



Mapfre, S.A. BME:MAP

Earnings Call

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Call Participants

EXECUTIVES

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Group CFO & Executive Director

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Presentation

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Good afternoon, and welcome to MAPFRE's Activity Update for the First Quarter 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 Treasury. [Operator Instructions]

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

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Thank you, Leandra. Good afternoon, everybody. Before handing the floor to Fernando, I would like to comment on the new reporting format. As of first January, the IFRS 9 and 17 accounting standards are in force. And as you may be aware, are applicable to MAPFRE as a listed insurance group on a consolidated basis. In order to comply with the new regulation, MAPFRE will report both half and full year consolidated financial statements under these new standards within the legally stipulated calendar. MAPFRE subsidiaries will continue complying with the local requirements and the local gaps applicable in every jurisdiction. Therefore, for group management purposes, business performance analysis will be carried out under both standards.

The activity update we released this morning has been prepared under local standards adjusted for comparability and consistency purposes. It is a reduced set of financial information, which also includes a financial supplement with the detailed profit and loss by business unit and region adapted to a new regional structure. This will be reported quarterly to help understand the most relevant business trends and events that could affect the group and its subsidiaries. This allows us to continue providing figures on a quarterly basis, very much in line with historical data. The main adjustments are outlined in the annex to the press release.

This information would provide sufficient granularity, while at the same time streamlining our communication. The activity update and the financial supplement are available in the financial documentation center on our website. Regarding IFRS 17 and 9, this morning, we also released some transition and balance sheet figures as well as the main IFRS 9 impacts for the first quarter. We will go into these figures in more detail during the call.

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

Fernando Mata Verdejo

Group CFO & Executive Director

Thank you, Leandra, and Felipe, and thank you all for joining us. Let's take a look at the key highlights for the quarter, premiums grew 19% and reached nearly EUR 7.8 billion in the first quarter. Revenue is also up 21% and stands at over EUR 9.1 billion. The net result reached EUR 128 million, down 17%, 1-7 percent due to the impact of the earthquake in Turkey with an estimated net cost of EUR 77 million as well as the complex Auto environment.

Iberia grew about the market, both in Non-Life and Life, with a 31% premium growth, supported by the Life Savings business and continues to be the region with the highest volume within the group. LATAM is the main contributor to earnings, with the net result taking off to EUR 94 million. The Reinsurance unit grew 7% and GLOBAL RISKS 11%.

Moving to the main lines of business. We would like to highlight the improved net result, which amounts to EUR 88 million. This amount comprised both Direct insurance and also Reinsurance, which is up 95%, benefiting from both good technical performance as well as strong financial income, especially coming

from LatAm. The Non-Life financial results is up 20% to EUR 150 million in a better market context. We are also happy to announce that MAPFRE will pay the final dividend against 2022 results on May 24.

Now I would like to go into some more detail regarding these main trends. The over 20% increase in revenue consolidated the trends from recent quarters and reflects both a relevant increase in business volume as well as an improvement in financial income. Premiums grew 19%, 1-9 percent, with no relevant impact from exchange rates. In fact, at constant rates, premiums are up 18%. This growth reflects general improvement in business with 10.3% gross increase in Non-Life, an almost 60% increase in Life, mainly due to the outstanding performance in both Spain and Brazil. Group combined ratio stands at 98.5%, up 0.4 percentage points, and the volatility and dispersion from previous quarters marked by the economic scenario still remain. I will go over this in more detail later in the presentation.

The earthquake in Turkey was the main relevant Nat cat event impacting results, and the estimates, which are still subject to a full damage assessment, have a net impact of approximately EUR 77 million, mainly from MAPFRE RE, EUR 72 million, and to a lesser extent, the local insurance company with EUR 5 million. As a reminder, the most relevant cat claim in 2022 was the drought in Brazil with a EUR 37 million impact for the group in the first quarter. As I mentioned, the net result reached EUR 128 million due mainly to this impact.

Regarding our investment portfolio, there was no relevant change in asset allocation during the quarter, nor were there any relevant impacts in the result or investment valuations as a consequence of the situation with certain financial institutions in the United States or Switzerland. MAPFRE realized EUR 1-7 million, EUR 17 million in gains in the quarter after taxes and minorities compared to EUR 21 million in 2022.

