MAPFRE

Investor & analyst call – Edited transcript

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Company participants

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

Presentation

Leandra Clark

Good afternoon and welcome to Mapfre's activity update for the first half of 2023. This is Leandra Clark, Deputy Head of Investor Relations. As usual, we have here with us Fernando Mata, the Group CFO, who will walk us through the main financial trends, as well as Felipe Navarro, Corporate Director of Capital Markets and Treasurer. As a reminder, you can use the Ask a Question link at any point during the call, and we will open up the Q&A session at the end of the presentation.

Let me turn the call over to Felipe, who will make some opening remarks.

Felipe Navarro López de Chicheri

Thank you, Leandra. Good afternoon, everybody. Before handing the floor to Fernando I would like to comment on the new reporting format. As of January 1st, IFRS 9 and 17 accounting standards are in force, and this morning MAPFRE has reported its interim accounts to the CNMV under these new standards for the first time. These IFRS 9 and 17 accounts are consolidated Group figures. The reporting model has been adapted to meet all regulatory requirements for half-year reporting. Further disclosure under new accounting standards will be provided with full year accounts. We are striving to increase the disclosure levels following your request but adapting to the pace of the requirements of the regulator. We will continue to increase the granularity in the future for the full year results and adapting the reality of the Group to the transparency commitments that we have. We appreciate your inputs and we will be in touch for further enhancements. As we already mentioned, MAPFRE subsidiaries continue complying with local requirements under the local GAAP applicable in every jurisdiction. This presentation will focus on an activity update, which has been prepared in line with the Q1 release, and we will spend some time at the end to walk you through the main IFRS figures.

As requested, we have also widened the scope of our financial supplement in order to provide more detailed figures by region and line of business, as well as include some balance sheet and solvency figures. The activity update and financial supplement are available at the Financial Documentation Center on our website.

Now let me turn the call over to Fernando; the floor is yours.

Fernando Mata Verdejo

Thank you, Felipe, and thank you all for joining us again. The first six months of the year have continued to be challenging for the insurance market. Persistent inflation and hawkish Central Bank policies continued to be a drag on the global economy. MAPFRE is showing solid growth in our main markets and business lines, growing above inflation in many countries and reporting a net result of EUR317 million. Our high level of diversification is a strength that is helping compensate inflationary pressure that is especially challenging for the Auto business.

Let's take a look at the main highlights. The Life business is growing close to 30% and profitability is also up over 16%, supported by strong technical margins and financial income, especially in LATAM. Non-Life premiums are up 11%. The combined ratio has gone down slightly, but is still higher than we would like. We are experiencing high volatility across business segments and markets. Higher claims costs are still hurting profitability, especially in Motor. Financial income continues to be a tailwind, up 74 million year-on-year. In Motor, we're focused on tariffs and underwriting to return to profitability. In Brazil, we have already seen some improvement, while other markets will need more time.

Looking at the different markets, Iberia is the unit with the highest premium growth, with an increase of over 20%. Business in LATAM is consolidating strong trends with a result close to EUR200 million, now the largest contributor to earnings. Here, the rate increases and other measures were adopted earlier and are starting to show results.

MAPFRE RE's excellent performance and solid growth has contributed EUR121 million to the net result despite the EUR99 million net impact from the Turkish earthquake. In North America, the continuous tariff increases implemented are still not translating into a visible improvement in Motor and we still need a few quarters to see a return to profitability.

In addition, both hyperinflation adjustments as well as the fall in the result from Other Activities, which includes holding expenses, negatively affected results.

We are happy to announce that we recently received – yesterday night – the result of the arbitration regarding Bankia after another month postponement. We are very satisfied with the Court of Arbitration of the Chamber of Commerce of Madrid's decision; it has confirmed MAPFRE's interpretation of the exit conditions after the end of the bancassurance alliance with Bankia. Consequently, the additional EUR53 million, EUR47 million net of taxes including interest, will be booked in the third quarter.

