas within the repair costs that are hurting you the most?

Then the second question would be a bit of a follow up for Francisco's question on the premium. My question would be, what type of increase should you be aiming for to have on the average premium over the coming quarters. Or if you want it in another way, how much of the inflationary pressures do you expect to be able to pass through to clients? Thank you very much.

Carlos Rodríguez-Ugarte: Well, in terms of the combined ratio, Carlos, my forecast is that we are going to be, by the end of the year, by that 93% that I explained the last time we talked. I mean, as Paco was saying, September has not been very good in terms of our combined ratio, but I still think that we will reach that number in the neighbourhood of 93% you know. We'll see the evolution of inflation; we'll see the evolution of the frequency business. Again, frequency on September was much better than on summer. So yes, we should be in that 93%. And in terms of average premiums, I don't have a number of how much we're going to rise average premiums. I can explain the strategy of the company, which is, of course, based in the increase in average premiums based on the risk premium of the business of each individual. And we will adjust, you know, average premiums. Of course, you know, with inflation hitting so hard the cost side of the business, our intention is not only to increase average premiums in the new business, but also keep up increasing those in the portfolio. The thing is that the increase in average premiums, the translation of that into the P&L, it takes time, while the translation of the cost side is seen immediately. But again, third quarter increases, they were more than on June, July and August, and that should be the pace. And I think there's going to be a market, overall, intention to raise average premiums. We'll see what happens with combined ratio. My expectation is that the motor sector in Spain is going to be very close to 100%.

Conference call operator: Thank you, we will now move on to our next question from Freya Kong at Bank of America. Please go ahead, your line is open.

Freya Kong: Hi, good morning. Thanks for taking my questions. I've got three, please. First one, could you provide some rationale for continuing to push for growth in the motor and home insurance markets given how difficult the backdrop is? And at what point in the market… at what point do you think that growth doesn't look sensible anymore for Linea Directa? Second question for home. Could you give us how much atmospheric events contributed to the weakness in Q3? I think you usually provide a callout for this; the split would be helpful to understand underlying versus one-off. And third question on solvency, you have had a significant drag this quarter from rising interest rates, which is obviously beyond your control. If rates keep going up, this could see your solvency levels dip below 180%. How should we think about this and the safety of the dividend? Thanks.

Carlos Rodríguez-Ugarte: Well, the rationale for growth in motor is that motor represents 85% of our business. I mean, we are a multi-insurance company. But of course, we have a lot of focus on the motor insurance. What we have to do is to keep on growing and I think when the market is in difficult times, which I think it is now in difficult times, the competitive advantage for the Linea Directa is clear. You know, we have grown our average premium in 2.9%, coming from a flat year in 2021 percent, the number of clients I think they have increased by 2.4%. You know, so our intention is to keep growing in this business, growing with higher average premiums, and trying to grow our market share in the business. I think it's the first time for the last two years that we have increased our market share from 6.7% to 6.8%, so that's a good indicator. We like the motor insurance business. We know it's a difficult business, especially this year because of inflation. But I think the fundamentals of the company are there, are intact and our intention is to keep on growing while our competitors will be focusing more on how they manage the costs, their cost side of the business.

Regarding the home insurance atmospherics, I think Beatriz has a number. Before telling you the number, atmospherics really had an impact on September and late August. Before that, the year was very good on frequency. But here, atmospherics is not a matter of how much, it's a matter of when it happens. Because normally, more or less, it's the same figure every year.

Beatriz Izard: Hi Freya, this is Beatriz. Loss ratio excluding atmospheric events would have been 58%. So, you have three percentage points of atmospheric included in the loss ratio for home insurance.

Freya Kong: Thank you.

Carlos Rodríguez-Ugarte: And finally on the solvency question. It is true what you're saying. I mean, we depend very much on the evolution of our portfolio and the evolution of interest rates. The hit this quarter has been 19 million. Well, we are close to 190. We work very much on not only on the own funds, but also on the SCR. The SCR has been flat, you know, and we manage that by reducing the equity portfolio, but you know, reducing a little bit the liquidity of the company. So, our goal is to be over 180 and I don't see that number is somewhat jeopardized. I mean, we maintain that expectation and we should be above 180. Even if we pay dividends, we should be above 180. Still today, I don't see a problem there.