Regarding the available-for-sale portfolio, EUR 259 million in unrealized gains, net of taxes, have been recorded in 2023, improving the capital position of the subsidiaries. The main variations come from Iberia with a EUR 92 million increase, followed by MAPFRE RE with EUR 57 million and North America with EUR 53 million.

Finally, there were no relevant changes in currency conversion differences in the quarter.

Regarding Non-Life, premiums are up EUR 550 million in the first quarter with a 12.6% in Accident and Health, 10.6% growth in General P&C and 7.1% in Auto. In the Life business, premiums are up almost EUR 700 million, driven by the Savings business in Spain. Life Savings is up 137% and Life Protection, 19%, 1-9.

Here, you can see our main figures and ratios by business unit and region as well as segment. First, on the bottom of the slide, you can see the group combined ratio by line. General P&C with a combined ratio of 87.3%, down 5.3 percentage points, has compensated the high loss experience that persist -- still persist in the Auto business. By the way, it has reached a combined ratio of around 106%, up 2.5 percentage points. Tariff increases and improved management in the Auto line to compensate inflation will gradually translate into improvements in the ratio. Accident and Health shows a slight improvement in the combined ratio, reaching close to 102%, down 0.4 percentage points. The Life Protection combined ratio stands and outstanding 81.6%, down 1.3 percentage points.

Now let me give you some color on our main business units. Iberia is growing about the market, both in Life and Non-Life. Premiums reached over EUR 3.3 billion, up 31%. The Life business volume is 2.4x higher, reaching almost EUR 1.1 billion. Non-Life premiums grew 7.3% and reflect the positive development of the Accident and Health business, plus 9%; General P&C, up 7%; and Auto up almost 5%. In Auto, tariffs continue to be gradually adapted to the inflationary context and based always on individual risk profiles. The fleet reached 6.2 million insured vehicles with a slight decline in the fleet in the first quarter, approximately 29,000 units down. And this drop is fully related to risk-selection measures, which led to a more than 5% increase in the average premium.

Their line had a combined ratio of 106.5%, up 6.8 percentage points, affected by the recovery of mobility to pre-pandemic levels, the high-inflation scenario and also finally, the Baremo update. The improvement in the combined ratio expected during the year will be based on strict cost control, while tariffs on average

are expected to increase significantly more than that. The financial result continues to improve in a more favorable environment with EUR 37.2 million gross contribution to the Non-Life result, which amounted to EUR 30 million in 2022.

Business in LatAm consolidates the strong trends of recent quarters with close to EUR 2.4 billion in premiums and net result of almost EUR 94 million, the largest contributor to group earnings. Brazil, our main operation in LatAm, shows strong growth and result increased 4-fold, thanks to improvements in both the technical and financial results.

The key aspects I would like to mention as follows: Premiums reached almost EUR 1.2 billion, up 22%, backed by the favorable development of the Brazilian real, up 3%. The improvement is due above all to the positive development of Agro and Life Protection, which grew 44% and 28%, respectively. Their business grew 8% and this line continues to quickly adapt tariffs to inflation. The fleet reached almost 1.3 million insured vehicles with a slight reduction, 65,000 in the quarter related again to risk-selection measures. The combined ratio dropped to 81.6%, due in part to 15, 1-5 percentage point improvement in Auto after tariff increases, where the combined ratio stood in Auto at under 107%. Additionally, the Agro business improved, thanks to a benign quarter after the losses in 2022. The Life Protection business also has a solid combined ratio standing under 78%. And the financial results also continues to contribute very, very positively.

North America business volume are also up with relevant improvements in the Auto combined ratio compared to the previous quarter. Premiums reached EUR 584 million, growing 8%, 4% in U.S. dollars. The Auto business grew 8%, same percentage and the fleet reached 1.4 million insured vehicles with a slight reduction in 2023, approximately 17,000, 1-7. The Non-life combined ratio stands at 107.7% affected by weather-related events in Massachusetts, where probably it's unknown for you, but what we call the Arctic Freeze, was a cold wave in February brought the lowest temperatures in 80 years, almost minus 25 degrees Celsius, which caused higher losses in the homeowners line with a net cost of EUR 13 million, EUR 1-3 million. Tariffs in homeowners will increase around 15%, 1-5, in May to match rate increases for catastrophic reinsurance coverage in primary rates.

