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# Mapfre, S.A. BME:MAP

*Earnings Call*

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# Call Participants

## EXECUTIVES

**Felipe Navarro Lopez de Chicheri**
*Corporate Director of Capital Markets & Treasurer*

**Fernando Mata Verdejo**
*Group CFO & Executive Director*

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

# Presentation

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

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 Treasury. 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 Lopez de Chicheri**
*Corporate Director of Capital Markets & 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 January 1, 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. This 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 related in the future for the full year results, adapting the reality of the group to the transparency commitments that we have. We appreciate you 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 active -- on 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 to our financial supplement in order to provide more detailed figures by region and minor 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**
*Group CFO & Executive Director*

Thank you, Felipe, and thank you all for joining us again. The first 6 months of the year have been -- have continued to be challenging for the insurance market. Persistent inflation and hocking central bank policies continued to be a drag on the global economy. MAPFRE is showing a solid growth in our main markets and business lines, growing above inflation in many countries and reporting a net result of EUR 317 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 come down slightly, but it 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 EUR 74 million year-on-year. In Motor, we have 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 EUR 200 million, now the largest contributor to earnings. Here, the rate increases and other measures were adopted earlier, and we are starting to show results. MAPFRE RE's excellent performance and solid growth has contributed EUR 121 million, the net result despite the EUR 99 million impact from the Turkish earthquake. In North America, the continuous tariff increases implemented are still not translating to 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're happy to announce that we recently received was yesterday night, the result of the arbitration regarding Bankia after another month of postponement. We are very satisfied with the Court of Arbitration of the Chamber of Commerce of Madrid's decision has confirmed MAPFRE's interpretation of the exit conditions after the end of the bancassurance alliance with Bankia. Consequently, the addition of EUR 53 million, EUR 47 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 are also include the renewal of the 2-year industrial risk program in Mexico with EUR 307 million recorded in June, and they are corresponding to the first year of coverage. Revenue stands at over EUR 17 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 remains.

General P&C has compensated the high losses that persists in the auto business. The Life Protection combined ratio remains at an excellent level under 83%. And financial income contributing positively, especially in Latin America. All in all, the net result reached EUR 317 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 EUR 1.1 billion, nearly 15% growth in General P&C, 11% in Accident & Health, and 4.4% in Auto. Life premiums are up over EUR 700 million, driven by savings, which is up over 60%, mainly due to Spain, and protection, 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 about 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 of General P&C, in that case, driven by commercial lines as well as have both 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 Euro, which I will explain later. General P&C and Life Protection contributing positively with combined ratios of 95.7% and an extraordinary 69%. The financial result continuously improving and the net result stands at EUR 122.7 million.

Business in LatAm is consolidating strong trends with a result of EUR 193 million, the largest contributor to group earnings. Brazil is showing strong growth and its results nearly tripled. Premiums are up 9%, driven by Agro Insurance and Life 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 not relevant cat events. The General P&C ratio stands at an extraordinary 69%. The Life Protection business also has solid combined ratio in that case at 80%. Finally, high interest rates continue to be a tailwind for the business.

In the rest of LatAm, results are improving with relevant contributions from the 3 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%. General P&C, the combined ratio stands at [ 108% ] similar to Auto, in that case, affected by the Arctic freeze that we already presented in the first quarter with a net cost of [ EUR 18 million ]. As a reminder, Homeowners tariff 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. And financial income is down mainly due to lower realized gains. Regarding EMEA, Germany and multi-business contribution remained stable, but we've seen some deterioration in Italy.

Additionally, the EUR 5 million impact from the earthquake in Turkey, hurt performance in the region. MAPFRE RE is consolidating strong trends. Premiums grew 11.5%, supported by nonproportional 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 EUR 99 million net impact from reinsurance. Current estimates are based on the most recent information and no significant deviation expected in the coming months. Financial income nearly doubled its contribution. And all in all, the net result reached EUR 121 million extraordinary result, up over 70%. Finally, the system business is showing a slight profile after some years of restructuring. On the bottom hand 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 it was based on individual risk profiles. Average premiums are up around 5.5%, much higher than market. In Brazil, premiums are up 1.5%, and Brazil was only the first to implement profitability measures, mainly portfolio pruning and tariff increases. So this is basically -- the basic reason for this drop. 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 acceleration 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 EUR 36 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 have seen 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 showing ] volatility due to the lag in the transfer of tariff increases to earn 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 continues improving after tariff updates, reaching stand-alone combined ratio of 101.6% in the second quarter and 104% at June, down 16 points year-on-year. Iberia had a strong quarter and 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 updated. In North America, there was a sharp increase from 105% to 112%. Even so, we outperform in the market. Frequency is pretty stable, but severity continues to rise. They 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've seen a more positive midterm outlook, but the month-to-month volatility remains high. We expect to confirm the recent improvements in Spain and 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 Lopez de Chicheri**
*Corporate Director of Capital Markets & Treasurer*