Let's take a look at the key figures. Premiums are up 15%, with no relevant impact from exchange rates. Non-Life premiums are up 11% and the nearly 30% growth in Life is mainly due to the good performance in Spain. These premiums also include the renewal of the two-year industrial risks program in Mexico, with EUR307 million recorded in June corresponding to the first year of coverage. Revenue stands at over EUR17 billion. The 15% increase reflects both relevant growth in business volume as well as an improvement in financial income. The combined ratio stands at 97.1%, down 1.3 percentage points, and the volatility and dispersion from previous quarters remain. General P&C has compensated the high losses that persist in the Auto business. The Life Protection combined ratio remains at an excellent level - under 83% - and financial income continues contributing positively especially in Latin America. All in all, the net result reached EUR317 million, down 6%. Finally, regarding Solvency II, we continue to boast a solvency ratio at 198% as of March, in line with our target range.

Here we have the breakdown of premiums by segment. Regarding Non-Life, premiums are up over EUR1.1 billion, nearly 15% growth in General P&C, 11% in Accident & Health and 4.4% in Auto. Life premiums are up over EUR700 million, driven by Savings, which is up over 60%, mainly due to Spain, and Life Protection is growing 12% on the back of strong trends in Brazil.

On this slide, I would like to discuss the key trends in our main business units. I will start with Iberia, where we are growing above the market both in Life and Non-Life, with premiums up over 20%. The Life business is growing over 70% and Non-Life premiums are up nearly 8% and reflect the positive development in General P&C, in that case driven by commercial lines, as well as well as Health – with General P&C and Health both up 9%. On the other hand, Auto is up 5%. The Non-Life combined ratio has been affected by Auto, which I will explain later. General P&C and Life Protection continue contributing positively with combined ratios of 95.7% and an extraordinary 69%. The financial result continues improving, and the net result stands at EUR122.7 million.

Business in LATAM is consolidating strong trends with a result of EUR193 million, the largest contributor to Group earnings. Brazil is showing strong growth and its result nearly tripled. Premiums are up 9%, driven by Agro insurance and the Protection business, which grew 10% and 14% respectively. The combined ratio has reduced significantly to 78.6% due to the strong improvement in Motor, as well as a good year for Agro with no relevant Cat events. The General P&C ratio stands at an extraordinary 69%. The Life Protection business also has a solid combined ratio at 80%. Finally, high interest rates continue to be tailwind for the business. In the rest of LATAM, results are improving with relevant contributions from the three largest operations, Mexico, Colombia, and Peru.

Regarding North America, premiums are up over 5% on the back of tariff increases in Motor and Homeowners. The Non-Life combined ratio stands at 107.5% and the Auto combined ratio remains high at 108.7%. In General P&C, the combined ratio stands at 108.8%, similar to

Auto, in that case affected by the Arctic Freeze that we already presented in the first quarter, with a net cost of EUR18 million. As a reminder, Homeowners tariffs increased in May 2023 by over 15%. Accident & Health, exclusively underwritten in Puerto Rico, had an excellent combined ratio of around 96%, 8 points lower. Financial income is down, mainly due to lower realized gains.

Regarding EMEA, Germany and Malta business contribution remained stable, but we have seen some deterioration in Italy. Additionally, the EUR5 million impact from the earthquake in Turkey hurt performance in the region.

MAPFRE RE is consolidating strong trends; premiums grew 11.5%, supported by non-proportional business. On a risk-adjusted basis, the Cat business is growing above 20%. The combined ratio improved significantly, reaching under 96%. As I mentioned, the only relevant event in the year has been the earthquake in Turkey with a 99-million-euro net impact from reinsurance. Current estimates are based on the most recent information and no significant deviation is expected in the coming months. Financial income nearly doubled its contribution and all in all, the net result reached EUR121 million, an extraordinary result, up over 70%.

Finally, the Asistencia business is showing a slight profit after some years of restructuring. On the bottom of the slide you can see the main ratios.

Now let's discuss Automobile. Motor premiums are up over 4%, mainly driven by tariffs. In Iberia, tariffs continue to be gradually adapted to inflation and always based on individual risk profiles. Average premiums are up around 5.5%, much higher than the market. In Brazil, premiums are up 1.5% and Brazil was one of the first to implement profitability measures, mainly portfolio pruning and tariff increases. So this is the basic reason for this drop in the combined ratio. The largest adjustments on the portfolio already took place in 2022. In North America, premiums grew 4.7% due to the already mentioned tariff increases and risk-selection measures. Insured units are slightly down in Iberia and North America, with a stronger fall in Brazil. We are also seeing growth in other markets that have already returned to profitability.