The other combined ratio stands at 105%, a significant improvement compared to the fourth quarter of 2022, 118%, supported by already implemented tariff increases. An additional -- we already mentioned that in previous presentation, additional 6.5% increase will start in May. All in all, we have now put through over 20% in tariff increases over the last 18 months.

Finally, MAPFRE RE continues growing and contributing to group earnings. MAPFRE Re premiums grew 8%, reaching over EUR 2.2 billion. On a risk-adjusted basis, the catastrophic business rates are growing well above 20%. Please note that there is a change in [treaties] moving from proportional [treaties] to excel [treaties]. As I already mentioned, the largest impact from MAPFRE RE was the earthquake in Turkey, amounted to a gross amount of EUR 102 million, with a net impact for the group of EUR 72 million. The financial results also grew with EUR 21 million gross contribution to the Non-Life result, up over EUR 10 million.

Now I will hand the floor to Felipe to discuss the IFRS impacts.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Thank you very much, Fernando. Regarding the impacts of the new IFRS standards. In the first quarter 2023, there have been no changes in methodology, nor criteria with respect to the information published in our 2022 annual accounts, which you can consult on our website. Regarding the transition balance sheet, MAPFRE shareholders' equity as of January 1, 2022, under the new principles, reached EUR 8.3 billion compared to the EUR 8.5 billion reported under the previous principles. The difference is primarily due to the negative impact of the nonfinancial risk adjustment is minus EUR 0.3 billion, which is partially offset by the discounting reserves at present value. It's an impact -- positive impact of EUR 0.2 billion. And additionally, the CSM, Contractual Service Margin has been estimated at EUR 2.2 billion as of January 1, 2022.

Regarding IFRS 9, the most important differences compared to the figures published in this document are net realized gains in the equity portfolio for the amount of EUR 22 million and which are included in the result of the period, in line with the local gap, will be presented under IFRS standards in the heading Other Comprehensive Income, OCI. The increase in unrealized gains in the mutual funds portfolio for the amount of EUR 30 million after taxes and which is included under local GAAP in OCI would be recorded as a result for the period under the new IFRS standard. Other valuation adjustments would have a positive impact on the IFRS result for the amount of EUR 3 million. The remaining information related to IFRS 17 will be published according to the legally established calendar.

Fernando will now make some few closing remarks before we move on to the Q&A.

Fernando Mata Verdejo

Group CFO & Executive Director

Thank you, Felipe. As you have already seen with the figures released this morning, once again, the high level of diversification of our business mix has allowed us to report a sustainable result, while facing extraordinary challenges from inflation and Nat cat events during the quarter. Thank you again. Thank you very much for your attention.

I will now hand the floor over to Leandra to begin the Q&A.

Question and Answer

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Thank you, Fernando. 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, although we've already received a few questions already, and we will try to answer them as time allows.

So the first question is coming from Paz Ojeda with regards to the earthquake. She asks EUR 102 million for the earthquake is around 30% of your Nat cat budget, which seems high considering the 9 months left in the year. Do you plan to increase your protection?

Fernando Mata Verdejo

Group CFO & Executive Director

Thank you, Paz. This is the insurance business, and you know your capacity and also your protection, but you never know the month or the time when the catastrophe event is going to hit you. Unfortunately, it happened this year, the beginning of February. As you mentioned, this is between 1/3, 1/4 of our Nat cat event budget. We're not going to buy additional protection. We believe what we bought is the right one figure. And less spend that there is no other significant events, probably larger than this, in the remaining quarters so far. Let's say that we are -- let's say, we are not happy, but we are in budget, within the budget of -- for 2023.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Thank you, Fernando. Carlos Peixoto from CaixaBank has an additional question regarding Turkey. He would like to know what is the total market loss that we are assuming in our estimates. And he would like to know how if this is split between the Turkish earthquake pool and other losses? And should we expect additional losses going forward?