Thank you, Fernando. On the left, you can see the breakdown of our financial resources. Shareholders' equity increased by almost EUR 400 million since 2020 to 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 disclosed 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 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 investments, increasing our allocations to fixed income. Spanish sovereign debt continues to be the largest exposure in our portfolio with EUR 9 billion. A large share of these positions are located 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 EUR 29 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 EUR 11 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 EUR 5.8 billion. Duration has been stable in Brazil, beginning to increase in North America and up by almost 1% in the rest of LatAm. North America, the portfolio yields 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 current portfolio rates.

Now we are 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 2 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 to 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 EUR 14 billion. Under new IFRS, this concept is no longer used. The new IFRS introduced new concept called insurance revenue, which reached a little under EUR 12 billion as of June 2023. The net result stands at EUR 317 million under local GAAP, whereas under the new IFRS, it is EUR 300 million. Total assets reached EUR 63 billion under local GAAP as opposed to EUR 53 million under the new IFRS due to the different presentation of reinsurance balances and deferred acquisition costs.

Shareholders' equity at EUR 7.7 billion under local GAAP now amounts to EUR 8.2 billion under IFRS. Technical provisions are EUR 44 billion under local GAAP, while under IFRS, the closest concept would be the insurance contract liabilities, which amount around EUR 37 billion. The new concept, CSM, contractual service margin was EUR 2.5 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 EUR 57 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 EUR 52 million. Finally, IFRS 9 had 2 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 on the net equity between the accounting standards. The 2 main items refer to the valuation of provisions showing a positive adjustment due to the reserve discounting of over EUR 700 million and EUR 245 million negative impact from the risk margin. Loss component amounted to EUR 177 million, which includes present value of future underwriting losses, mainly coming from other and Life portfolios in LatAm. The EUR 161 million CSM release includes EUR 57 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**
*Group CFO & Executive Director*

Thank you, Felipe. I would like to wrap up by saying that our high level of diversification [ easily and has ] faced 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 strong, reaching record premium figures, and this trend should continue in the second half of the year. We're 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 acquisitions of Insignia Life in Mexico that 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 where 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.

# Question and Answer

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

Thank you, Fernando. Thank you, Felipe. Although most of you are already familiar with the process, let us 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**
*Group CFO & Executive Director*

Yes. Let's say that we're quite happy with the drop that we reported in Auto a combined rate in the second quarter. If I can recall we mentioned at the first quarter, MAPFRE is a sort of early indicator in this business in Spain. The first quarter was horrible, I remember, 106%. And we blamed and that the point -- the increase of reserves that we made, we booked in order to cope with the inflationary effect of the Baremo. I'm a little bit short with other peers loss ratio reported during the third quarter because it's just the opposite trend. And let me say that we are pretty confident we don't use the right thing. And also probably we were the first to increase rates and also to apply stricter underwriting guidelines, and we've seen results. That's pretty clear.

But our peers, I've read some of the reports, particularly those that they are reporting in this week and showing just the opposite, an increase in combined ratio in the second quarter. In the long run, let's say that there is still some volatility ahead. We had to see numbers for the third quarter. This is the summer season is just around the corner. There is changes in driving patterns as well. But we are pretty confident based on the increase of rates made. And we'll keep the same trend. I mean, as long as we see increases in cost, we will apply rate increases in order to cope with the situation.

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

**Felipe Navarro Lopez de Chicheri**
*Corporate Director of Capital Markets & Treasurer*

Just to clarify on the volatility. I think that the main -- the new scenario that we are seeing right now coming from the new way of using the car or the new patterns of use of the car in -- after the COVID and with the teleworking is providing us with a lot of uncertainty on how the premium should be allocated to each month. So that is provoking although this is creating a lot of volatility internally during the year that in the long run should be offset by the reality and providing us with the trends that Fernando was saying. I mean, 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 remain still internally between, between quarters and months, but in the long run, I think that the trend is in the right direction.

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

Maks 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 is the churn ratio evolving? And are we seeing any easing in frequency in motor in Spain?