Motor is still reporting a net loss of around EUR36 million for the Group, mainly from the U.S., and to a lesser extent, from Spain. Brazil is reporting a modest profit supported by high investment yields. We are seeing a clear positive short-term trend in combined ratios in Iberia with a significant drop in the second quarter, while in the U.S. we are still seeing some volatility due to the lag in the transfer of tariff increases to earned premiums. The Group's combined ratio was only slightly down in the second quarter, reaching 106.2%, but down 1.6 points compared to December. Brazil continued improving after tariff updates, reaching a standalone combined ratio of 101.6% in the second quarter and 104% at June, down 16 points year-on-year.

Iberia had a strong quarter at 100.7%, showing a significant reduction compared to the previous quarter. The combined ratio for the region now stands at 103.5%. Losses, as we mentioned, are affected by the recovery of mobility, high inflation and the Baremo update. The improvement in the combined ratio expected during the rest of the year will be based on strict cost control and continuous tariff updating.

In North America there was a sharp increase from 105% to 112%. Even so, we are outperforming the market. Frequency is pretty stable but severity continues to rise. The already-implemented tariff increases – more than 20% since January 2022 – should gradually compensate this, especially considering that the largest increases – more than 13% – took place this 2023.

In conclusion, we're seeing a more positive mid-term outlook, but the month-to-month volatility remains high. We expect to confirm the recent improvements in Spain in Brazil, while tariff increases in the U.S. should start to deliver. Let me hand the call over to Felipe to walk us through the balance sheet and IFRS figures.

Felipe Navarro López de Chicheri

Thank you Fernando. On the left, you can see the breakdown of our financial resources. Shareholders' equity increased by almost EUR400 million since 2022 year-end, supported by higher valuation of the available-for-sale portfolio and currency appreciation, mainly the Brazilian real and the Mexican peso. Please note that under IFRS, we are reporting a similar net equity increase during the period, as we disclose on page 17 of this presentation.

Debt levels have been extremely stable over the years, even with changes in the structure. In 2023, leverage has converged, as expected, to our target range, standing at just over 25%, supported by the improvement in shareholders' equity from fixed-income valuations. Finally, the solvency ratio has stayed close to the midpoint of our reference framework.

Regarding the investment portfolio, there was no relevant change in asset allocation during the first half of the year. We have reduced our exposure to equity and mutual funds as well as cash in MAPFRE RE due to reinvestments, increasing allocations to fixed income. Spanish sovereign debt continues to be the largest exposure in our portfolio with EUR9 billion. A large share of these positions are allocated to immunized portfolios, reducing our exposure to rate fluctuations. Regarding the asset management business, pension funds are up close to 6% and mutual funds around 4%.

On the screen, you have the information regarding our fixed income investment portfolio. First of all, I would like to remind you that a large share of our EUR29 billion fixed-income portfolios is immunized or matched. So, we will focus on the actively managed portfolios on this slide, as they do not have any liability restrictions. On the top are the details of our euro-area portfolios, which have a market value of over EUR11 billion. Duration is stable and these portfolios and yields are increasing at a steady pace. On the bottom are the details in other main markets with a total value of around EUR5.8 billion. Duration has been stable in Brazil, beginning to increase in North America, and up by almost 1% in the rest of LATAM. In North America, the portfolio yield is slightly up, while Brazil and the rest of Latin America are increasing yields by over 40 basis points. In general, the reinvestments across regions are still above the current portfolio rates.

Now we're going to discuss the new IFRS figures. Our methodology and approach is aligned with what we reported in our 2022 annual accounts with the exception of two changes. First, we have decided to value all reinsurance contracts - accepted, ceded and retroceded - under the PAA approach to better match the accepted and ceded business. Second, we have decided to classify fixed income investments that cover PAA insurance contracts as fair value through P&L in order to mitigate the volatility on the net result.