Fernando Mata Verdejo

Group CFO & Executive Director

Yes. Yes. Thank you, Carlos. We are [not] presenting the disclosure by countries, nor by operation. This is an activity report. But mainly, the losses for [indiscernible] they're coming from Turkey and also from [indiscernible] as well. The main loss contribution are coming from the earthquake, which was a gross amount of over EUR 6 million, EUR 5 million. The remaining loss contribution are coming from basically auto and also the inflation -- hyperinflation adjustments.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Going -- yes, if I may, going to the point about the Turkish earthquake pool, I mean, MAPFRE is not participating in this pool. This is something that we already mentioned at the end of -- the results of the end of the year and when we announced this event. And what we can expect is the development of the claim. We have -- we think that we have estimated the right level of reserves, but we need to receive more information about the different losses in order to have a final estimation and a final settlement, it's going to take months, and there will be an evolution during these months.

Fernando Mata Verdejo

Group CFO & Executive Director

But for Turkey, if I allow me -- for Turkey won't be a negative development because the retention is fully -- how'd you say? I mean, fully lost.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

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And the next question we have received is from Carlos Peixoto, regarding the current dividend policy and outlook.

Fernando Mata Verdejo

Group CFO & Executive Director

We haven't mentioned any change in our dividend policy. Felipe -- there is nothing has changed so far. As I told at the beginning of the presentation, this is insurance and 1 quarter is not just sample of the trend for the coming quarters. And fortunately, I mean, the MAPFRE has a pretty solid and robust financial operations, and there is no change on the financial goals for the 2022, 2024, 3-year strategic plan. So let's assume that all the financial goals are fully valued at this moment.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

I will add the same thing that we mentioned at the end of last year. There is a commitment on having sustainable and a stable dividend for the shareholders. And this is going to continue be happening. I mean the next thing or the next move should be to continue moving and to continue guaranteeing this 50% payout. But at least, we think that the EUR 0.145 per share is still a commitment that we have, and we will continue doing as much as we can in order to continue attributing the shareholders with the same with this level.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Great. The next set of questions are regarding the Brazil business. Paz Ojeda from Banco Sabadell would like to have some more details on the contribution of the Agro business in terms of premiums and combined ratio in what we would consider a normalized level of combined ratio. And she has a similar question for Life Protection regarding normalized combined ratios.

Fernando Mata Verdejo

Group CFO & Executive Director

Yes. Thank you, Paz. I mean, both combined ratios for Life Protection and also for Agro business, they're extraordinary low. Let's assume that both are in the next year after 2 catastrophic years because the -- for Agro business was the drought in Brazil last year and before that was the COVID that impacted our Life Protection business. So this is part of the recovery, and we should assume that in coming years will have a little bit higher combined ratio.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Thank you. Thank you, Fernando. I think we can move on now to the next set of questions regarding the Motor business in Spain. Max from JB Capital would like to know how we are seeing our churn ratio. What was our experience of frequency for the first quarter? And what type of hikes are we taking on our portfolio?

Fernando Mata Verdejo

Group CFO & Executive Director

Well, let me elaborate a little bit longer regarding Auto, particularly other 2 regions that -- first, we are now satisfied with the current performance Auto business is nonprofitable at the moment, and we reacted and we had to react again in coming quarters. Having said that, there is a wonderful evolution of business in Brazil and in the U.S. in previous presentation, I mentioned that the U.S. will be pretty challenging due to the regulatory restrictions. And we mentioned a couple of figures that they show -- the contrary, first in Brazil. It was a significant reduction in the combined ratio, almost 15 percentage points compared to first quarter 2022 means that with on the things that we had to do in both, I mean, in reduction of expenses and also increase of tariffs. And in the U.S., we are -- we were a little bit reluctant regarding increase of rates. As I mentioned, they accumulated exit 20% in 18 months, and it gives us a lot of hope, I mean, for the coming quarters.

Back to Spain. We thought that it was a sort of a flattening trends for the first quarter. But what happened is it was a big bump in the first quarter. We have to assume and understand that the first quarter every year is the period in which we update agreements with providers. In this particular year, we also were impacted by the Baremo update and also the inflation that still persists. So all in all, it was a significant increase in the combined ratio that couldn't be neutralized with the increase of rates because it takes longer the way that we feed the P&L with this increase of premiums.