**Fernando Mata Verdejo**
*Group CFO & Executive Director*

Yes. The average premium for MAPFRE increases around [ 5.5%, 5.6% ]. I will say that is like a 1.2 percentage points higher than the market. MAPFRE is experiencing a small drop in units, approximately 30,000 units in the first quarter, similar in the -- sorry, 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's like a small reduction is proof of the stricter underwriting guidelines. As we mentioned, we're not quite appetite to grow our new business.

Regarding the churn ratio for renewals pretty stable, conversion in particular for new business, particularly dropped to half during the first quarter. It's coming to more a normal trend. And the total number of units for the fleet in Spain grew 1.3%, which obviously is a significant increase of business, but MAPFRE main -- the objective is to take care of our current portfolio and be quite reasonable on renewals in order to keep, as I mentioned, the churn ratio stable.

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

Carlos Peixoto from Caixa BPI, had a few additional questions also on Spanish motor. I think regarding the change in frequency, we have already commented on it. He again asked on severity trends. And if there were any comment on provisioning strategy or release of provisions?

**Fernando Mata Verdejo**
*Group CFO & Executive Director*

Well, regarding severity, the main severity factor is Baremo, as we already mentioned. We've seen a sort of stability in the cost of spare parts and also for tariffs from garages, from trucks, et cetera, since we agreed the 2023 new first. 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 our reserves due to some loss-making portfolios that they're affecting mainly to Auto, but nothing really relevant on the under accounting local GAAPs.

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

Great.

**Felipe Navarro Lopez de Chicheri**
*Corporate Director of Capital Markets & Treasurer*

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

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

And 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**
*Group CFO & Executive Director*

Andrew, frankly, not. In Brazil, it was a completely different scenario, in that country, we chopped a lot of independent agents accounts. So let's blame the most of the reduction to some commercial lines such as buses and trucks. And this is the main reason for the drop. So let's say that we now focus on gradually increase our portfolio based on Personal Lines growth with -- based on an extremely prudent basis. But compared to other regions in those Personal Lines in Brazil was commercial lines.

**Felipe Navarro Lopez de Chicheri**
*Corporate Director of Capital Markets & Treasurer*

Just to mention about the evolution of the combined ratio in the last months. As you may know, I mean, we started with sharp price increases earlier in Brazil. And they are feeding through the profit and loss, through the -- feeding through the end premium faster than in other countries. And this is that we are -- that we are seeing and what we're experiencing with the combined ratio. We've been mentioning that with the SELIC at the level that it is, which is quite high, fight in a market where competitors, we're going to be willing to run the business in 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 in a good combined ratio, which is going to be below 100%. So we're going to continue striving in this [ time ].

**Fernando Mata Verdejo**
*Group CFO & Executive Director*

Andrew, I mean this combined ratio of Brazil of 100%, we hit in lower than 100. But let's say that in the current scenario, we -- and coming from higher than 120 combined ratio, we're happy. And now we have to stabilize our -- the number of units and to grow the volume on a quite prudent pace.

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

We have a few questions now from Paz Ojeda at Banco Sabadell, regarding the U.S. business. The first question is motor insurance regarding the deterioration of the combined ratio to 112% in the second quarter stand-alone, even in spite of the tariff increases, why are you confident it's going to improve in the next quarters? And the second question, if you 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**
*Group CFO & Executive Director*

Well, I'll take the lapse rates, no changes, then Felipe will add some regarding the -- our outlook for U.S.A. No changes. Bear in mind that most of the homeowners' policies are linked to an auto coverage as well, what we call personal lines, personal package. So in the end, lapse is quite stable. And the number of units as well as we mentioned, in North America dropped 3,400. So it's quite stable.

Regarding the outlook, I mean...

**Felipe Navarro Lopez de Chicheri**
*Corporate Director of Capital Markets & Treasurer*

No, I mean, Paz, you need to bear in mind that the biggest increases that we had in the U.S. where on the 1st of January this year, 2023 was at 6.5% and another 6.5% that was put in place on the 15th of May. So you have to bear in mind that those sharp increases that happened in 2023 need to take time in order to feed through the profit and loss. So what we see is due to severity on certain claims, we see a more stable outlook on the frequency on the -- in the motor business in the U.S. The situation, I think that is similar for all the insurance companies. I think that we have slightly better position than the average on the combined ratios in the U.S. But we -- the price increases need to take time in order to feed through the profit and loss as I said, for Spain and Brazil. U.S. is going to deliver, but it's going to be to take longer, I think.