I would like to briefly comment on the main KPIs under IFRS 17 and 9 compared to local GAAP figures for June 2023. Premiums under local accounting have exceeded EUR14 billion. Under the new IFRS this concept is no longer used. The new IFRS introduced a new concept called insurance revenue, which reached a little under EUR12 billion as of June 2023. The net result stands at EUR317 million under local GAAP, whereas under the new IFRS it is EUR300 million. Total assets reached EUR63 billion under local GAAP as opposed to EUR53 billion under the new IFRS, due to the different presentation of reinsurance balances and deferred acquisition costs. Shareholders' equity, at EUR7.7 billion under local GAAP, now amounts to EUR8.2 billion under IFRS. Technical provisions are EUR44 billion under local GAAP while under IFRS the closest concept would be the insurance contract liabilities, which amount to around EUR37 billion. The new concept CSM, contractual service margin, was EUR2.5 billion at June 2023. The 97% Non-Life combined ratio under local GAAP compares to a 96% ratio under IFRS.

Here you can see the reconciliation from the net result between both accounting standards. As you can see, the main drivers are the release of the CSM with a EUR57 million positive impact, and the elimination of our local accounting results due to the different regulatory treatment of insurance contracts with a negative adjustment of EUR52 million. Finally, IFRS 9 had two significant impacts, realized capital gains on equity were recorded under the OCI while changes in the value of mutual funds were booked in P&L.

On the screen, you have the reconciliation of the net equity between the accounting standards. The two main items refer to the valuation of provisions, showing a positive adjustment due to the reserve discounting of over EUR700 million and the EUR245 million negative impact from the risk margin. Loss component amounted to EUR177 million which includes present value of future underwriting losses, mainly coming from Auto and Life portfolios in LATAM. The EUR161 million CSM release includes EUR57 million corresponding to 2023 as well as adjustments from the transition balance sheet. Now, let me hand the floor back to Fernando for some closing remarks. Fernando.

Fernando Mata Verdejo

Thank you, Felipe. I would like to wrap up by saying that our high level of diversification is letting us face the challenges coming from markets and high inflation while delivering sustainable results. These results are encouraging and proof of the strength of our business model. Growth is strong, reaching record premium figures, and this trend should continue in the second half of the year.

We are carefully steering Motor performance to improve technical margins. In markets where we were able to start implementing measures sooner, as in Brazil and other LATAM countries, we are starting to see results. In other markets, we expect already implemented tariff increases to feed into results as the policies roll over at higher rates over the coming quarters.

We continue boosting the Life business, especially in Latin America. We recently announced the acquisition of Insignia Life in Mexico, which will strengthen our distribution footprint with a specialized Life network that complements our current operations.

All in all, we are satisfied with current premium growth, while the net result is reasonable in the current inflationary scenario. And finally, the favorable resolution of the Bankia arbitration, which is what we expected, will contribute positively to 2023 third quarter's earnings.

Now I will hand the floor to Leandra to begin the Q&A session.

Q&A

Leandra Clark

Thank you, Fernando; thank you, Felipe.

As most of you are familiar with the process, just let me quickly remind you to use the Q&A tool on the bottom of your screen to submit your questions. As usual, we will try to answer them all as time allows. And we will group them by topics. So now let's start with the first question.

We have several questions regarding the Iberia business, the Motor business in Spain.

The first one, Andrew Sinclair from Bank of America and Thomas Bateman from Berenberg would like to know, "Has there been anything exceptional in the big improvement in the Iberia Auto combined ratio in Q2? You discussed short-term volatility in Motor in Iberia; could you please give us a bit of a feel for the bridge between Q1 and Q2? Were there any one-offs in the quarter, and has the July experience been similar to Q2?"

Fernando Mata Verdejo

Thank you, Andrew and Thomas. We are quite happy with the drop that we reported in the Auto combined ratio in the second quarter. As mentioned in the first quarter, MAPFRE serves as an early indicator in this business in Spain. The first quarter was horrible; I remember a 106% combined ratio and an increase in reserves, which were attributed to the need to cope with the inflationary effect of the Baremo.

I'm a little bit shocked with other peers' loss ratios reported during the quarter, because it was just the opposite trend. We are pretty confident we're doing the right thing, and probably, we were the first ones to increase rates and apply stricter underwriting guidelines. And we're seeing results; that's pretty clear. But our peers – I read some of the reports, particularly those that are reporting this week – they are showing just the opposite – an increase in combined ratio in the second quarter.