So let's say that our view is that the coming quarter will be better because the [total cost] will be pretty stable, while the earned premium should go up. That's the general view compared to -- regarding churn ratio, right, pretty stable, and we will focus on portfolio protection, as I mentioned, and the number of units showed are a clear view that we're doing well. There is only a reduction in conversion for new business and has been proposed by MAPFRE because we have less appetite for growing -- shopping -- from the market.

And regarding frequency, we've seen a slight increase in frequency in the first quarter. The mobility is practically -- is a little bit lower than pre-pandemic, but compared to previous quarter, we've seen, particularly in big cities an increasing frequency.

What was the last question? I didn't get it.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Tariff hikes. I mean, how much...

Fernando Mata Verdejo

Group CFO & Executive Director

Well, Felipe, finally, we're happy. And you can elaborate on the average premium, which is a good news. I mean...

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Yes. I think that what -- for the first time, we can see in the figures what we've been telling you in the last quarters. We are seeing how the increase in the volume of premiums of Motor business is on the 4-point something percent on the high side of the force. We see how the new business or the new cars in the market are shy of the 1%. So what we are seeing is that, in general, I think that we can see our average premium going higher than 5%. This is what we have seen and what has been posted in the numbers until now. We are going to continue this trend and making any effort that is needed in order to go ahead of inflation in 2023, which is our commitment and what is going to be shown in Spain. I won't mention what is happening in other markets, like the U.S. or Brazil, because, I mean, I think that we have proven that this strategy was already bearing their fruits. And I think that is -- those are good signs of the change in the trend that we may see in the following quarters.

Fernando Mata Verdejo

Group CFO & Executive Director

We mentioned as well in the past that a trend of lowering coverages still remain, right, Felipe.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Yes.

Fernando Mata Verdejo

Group CFO & Executive Director

And particularly in new business, there is no -- MAPFRE has no appetite to get a full cover new business. And so -- and also because of the crisis and also increased prices. Most of the policyholders that are shopping around the drivers, they're moving to lower products with lower coverage, right, basic TPL

and [leaving] full cover. In the end, this is affecting also the average premium as well. So risk base is comparable. I mean, the 5% increase should be even higher, right?

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Yes, that's right. That's right.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Thank you, Felipe. Thank you, Fernando. Max from JB Capital is asking on the Motor combined ratio for Spain in Q1. We commented in the presentation that in Iberia it was 106.5%. And we also received 2 questions from Farquhar at Autonomous and Thomas Bateman in Berenberg, regarding the impact of the retrospective element of Baremo on the Iberia Motor combined ratio for Q1, and what's our outlook for coming quarters?

Fernando Mata Verdejo

Group CFO & Executive Director

Generally speaking, the 2 point percent increase in the combined ratio that we announced last year, I mean, it's fully booked during the first quarter. We had to understand that the increase of cost, they go directly to the loss ratio, while the increase in tariffs for 2023 accident year, they will feed the P&L throughout the year. And regarding previous accident year, so far, we haven't seen any adverse [lower] development in 2023. But anyway, there is still a significant number of open claims that there has to be assessed. So we better wait to have at least half of the year in order to conclude on the 2022 [lower] development of reserves, and that's my view.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

I think that we need to bear in mind the different impacts that are affecting the combined ratio in Motor business in Spain. First is the Baremo that I think that Fernando already commented and gave some detail on it. Second is the new agreements with different providers that is affecting as well. I mean we announced the agreement with [indiscernible] and garages on an increase on the rate of 4%. There was an increase as well on the paint, which was announced as well, and it's at 7%. And as on average, we are -- the spare parts are increasing around 10%. So those impacts, including -- and then with that, including the increase on the use of the car and the frequency because we are now seeing how the use of the car is going closer to the levels of 2019, are affecting this combined ratio.

So there's some one-off effects that we are going to see, which is related to the Baremo and probably the first impact of this wave of increases that will be offset between -- at the moment that we are going to earn the premiums that are being increased to offset those effects. So that is going to take some quarters. But I mean, our view is more optimistic at this moment.