Freya Kong: Okay, thank you. Just to clarify that loss ratio for home ex-atmospherics was 58% in Q3?

Beatriz Izard: Yes, that's for the accumulated figures. If you want, Freya, I can give you the standalone figures for the quarter.

Freya Kong: Okay. Okay, 58% for nine months.

Beatriz Izard: For the nine months. Yes

Freya Kong: Perfect. Thank you.

Conference call operator: Thank you very much for your question, Freya. Our next question comes from Thomas Bateman at Berenberg. Please go ahead.

Thomas Bateman: Morning Carlos, morning Beatriz.

Could you just give us a quick update on any contract renewals that are coming up, particularly in motor over the rest of the year and maybe early into 2023 that could potentially, I guess, add to the inflationary concerns. And just on the home insurance, thank you for that figure for loss ratio, excluding atmospherics, what's like a normal run rate for Linea Directa across the quarters? And the final question, just on the… oh actually, no. A third question on motor, please. I guess there's been quite a pickup in inflation, and you seem to suggest this is all kind of core underlying inflation with no one-offs. Is that right? Maybe if you could just confirm that. It seems to be quite a big pickup in the quarter. And finally, just on… you said you've benefited from the US dollar rally. Can you just explain a little bit the actions you took on the investment portfolio to mean that you did benefit from that? Thank you.

Carlos Rodríguez-Ugarte: Well, on the contract's renewal, I assume… Hello, Tom. On the contract's renewal, I assume you're talking more on the supplier side of the business?

Thomas Bateman: Yes, exactly

Carlos Rodríguez-Ugarte: Well, we've been managing that for the entire year. It's true that in the first quarter, it was very mild. But of course, suppliers, when they realized that inflation was here to stay, well they put a lot of pressure on pricing. We have a very close relationship with providers, with suppliers, but it's true that we have to cope with the situation. So, looking forward, this year, all the contracts are already renewed. And of course, what we have tried is to increase the average duration of the contracts, I mean, not signing only one year contract, but also, trying to get a comfortable contract for the coming years, so the inflation wouldn't hit the company on a continuous basis. But inflation if it's on the 8% or 6%, underlying next year, it's also going to have an impact. My perception is that it's going to be milder than this year, you know, because we got a real hit on inflation. But again, I mean, suppliers, if their costs increase, they try to translate that to you. We manage that as we can, and my perception is that next year will be better in terms of rising of costs, but it's still there with an underlying inflation of 6%. Regarding the home insurance… I'm not sure about the question.

Beatriz Izard: I think he's asking about the loss ratio. What can we expect going forward?

Thomas Bateman: Yeah. But also, what's the normal run rate for atmospherics across the year?

Carlos Rodríguez-Ugarte: Well, if we take a look at the combined ratio of the home insurance, I'm very happy about the combined ratio, especially on the expense ratio of the business. I mean we keep on improving that, we are much better I think than the market. The market is in 35s, we are in 32s. So happy on that. And then on the loss ratio, well again, it was not a very good quarter for us in terms of frequency. My expectation is that we should improve, a little bit, in the fourth quarter, but probably the loss ratio should be more or less stable by the end of the year, and you should expect a number very similar as the one we have if we have some atmospherics. If we don't have some atmospherics, I think it will improve, you know, but we'll see what happens on autumn, because normally the end of the year is not very good in terms of atmospherics.

Beatriz Izard: Yeah, the next question, Tom was referring to if we have really a pickup in inflation, particularly in this third quarter?

Carlos Rodríguez-Ugarte: Yes, I think you could say that. I mean, the third quarter, really has been the pickup of the inflation. Of course, as I explained before, I think at the beginning of the year, everybody was waiting to see whether this inflation uprise was going to be there for good or if it was an extraordinary issue. Once they have seen that it doesn't look any good for the year, we really had the hit on the third quarter. We will still have some inflation impact on the fourth quarter, but really, the hit has been on the third quarter. And again, I think frequency on the fourth quarter will be better, that will mean less repair costs for the business, so hopefully we'll be there. But in terms of combined ratio being very efficient on the cost side of the business, my expectation is that the combined ratio of the motor insurance by the end of the year should be in the neighbourhood of 93%.