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

Moving away from the motor business. We've received a question on the investment portfolio. Maks 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**
*Group CFO & Executive Director*

Well, there is still a positive gap between the market yield and the accounting yield. So I remember what many -- a couple of quarters before. And when we were asked what was the increase of financial income for the 2023. And we said that the EUR 100 million increase that we booked in 2022 was pretty high. Actually, I was wrong, and we reported EUR 74 million increase in financial income for Non-Life, EUR 74 million, but we have to blame this -- part of this increase to currency commercial 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.

So let's say that removing this one-off effect from Turkey, probably we're growing financial income above EUR 50 million this half of the year. So let's keep our fingers crossed, and we hit another EUR 50 million in the second half, excluding capital gains. We will achieve what -- I didn't think that we could achieve in 2023. But yes, we are positive. We think that there is some drop, particularly in Peru and also in Brazil, but our portfolio -- duration of our portfolio give us additional comfort and we believe that the 2023 will be under -- for this financial income result another extraordinary year.

**Felipe Navarro Lopez de Chicheri**
*Corporate Director of Capital Markets & Treasurer*

I would like to mention a couple of things. I mean, one, regarding the -- one thing mainly regarding how we are investing and how the portfolios are behaving, you can see that the duration are still very low mainly in European portfolios, and this is mainly because of we don't find a positive slope in order to increase durations. And so what we can see is that mainly in the future, when we are going to see a positive curve on the yields, we are going to see some more return coming from those investments. So there is -- there are going to be changes. They're not going to be -- and we are going to grab the opportunities that we have in the market and at the right timing, not going fast because and if we see any kind of changes. We're going to going to continue be quite conservative.

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

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.

**Fernando Mata Verdejo**
*Group CFO & Executive Director*

Well, as I mentioned, Carlos, probably we see further small increases -- sorry, a small reduction in combined ratio, but we're happy around 100% combined ratio for auto. 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 in the second part of the season, and it will depend on the rainy season in the north of Brazil and also the absence of droughts as well. So let's keep our fingers crossed. The current combined ratio in my view is extraordinary. But on those risk, I mean 1 year is not long enough to see performance of our business. So if you put together probably 2 or 3 years. Last year, we had a significant drought in Brazil. Probably the average of the last 2, 3 years is more a target on a sustainable basis.

Regarding Life Protection, we've seen an extraordinary combined ratio, a small increase based on the increase of volume as well. But both are extraordinary, perhaps a small deterioration of the combined ratio for protection as well, but both General P&C and Life being well below 90%.

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

The next question we have from Carlos Peixoto, again, is asking any details we can share regarding expected P&L and solvency impacts from the recent acquisition in Mexico.

**Fernando Mata Verdejo**
*Group CFO & Executive Director*

Well, this is a small acquisition, probably we will formalize next year, probably January, February is going to take 6 months. This is a small acquisition. Basically, we -- the consideration is around EUR 90 million, correct me if I'm wrong. Out of this EUR 30 million is net equity. So the remaining EUR 60 million is value in force. So if our eligible capital is EUR 4.5 billion, let's say that the consolidation of this future acquisition will drop perhaps [ 2.5, 2 points ], the Solvency II ratio.

In terms of ACR, the risk contribution will be pretty negligible practically because it's like EUR 80 million premiums. But the good thing is not the numbers, the financials, nor the financials. I mean, it's a wonderful acquisition, where we're looking after for the last 4, 5 years and because it's a perfect complement for our current operation with practically captive agents -- I mean, captive agents there for bidding in Mexico, but the practically captive agents that they will work for MAPFRE, and they will sell as well other Non-Life products. So if it's perfectly in our strategy of growing Life business in LatAm and also fits perfectly in a better diversification distribution channels in Mexico.

**Felipe Navarro Lopez de Chicheri**
*Corporate Director of Capital Markets & Treasurer*

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. And if we look at the full creation of value for both companies, we would be more in the levels of EUR 5 million equivalent, more than the EUR 2 million equivalent that we were mentioning that were affecting only the insurance company. In the future, I think that is going to be from this level that we will be growing for this operation.

**Fernando Mata Verdejo**
*Group CFO & Executive Director*

That's correct.

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

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

**Fernando Mata Verdejo**
*Group CFO & Executive Director*

No. I mean, we are referring for an accident that happened in the 7th of July. I would -- we generally do not comment any kind of single claims with you since you asked. I mean this is a full cover. I mean this is a program that has been covered is very much reinsured. I mean there is a heavy reinsurance in this kind of program. So we don't see any kind of impact in the MAPFRE numbers due to any single claim related with this event.