Fernando Mata Verdejo

Group CFO & Executive Director

Yes. But if I can add, Felipe. But as we mentioned, I mean, the group is fully committed to fix Automobile line of business. And the only way is that the average premium growth has to exceed our increasing structural cost that Felipe mentioned, means that if the structural costs are, I don't know, between -- in a range between 5% and 6%, the average premium will grow much higher in that figure. And this is a commitment that MAPFRE made as it's the only way to fix Automobile in Spain. We've done it in Brazil, we've done it in the U.S., and this is the only way ahead.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Correct.

Leandra Elizabeth Clark*Deputy Head of Investor Relations*

Great. Thank you. The next question, we're going to move away for a little bit from Iberia on to the Reinsurance business. Thomas Bateman has a question regarding Non-Life Reinsurance premium growth. 10% is okay, but lower than last year. Have there been any changes in the business mix, proportional versus nonproportional? And could you comment on this or quantify it?

Fernando Mata Verdejo*Group CFO & Executive Director*

Yes. I mentioned on risk basis comparison, particularly catastrophic rates are growing well above 20% due to the change from proportional [treaties] to excess of loss [treaties], both percentage of growth. They don't go parallel, but in terms of risk appetite, we're growing well above 20% on premiums.

Felipe Navarro López de Chicheri*Head of Capital Markets & Investor Relations and Treasurer*

Just to add what -- this is what we mentioned at the meeting that we had in London and the end of the year results, the first quarter -- sorry, the end of the year results. We are seeing a change from proportional to nonproportional business. That is -- that was going to be -- and we announced that, that was going to reduce the increase on premium on MAPFRE RE and that will -- that we would have a single-digit increase probably on the high side of the single digit. We are still posting over 11% on MAPFRE RE. So those are the figures that we should look forward. As we said as well, that will probably bring us a different kind of claims with a lower frequency of claims and probably with more profitability in this line of business. But this is going to -- we are going to see it in the following quarters.

Leandra Elizabeth Clark*Deputy Head of Investor Relations*

We have another question on Reinsurance from Thomas Bateman. I think one part we had already answered regarding the participation in the TCI pool, which Felipe mentions we're not participating in. And the second question is regarding the level of uncertainty embedded in our current EUR 77 million estimate given the high inflation in Turkey.

Fernando Mata Verdejo*Group CFO & Executive Director*

Yes. Back to the first question, we only cover a commercial business and only property that's particularly we already mentioned in London. And -- let's say that the EUR 77 million is the best estimate we have currently. And as we mentioned at the AGM, because it was the right moment to announce that it was over EUR 50 million, there is still a lot of things to do, particularly in the site there because we only have, let's say, overall assessment on some of the losses. And we had to wait a little bit longer in order to have a more accurate estimation of the cat losses. What I can give you is just the split between the reported claims that accounts for 45% approximately of this amount, while the remaining 55% is considered IBNR. That's basically the only thing we can tell now.

Leandra Elizabeth Clark*Deputy Head of Investor Relations*

Thank you, Fernando. Thomas Bateman from Berenberg has another question regarding our cash outlook for 2023 and if we're expecting any one-off items.

Fernando Mata Verdejo*Group CFO & Executive Director*

We're expecting positive one-offs in 2023. First is the arbitrage from [Kaiser], which is expected for the second quarter -- sorry, we didn't tell anything at the speech. It's a little bit delayed, but hopefully, will be the final decision at the end of beginning of June. Second, we're able to activate again another sources of income, and we did it in the past as well, particularly capital gains. The market is quite positive now.

And also we activate the sale of real estate, 3 main real estate units. And probably we'll get some capital gains in the second half of the year as we keep in the same trend following years. Those are nonstrategic units that they're putting in the market being opportunistic because those units are very well priced at the current situation. So if any, other than cat events, one-offs will be positive for -- in terms of cash flows.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Okay. Nothing to add. I mean, I think that as you already mentioned several times, I mean, MAPFRE is able to find other sources of income when needed, I mean, and they will probably continue moving on and feeding the profit and loss as we did in the past.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Great. Thank you. We're going to move on to a next set of questions regarding strategy and dividends. Carlos Peixoto from CaixaBank is asking, what is our guidance for ROE for 2023?