Ah, and the actions in the foreign currency. Well, we have a very small position on foreign currency in the fixed income portfolio. What we see is the dollar pickup, the rally of the dollar was very good. And what we decided is, to make some capital gains on the fixed income portfolio. Nothing fancy, I mean, we are not talking about big numbers, but it's the management of the portfolio, when we see that, our position in the dollar was very positive, we decided to realise capital gains. Anyhow, if you take a look at the investment portfolio and the evolution of it, I think we posted €26 million in investment income. Normally we move on a yearly basis, very close to 30 million if you take back a look at 2017 to 2022. Normally, that is a number so you should expect those numbers by the end of the year. We are not doing anything to increase our investment income, we basically take opportunities when we see there is an opportunity and I think with the dollar situation, it was a good opportunity to reduce our dollar position but again, nothing fancy and small numbers.

Thomas Bateman: Thank you, Carlos.

Conference call operator: Thank you. Our next question comes from Fernando Gil de Santivañes at Bestinver. Please go ahead.

Fernando Gil de Santivañes: Hello, thank you for taking my questions. Two follow up questions please if I may. First one is on the solvency ratio. I mean, you mentioned the 180 targets. It's still a target and above that it will be paying dividends, what actions do you contemplate in order to protect this target because if markets continue this volatility, I've seen that you have marginally increased the equity exposure. And we don't know yet where the rates will end, but what other actions could be taken by the company to protect this 180 target? So, this is one question. The other question is regarding the health insurance. So, I've seen the growth rate is very good and the pace is amazing. I wonder if you could refresh the target growth rate and target market shares that you have for this segment, please. Thank you.

Carlos Rodríguez-Ugarte: Thank you, Fernando, and welcome. On the solvency ratio, well, it is true that solvency too, it doesn't give you a lot of tools, you know, to manage your solvency position, I mean, because it is very much regulated. The only thing you can do is, of course, work with very few tools. One of the things that we normally see with volatility is the EIOPA adjustment of the symmetric adjustment, they could manage this adjustment by +10 / -10. We are in -8 coming from a –5, I think that is the way the regulators, they try to help the insurance sector in terms of volatility of the solvency ratio. Of course, we do some things in order to help, we have reduced a little bit our equity portfolio, we have reduced a little bit our liquidity, in order to help that. But there are very few tools besides the help of EIOPA. Again, keep in mind that we are in 190, after paying €22 million in dividend by the end of September. If you take our mutualities in the sector, I think the solvency ratio is way below that 190. So, I'm still comfortable on that. We are always looking at the evolution of the market. It is true that September was a very bad month in terms of the portfolio performance due to the interest rates. But still, we are kind of comfortable in the numbers that we are. But again, tools: managing a little bit the portfolio, and of course, with this volatility, I expect EIOPA to keep on maintaining that adjustment in the neighbourhood of 8%.

Fernando Gil de Santivañes: Thank you. And on health, please?

Carlos Rodríguez-Ugarte: And on health, we don't have any targets on that. I mean, we are happy with the evolution, not only on the premium side of the business, but we are also happy on the evolution, on the combined ratio, we are really doing an effort there in terms of risk profiling. And you can see that on the evolution of the nine months compared to the prior year. And in terms of growth, I mean, I think we posted 7,000 new clients or 8,000 new clients with an increase on 11% and we want to keep on track with that growth. It is true, as I explained during the presentation that we are getting the feeling that the market is not growing as fast as it used to during COVID times. I think the market is slowing down. It is still growing, I think it's growing 7.7% in gross premiums, but I think it is slowing down, so we'll see what happens. Our objective again is trying to go to breakeven as soon as possible. Our objective there is to keep on growing on clients and on premiums. And of course, being very careful on the risk side of the business.

Fernando Gil de Santivañes: Thank you very much.

Conference call operator: Thank you for your question. Our next question comes from Patrick Lee at Santander. Please go ahead.