In the long run, there is still some volatility ahead. We have to see the numbers for the third quarter. The summer season is just around the corner and there are changes in driving patterns as well, but we are pretty confident based on the increase in rates made, and we will keep the same trend. As long as we see increases in cost, we will apply rate increases in order to cope with the situation.

I don't know if you want to add more, Felipe.

Felipe Navarro López de Chicheri

Just to clarify on the volatility. I think that the main new scenario that we are seeing right now coming from the new patterns of use of the car after COVID and with teleworking, is providing us with a lot of uncertainty on how premiums should be allocated to each month. So, this is creating a lot of volatility internally during the year that, in the long run, should be offset by reality and provide us with the trends that Fernando was saying. We are confident that the situation is starting to be controlled and we are moving in the right direction.

So, that's it. Volatility will still remain internally between quarters and months but, in the long run, I think that the trend is moving in the right direction.

Leandra Clark

Thank you. Max Mishyn from JB Capital also has a few questions regarding the Spanish Motor business. He would like to know, "What kind of price increases are we seeing on average? How was the churn ratio evolving, and are we seeing any easing in frequency in Motor in Spain?"

Fernando Mata Verdejo

Thank you, Max. The average premium increase, for MAPFRE, is around 5.5-5.6%. I will say that it is like 1.2 percentage points higher than the market. MAPFRE is experiencing a small drop in units, approximately 30k units in the first half of the year, and a similar change as well for the second half of the year in 2022. So, in the end, it is a small reduction. This is proof of the stricter underwriting guidelines. As we mentioned, we do not quite have an appetite to grow our new business. Regarding the churn ratio, for renewals it's pretty stable. Conversion, particularly for new business, dropped to half during the first quarter. It's becoming more of a normal trend. And the total number of units for the whole market in Spain grew around 1.3%, which obviously is a significant increase of business. But MAPFRE's main objective is to take care of our current portfolio and be quite reasonable on renewals in order to keep the churn ratio stable.

Leandra Clark

Thank you. Carlos Peixoto from Caixa BPI had a few additional questions also on Spanish Motor. I think regarding the change in frequency, we've already commented on it. He again asked on severity trends, and if there were any comments on provisioning strategy or release of provisions.

Fernando Mata Verdejo

Well, regarding severity, the main severity factor is Baremo, as we already mentioned. We're seeing a sort of stability in the cost of spare parts and charges from garages, tow trucks, et cetera, since we agreed the 2023 new fares. And regarding provisioning strategy, no changes at all. Regarding IFRS, as Felipe mentioned, there is a significant factor, which is the loss component and increase of reserves due to some loss-making portfolios that are affecting mainly Auto, but nothing relevant under the local GAAP.

Felipe Navarro López de Chicheri

Just to insist, I think that MAPFRE is quite conservative and stable in the way provisioning; we are not moving the levels of provisioning from one month to another, from one quarter to another, due to certain local or special needs. So, we're going to continue being very prudent. We were one of the first companies that saw a deterioration in the combined ratio due to the prudence of the way we're reserving and we're going to continue that way in the future months. So, you should not expect any kind of release or increase of provisions locally from one quarter to another or any changes in the policy.

Leandra Clark

Thank you, Felipe. Thank you, Fernando. We're going to move on now to a different region, Brazil. Andrew Sinclair has a question regarding the Motor combined ratio that is now down to almost 100%. “Do you think this is sustainable? Is there still further improvement to come?”

Fernando Mata Verdejo

Andrew, frankly, no. Brazil was a completely different scenario. In that country we chopped a lot of independent agents' accounts. So, most of the reduction comes from some commercial lines such as buses and trucks as the main reason for the drop. We’re now focused on gradually increasing our portfolio based on personal lines growth, on an extremely prudent basis. But compared to other regions where it was the personal lines, in Brazil it was commercial lines.

Felipe Navarro López de Chicheri

I just want to mention the evolution of the combined ratio in the last months. As you may know, we started with sharp price increases earlier in Brazil and they are feeding through the profit and loss, feeding through the earned premium faster than in other countries. And this is what we are seeing and what we are experiencing with the combined ratio.