Fernando Mata Verdejo

Group CFO & Executive Director

Sorry to say that, Carlos, we'll not publish in any guidance. Well we -- what I can say is, there is no any evidence that any of the financial growth we already published are currently at risk. So it means these are a reaffirmation of the current financial targets. That's all.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Carlos also had some questions regarding M&A and what businesses and geographies are we looking to expand in? What criteria do we use when assessing operations? Do we use risk on invested capital? What market shares are we looking for and potential solvency impacts? A lot of questions, I guess.

Fernando Mata Verdejo

Group CFO & Executive Director

The question is there is nothing on the table as we already said that in London. I have to say that the group is fully focused and committed on fixing Auto. And that's our main target, and there is no distraction from M&A, and there is no any potential improvement in adding new business to the current Auto situation in Spain. So we'll focus in fixing our current portfolio. That's all.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Thank you. The next question is also from Carlos Peixoto from CaixaBank asking about what we should expect from the implementation of IFRS 17 and 9 regarding solvency ratios?

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

We cannot give you a full assessment on the solvency ratios. What we know is that there will be certain lines of business that are usually moving through the profit and not -- sorry, through the standard way that are going to move to other ways as the very old business. But we don't expect that there will be any major changes in the combined ratios on the -- with implementation of IFRS 17.

Fernando Mata Verdejo

Group CFO & Executive Director

And the Solvency II position.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Or in the Solvency II position. Solvency II position is not going to be affected.

Fernando Mata Verdejo

Group CFO & Executive Director

Not going to be affected, right?

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

No. No.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

We have -- maybe we can move on to Brazil. Moving on to the Brazil business. Max from JB Capital has a question regarding how the churn ratio in Motor in Brazil is performing compared to our other markets?

Fernando Mata Verdejo

Group CFO & Executive Director

Let's say, there is a significant reduction in the number of units, 60,000 down in this quarter. Let's say that the portfolio remains stable for those drivers, policyholders that we want to stay in our portfolio for other group of [indiscernible], particularly buses and trucks, as we mentioned before, that were performing [extraordinarily bad], and we got rid of them. So let's say that we focus on portfolio retention for those -- for the best drivers, that's all, and the churn ratio for this particular portfolio is pretty stable.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

And I guess the follow-up question from Carlos and that would be, how do you see Brazil's combined ratio evolving?

Fernando Mata Verdejo

Group CFO & Executive Director

Well, this is a very dynamic economic, Carlos. And frankly, I didn't expect such a significant drop in the Auto combined ratio. It shows that the flexibility of our operation in order and also the market adaptation to the new tariffs. It's something that we're not going to see in Spain and there is a, let's say, a slow reaction to the current inflation problem and completely different in Brazil. Future, nobody knows. I mean we're pretty sure that we're doing what we have to do, focus on profitability growth and particularly on the bancassurance channel, which is the main profitable -- is the more profitable business currently in Brazil.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Great. I think we're going to move on to North America. Andrew Sinclair from Bank of America, Merrill Lynch, would like to know, how long we think it will take to file sufficient rate increases to get the combined ratio back to under 100%?

Fernando Mata Verdejo

Group CFO & Executive Director

Well, let's say -- thank you, Andrew. This is a difficult question because there are different consensus regarding the core CPI for the U.S. assuming that we are able to keep, I mean, a reasonable level of inflation with the current increase of rates will be enough, let's say, to hit probably at the end of this year, 100% combined ratio. It doesn't mean that the average for 2023 will be lower than 100 or 100, but at the least to hit 100. We're concerned as well with the increase of the Reinsurance protection cost, and we got the approval of 15% increase for homeowners. But in the end, we should assume that the second half of the year is not going to be easy and recently has been published by 2 giant entity significant losses in the first quarter. We guess that we better position those entities. But in any case, it's not going to be easy.

But let's say that MAPFRE is better prepared and the outlook is much better than the one I told you at the beginning of last year.

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

I think that the situation gives us a lot of hope that with the tariff increase that we already passed and the level of premium increase that we already announced. It seems that we are moving in the right direction. And with the first data that we have in the first quarter on the combined ratio is heading into the right direction.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Thank you, Felipe. Thank you, Fernando. We have a few follow-up questions regarding the Iberia business, Motor in particular. So Max from JB Capital would like to clarify if the 5% increase in average premium in Spain is on new production or the entire portfolio?