Patrick Lee Hi, good morning, everyone. It's Patrick from Santander. Thanks for taking my questions. I just have two questions, one on expenses and one on frequency. Firstly, on the expenses. Expenses was pretty much flat this quarter and it has been flat for many quarters, which is obviously very strong cost control from your side. But with inflation eventually having an impact, do you think you can still hold that cost flat in the coming quarters, or so far have you had to hold back investment costs, IT expenses and advertising costs, things like this, to keep that flat expense, which at some point could create some catch up cost pressure?

And secondly just to dig a bit deeper on the frequency point. Looking at the immediate few quarters ahead, there's obviously the seasonality factors, which after the summer months should be helpful in the fourth quarter. But apart from that, in the context of high inflation, higher fuel prices, are you seeing any observable change in consumer behaviours in terms of using the car less, driving slower to save costs, or using public transport more, which with these things in mind could help your cost of claims in the coming quarters? Thanks.

Carlos Rodríguez-Ugarte: Thank you, Patrick. Well, on the expense ratio, the only thing I can tell you is that we are very happy with the evolution of the expense ratio given the inflation situation which also affects the general and administrative expenses of the company. So, I mean, posting at 10.1%. If you compare our expense ratio to that of 2019, it's very similar. 20.1% versus 19.9%, I think, having put into the company more than 300,000 new clients, so we are very happy. We are not improving our expense ratio by, cutting costs on IT, cutting costs on marketing. It's the other way around, I mean, we are investing even more on marketing. I mean, the evolution of the expense ratio of the company is basically due to the strategy of the company, being very digital, keeping on improving our digital proposition to clients. And my expectation or my goal is to post full year numbers even better than the ones you have seen. So very comfortable on the expense ratio and I think we need to even improve that expense ratio, and you should expect that to happen by the end of the year. And on the frequency, well, we are not seeing the signs on that. I think the entire market is expecting that the fourth quarter, in terms of frequency, will slow down due to the economic situation, and people take public transportation with all the subsidies that the government is providing, but still today, we are not seeing that. October numbers are coming out good, but everybody's expecting that frequency to mild. Of course, frequency is not going to be the same as the summer, because I think these years summer has been crazy in Spain, especially in the month of August. But still today, we don't see that positive evolution on the frequency because people mobility or people choosing public transportation will reduce the frequency. Still, we don't see that.

Patrick Lee: Great. Thanks for that, Carlos.

Conference call operator: Thank you for your question, Patrick. At this time, we have no further telephone questions. I would now like to pass over to Beatriz for any webcast questions.

Beatriz Izard: Okay, thank you. Now we continue with the questions received through the webcast. The first question comes from Jaime Pallarés, from GVC Gaesco: Good morning, and thanks for the presentation, Carlos. He has two questions from his side. The first one is related to the fourth quarter dynamics. What should we expect in terms of cost increase? And how are policyholders assuming the price increases? And the second question is related to cross selling. And how is the current economic situation affecting cross selling between business lines? Thank you very much.

Carlos Rodríguez-Ugarte: Well, I will start with the last question, I mean, the cross selling. I think the evolution of cross selling is in a very, very positive trend. I mean, if you look at the weight of home insurance in terms of policyholders, it weighs 22% of the entire company, and that is a big number, coming from a 15%, 16% the previous year. So cross selling is working quite well. Is the economic situation impacting that? Well, we don't see people retracting from buying homes. I mean, the evolution of the home selling business is very good, and in terms of the motor insurance, it's mandatory. So, we don't see that. Even we still don't see any change in the mix of the insurance in the motor insurance. We still have the same numbers on fully comprehensive and third parties. I think that in the market that mix is moving a little bit, but in the case of Linea Directa, we maintained that. So cross selling in general terms is working quite well for the company.

And the first question was on the fourth quarter dynamics on the cost? Well, I think it's going to be a difficult year on the cost side of the business, especially because of the inflation in the repair side of the business. On the general and administrative, you should expect improvements on the last quarter, and on the repair costs, we will suffer also in the fourth quarter, I think.

Beatriz Izard: Thank you, Carlos. It seems there are no further questions, and this concludes our meeting. Thank you very much for your time, bye.

Carlos Rodríguez-Ugarte: Thank you and drive carefully.