We've been mentioning that with the Selic at the level that it is, which is quite high, to fight in a market where competitors are going to be willing to run the business at a combined ratio higher than 100%, for us it's going to be difficult, but this is our target. And MAPFRE wants to run businesses at a good combined ratio, which is going to be below 100%. We're going to continuous striving in this line.

Fernando Mata Verdejo

Andrew, we hit this combined ratio of 100% in Brazil in the current scenario, coming from a higher than 120 combined ratio, and we are happy. Now we have to stabilize the number of units and to grow the volume on a quite prudent basis.

Leandra Clark

Thank you. We have a few questions now from Paz Ojeda at Banco Sabadell regarding the U.S. business. The first question is on Motor insurance. "Regarding the deterioration of the combined ratio to 112% in the second quarter stand-alone, even despite the tariff increases, why are you confident it's going to improve in the next quarters?"

And the second question, if you'd like to have them together, is regarding trends you're seeing in Motor insurance lapse rates. "Are they increasing because of these tariff increases?"

Fernando Mata Verdejo

Well, I'll take the lapse rates – no changes – then Felipe will add something regarding our outlook for the USA. There have been no changes. Bear in mind that most of the Homeowners' policies are linked to an Auto coverage, what we call a personal package. In the end, lapse is quite stable, and the number of units as well as we mentioned in North America dropped 34K, so it is quite stable. Regarding the outlook...

Felipe Navarro López de Chicheri

Paz, you need to bear in mind that the biggest increases that we had in the U.S. occurred on January 1 and May 15 of this year, 2023, resulting in a 6.5% increase in January and a 6.5% increase in May. So, you have to bear in mind that those sharp increases that happened in 2023 take time to feed through the profit and loss figures. What we are currently seeing is due to the severity of certain claims.

We see a more stable outlook on the frequency in the Motor business in the U.S. I think that the situation is similar for all the insurance companies. I think that we have a slightly better position than the average on the combined ratios in the U.S., but the price increases take time to feed through the profit and loss figures, just as we've seen with Spain and Brazil. The U.S. is going to deliver but it will take longer.

Leandra Clark

Thank you. Moving away from the Motor business, we've received a question on the investment portfolio. Max Mishyn from JB Capital would like to know, "What kind of yields do you expect for your portfolios, now that rates have increased?"

Fernando Mata Verdejo

Well, there is still a positive gap between the market yield and the accounting yield. I remember a couple of quarters ealier, when we were asked about the increase of financial income for 2023, and we said that the EUR100 million increase that we booked in 2022 was pretty high. I was wrong, and we reported a EUR74 million increase in financial income for Non-Life, but we have to attribute part of this increase to currency conversion differences in Turkey. As we mentioned, 70%-80% of the assets are in strong currencies – U.S. dollars and Euros – so we booked a significant financial income increase, particularly in the month of June. Removing this one-off effect from Turkey, we're probably growing financial income above EUR50 million this half of the year. So, let's keep our fingers crossed and if we hit another EUR50 million in the second half, excluding capital gains, we will achieve what I didn't think that we could achieve in 2023. Despite observing some drops in yields, particularly in Peru and Brazil, we remain positive, and duration on our portfolio gives us additional comfort. We believe that 2023 will be another extraordinary year for our financial income results.

Felipe Navarro López de Chicheri

I would like to mention a couple of things. One thing mainly, regarding how we are investing and how the portfolios are behaving. You can see that the durations are still very low, mainly in European portfolios, and this is mainly because we haven’t found a positive slope in order to increase durations. Looking ahead, we anticipate a positive curve in yields, which will likely result in higher returns from these investments. There are going to be changes, and we're going to grab the opportunities that we have in the market at the right time. However, we won't rush into decisions based on any sudden changes. Our approach will remain conservative.

Leandra Clark

Thank you. Going back to Brazil, Carlos Peixoto from Caixa would like to know how you see Brazil's combined ratio evolving between Motor and non-Motor lines.