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

This is for the entire portfolio.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Exactly. And Farquhar Murray wanted to clarify if our intention to get ahead of inflation -- if our intention is to get ahead of inflation for 2023, will that allow us also to catch up with inflation from 2022?

Fernando Mata Verdejo

Group CFO & Executive Director

Yes, that's Farquhar -- that's what I said that the increases in average premium for the remaining part of the year will be significantly higher than our structural cost in order to catch up with current and past inflation. And the target is to hit 100 as well combined ratio in the second part of the year.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

We have another question from Paz Ojeda in Banco Sabadell regarding the combined ratio for Health at 101%, that seems high. Could you comment on this evolution, please?

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Yes. It's -- I mean, the combined ratio on the Health business is quite affected by the evolution of the during the year. Usually, first quarter is -- and last quarter of the years are worse on a claims basis and the rest of the year has a better performance. So for us, it's looking at 101% that the first quarter is still not concerning, and we will hope that they will pose more positive development on the following quarters.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

She also asks what measures could be taken to improve it?

Fernando Mata Verdejo

Group CFO & Executive Director

I mean, there is very few room for additional reduction of expense. It will depend on the inflation or, let's say, the CPI for Health services, which is pretty high, Paz, you know it. And we had to catch up with this inflation. And let's say that if the inflation remains, we can conclude that the Health business, particularly

in Spain, is a little bit underpriced, and the only way to move forward is further increases in rates. That's my view.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Thank you, Fernando. Carlos Peixoto from CaixaBank also has a question regarding the Life business. And what's your view on the future of margins?

Fernando Mata Verdejo

Group CFO & Executive Director

Let's say that -- as we mentioned, we see both margins above combined ratio, Automobile and Life converging into more sustainable rates in order to convert as well with sustainable 96 combined ratio for MAPFRE. Currently, Life Protection and also General P&C as well are pretty low, and they should increase. And Automobile should go down, no doubt about it. So fortunately, I mean I -- we mentioned dispersion between line of business. Last year, we said that the better combined ratio and the worst, it was 18, [8.8] difference. And currently, at the first quarter is 19, 1-9, and so this is widening rather than narrowing. But in the future has to be narrow, no doubt. Right, Felipe?

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Yes, yes. Just to mention that on the Life Savings that we are right now issuing a lot of policies in the Life business in Spain. We are doing it on a profit basis. So those products are profitable. They have not the same margin as there is the Life Protection premiums, as you can imagine. But we are in a good level of profit margin on these products, and we hope that we will continue issuing these levels during the rest of the year.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Thank you, Felipe. Thank you, Fernando. I think we have one question left regarding Turkey again and MAPFRE RE's performance. Andrew Sinclair from Bank of America comments that the MAPFRE RE's result looks quite strong, even including these Turkey earthquake losses. Were there any one-offs positives in this result?

Fernando Mata Verdejo

Group CFO & Executive Director

Thank you, Andrew. It was a negligible positive release of the Fiona Hurricane from 2022, but it was a small amount, nothing relevant to report.

Leandra Elizabeth Clark

Deputy Head of Investor Relations

Thank you. So there seem to be no more questions. Before we go, we would like to mention just a few upcoming events. We will be holding a virtual group meeting on Friday, May 12. An invitation with details will be sent out soon. We will also be on roadshow in Madrid on the 10th and the 11th and in Paris on the 17th and in Geneva, the 25th. Please contact the IR team if you're interested in attending any of these events.

All the documents released today are available on our website, including the activity report, this presentation, the financial supplement, the dividend announcement and the market consistent embedded value for 2022. We've also prepared a guide, which gives an overview of our methodology and approach to IFRS 17 and 9. You can contact the Investor Relations team if you have any further questions or need help finding this documentation. Thank you for your time today.

Fernando Mata Verdejo

Group CFO & Executive Director

Thank you, everybody, again, for your presence and for those that live in Madrid, my best wishes for this coming long weekend. Thank you. And Felipe?

Felipe Navarro López de Chicheri

Head of Capital Markets & Investor Relations and Treasurer

Thank you. Thank you very much for everything, and we will be in touch in the next -- in the following weeks. Thank you.

Fernando Mata Verdejo

Group CFO & Executive Director

Bye-bye.

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