Felipe Navarro López de Chicheri

Well, as I mentioned, Carlos, we will probably see further small reductions in the combined ratio. But we're happy at around a 100% combined ratio for Auto. In General P&C, which is basically Agro business, the combined ratio was outstanding. It was based on a quite mild Agro season in the first half of the year. We just started the second part of the season, and it will depend on the rainy season in the North of Brazil and the absence of drought as well. So, let's keep our fingers crossed. The current combined ratio in my view is extraordinary. But on those Cat risks, one year is not long enough to really see the performance of our business. You have to consider probably 2 or 3 years togther. Last year, we had a significant drought in Brazil. The average of the last 2-3 years is probably more a target on a sustainable basis. Regarding Life Protection, we've seen an extraordinary combined ratio, a small increase based on increase of volume as well, but both are extraordinary. Perhaps there was a small deterioration of the combined ratio for Protection, but both General P&C and Life are well below 90%.

Leandra Clark

Thank you. The next question we have is from Carlos Peixoto. "Are there any details we can share regarding expected P&L and solvency impacts from the recent acquisition in Mexico?”

Fernando Mata Verdejo

Well, this is a small acquisition, which we will probably formalize next year, in January or February; it's going to take about six months. This is a small acquisition; the consideration is basically around EUR90 million. Correct me if I'm wrong. Out of this, EUR30 million is net equity, so the remaining EUR60 million is value in force.

So, if our eligible capital is EUR4.5 billion, the consolidation of the future acquisition will take perhaps 2 or 2.5 points off the Solvency II ratio. In terms of SCR, the risk contribution will be practically negligible, because it's around EUR80 million in premiums. But the good thing is not the numbers, nor the financials, but that it's a wonderful acquisition – just what we were looking for the last four-five years. Because it's a perfect complement for our current operations, with practically captive agents – captive agents are forbidden in Mexico. But the practically captive agents will work for MAPFRE and they will also sell other Non-Life products. So it fits perfectly in our strategy of growing Life business in LATAM and also fits perfectly in a better diversification of distribution channels in Mexico.

Felipe Navarro López de Chicheri

Just one precision on the profit of the company for 2022 – you have to bear in mind that we acquired an insurance company with a holding company. If we look at the full creation of value for both companies, we would be more in the levels of EUR5 million equivalent, instead of the EUR2 million equivalent that we were mentioning that was affecting only the insurance company. In the future, I think that that we will be growing from this level for this operation.

Leandra Clark

Thank you. Andrew Sinclair from Bank of America has a question regarding a recent Pemex explosion. "Do you expect any impact?"

Felipe Navarro López de Chicheri

If you are referring to an accident that happened on 7th July, no. We generally do not comment on any kind of single claims. Since you asked, this is a full cover and this is a program that is very much reinsured. There is a heavy reinsurance in these kind of programs.

So we don't see any kind of impact in the MAPFRE numbers due to any single claim related with this event.

Leandra Clark

The next question from Thomas Bateman in Berenberg is in a similar line. He is asking if we expect any claims to arise from Typhoon Doksury. I think, like Felipe already mentioned, right now we have nothing that's relevant that's been brought to our attention, and it’s important to remember the diversified nature of our portfolio.

The next question is going back to investments, in Brazil, this time. Paz Ojeda from Banco Sabadell asks, “If interest rates are coming down and your portfolio duration is low, what's your strategy to offset this headwind?”

Fernando Mata Verdejo

Paz, probably the hard decision to be taken this year is the moment to increase duration. We’re pretty focused on this. So far we haven't seen the moment yet. But we are constantly monitoring the situation in the market and also for products linked to the central bank inflation as well. So, we are constantly monitoring the situation but so far we haven't taken any decision regarding increasing duration so far.

Leandra Clark

Thank you, Fernando. We have another question from Paz Ojeda regarding Latin America. “Excluding the large industrial policy, premiums would be flat year-on-year with a slowdown in the second quarter standalone. Could you comment please?”

I think maybe regarding the specific figures we can get back to Paz after the call, and maybe Fernando can comment on the general trends in the region.

Fernando Mata Verdejo

We are happy. Just a small comment – we're increasing in Mexico, particularly in those lines that we wanted to grow in. There is – I don't remember the number, but last year there was a significant increase in Savings.

But I don't really have anything to say about a line of business in which we are not growing, particularly on those that we’re focused on as core business. Auto is growing well and Protection is as well. So, I can’t recall anything that’s not growing. But frankly we're happy with Mexico.

Felipe Navarro López de Chicheri

I think that we are growing in Non-Life In all lines of business. If we consider the results of the premiums from a retained perspective, I think that we are growing quite healthily in all the lines of business in Mexico, and with combined ratios that are still improving. So this is a company that is proving and delivering good results.

Leandra Clark

Thank you, Felipe. We've received quite a few questions regarding IFRS disclosure. I'm going to read them all. First of all, Thomas Bateman from Berenberg would like to know, “Could you please split out what the discounting impact and the unwind of the discount rate was in Q1 and Q2 for Non-Life?” Alessia from Barclays would also like to know, “Can you tell us the impact of discounting and unwinding for H1 on the EUR300 million net profit?" And then Ivan from Barclays goes further to ask the specific impact on the combined ratio. He says we've provided a combined ratio of 96.3% in H1 2023 compared to 97.1% under local GAAP. “Perhaps you may provide a waterfall of how this translation works, detailing impacts of claims, discounting, expense reclassification, et cetera?”

Thank you for your questions and we do recognize, moving forward, we will be working to continue enhancing our disclosure and facilitating comparability with our peers. We're going to try our best to give some color today regarding the discount factor and the unwind. We haven't broken it down, as you've seen in this presentation.

But we have to remind you of the approach that Felipe commented, that we have basically classified our fixed income investments that cover PAA portfolios as fair value through profit and loss. And this was done to mitigate the volatility in our profit and loss, which is why, as you see on slide 12, there's only a EUR1 million negative impact from discounting. Because these two effects are matched.

Regarding the combined ratio, there is more than a 3 point negative impact from the reclassification of ceded reinsurance commissions, which are now in insurance income, not a lower expense. The remaining difference is explained by several factors, including the discount factor as well as the loss component, among others. I don't know if Felipe and Fernando want to add anything else.

Fernando Mata Verdejo

Just one quick reminder that we are disclosing IFRS 17 numbers and IFRS 9 on a half- year basis. So we are not going to start disclosing on first quarter, second quarter, evolution on a quarterly basis. And that said, that's all. For the rest, I think that Leandra gave quite a thorough explanation on this subject.

Leandra Clark

Thank you. A question just came in from Angela Rabadan from AFI , who wants to know if we can give more details about the impact of IFRS 17, on results, the balance sheet and OCI. I think this was mainly covered in the slides that Felipe presented in the middle of the presentation.

Felipe Navarro López de Chicheri

And there's some more information as well – more detailed information – in the annex of the presentation. You can go through those figures and if you have any particular question you can ask us in the next week or after this call.

Leandra Clark

Paz Ojeda from Banco Sabadell would like to know when we are planning to release the full disclosure.

Felipe Navarro López de Chicheri

That will be happening probably by the year end. We are working – and I promise that it is quite hard work – in order to provide further detail, further explanations. You requested some further waterfalls and they're going to be happening. We are going to try to continue improving the way we disclose information and to give some kind of consistency from quarter to quarter, but increasingly detailing the information that we are disclosing to you.

Leandra Clark

We have a final question from Carlos Peixoto. "Could you update us on dividend policy? What is your guidance on the 2023 ROE?"

Fernando Mata Verdejo

There is no change on the dividend policy; it is a payout above 50%, and as we said the guidance is to have sustainable dividends. Regarding the guidance for 2023, ROE is the same for the two remaining years of the strategic plan, in a range of 9% to 10% ROE.

Leandra Clark

We just got a new question coming in from Mauro Monteiro. “Will floating insurance premiums imply a positive impact considering the expected evolution of interest rates, inflation?”

I understand this question is referring to our floating rate investments in certain Latin American portfolios. If that's not the case, we can get back to you after the call. Maybe Fernando would like to comment.

Fernando Mata Verdejo

We only have floating fixed income linked to Central Bank interest rates and also to inflation. But they are covering insurance liabilities, particularly long-term Savings portfolios. So we shouldn't expect any significant change based on a drop of interest rates in the future.

Leandra Clark

Thank you. I think there are no more questions. Just to mention, before we go, we'll be holding a virtual group meeting this coming Tuesday. You should have already received the invitation. If not, please contact us. And all the documents are available today on our website and we should be available to help you find them, if you have any problems. And I guess that's all. Thank you for your time today.

Fernando Mata Verdejo

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

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

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

Felipe Navarro López de Chicheri

Thank you very much, everybody.

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