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

The next question from Thomas Bateman in Berenberg is in a similar line. He's asking if we expect any claims to rise from Typhoon Doksuri. I think like Felipe already mentioned, right now, we have nothing that's relevant that's been brought to our attention and to remember that 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**
*Group CFO & Executive Director*

Yes. Probably, I mean, I told Paz, the hard decision to be taken this year is the moment to increase duration. You pretty focused on this. So far, we haven't seen the moment yet, but we're constantly monitoring the situation in the market. and also as well for the products linked to the central bank inflation as well. So let's say that we are constantly monitoring the situation. But so far, we haven't taken any decision regarding increase of duration so far.

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

We have another question from Paz Ojeda, regarding Latin America. Excluding the large industrial policy, premiums will be flat year-on-year with a slowdown in the second quarter stand-alone. 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**
*Group CFO & Executive Director*

Yes. I mean we're happy with just a small comment. We're going -- we increased in Mexico, particularly in those lines that we wanted to grow. There is -- I don't remember the number, but it was -- last year, it was a significant increase in, in savings. But I don't have anything really to say that there is a line of business in which we're not growing, particularly on those that there -- we focus on the core business. Auto is growing well and also protection as well. So I don't remember. But frankly, we're happy with Mexico.

**Felipe Navarro Lopez de Chicheri**
*Corporate Director of Capital Markets & Treasurer*

I think that we are growing in all lines of business if we contemplate 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 Elizabeth Clark**
*Deputy Head of Investor Relations*

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? [ Alicia ] from Barclays would also like to know, can you tell us the impact of discounting and unwinding for H1 on the EUR 300 million net profit. And then Evan 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 1H 2023 compared to 97.1% under local GAAP, perhaps you may provide 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'll 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 you see on Slide 12, there's only EUR 1 million negative impact from discounting because these 2 effects are matched.

Regarding the combined ratio, there's more than a 3-point negative impact from the reclassification of ceded reinsurance commissions, which are now in net income, it's part of me 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**
*Group CFO & Executive Director*

Just one short reminding 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, evaluation is on a quarterly basis, and that's all. For the rest, I think that you gave quite a thorough explanation on this subject.

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

I'm not seeing that we have any more questions. One question just came in. [ Angela Rapidan from AFI ], 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 Lopez de Chicheri**
*Corporate Director of Capital Markets & Treasurer*

And there's as well some more information, 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 Elizabeth Clark**
*Deputy Head of Investor Relations*

And Paz Ojeda from Banco Sabadell, would like to know when we are planning to release the full disclosure? Felipe, go ahead.

**Felipe Navarro Lopez de Chicheri**
*Corporate Director of Capital Markets & Treasurer*

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

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

And final question from Carlos Peixoto. Could you update us on Mapfre's dividend policy? What is your guidance on the 2023 ROE?

**Fernando Mata Verdejo**
*Group CFO & Executive Director*

Well, there is no change on the dividend policy. It's a payout above 50%. And as we say, the guidance is to have sustainable dividends. Regarding the guidance for the 2023 ROE is the same for the 2 remaining years of the strategic planning is in a range of -- from 9% to 10% ROE. So there is no further questions?

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

We just got a new question coming in. Okay. So from [ Mauro Monteiro ], will floating and insurance premiums imply a positive impact considering expected evolution of interest rates inflation.

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

**Fernando Mata Verdejo**
*Group CFO & Executive Director*

No, I mean, we only have a floating fixed income, that is linked to central bank interest rates and also to inflation, but therefore, they're covering insurance liabilities, particularly in long-term savings portfolios. So we shouldn't expect any significant change based on a drop of interest rates in the future.

**Leandra Elizabeth Clark**
*Deputy Head of Investor Relations*

I think there's no more questions. Just to mention, before we go, we'll be holding a virtual group meeting on 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**
*Group CFO & Executive Director*

Thank you, Leandra. Thank you, Felipe. I would like to end this presentation just with apologies, we note that these IFRS are pretty complex business and also a footprint of MAPFRE is also complex. So there is 2 complexities together. We're trying to enhance our presentation following your request and also following your inputs and feedback. As Felipe mentioned, we should improve, I mean, numbers and also explanation regarding trends for a business model. We're looking forward to saying similar capillarity by line of business and also by geographies under IFRS that they won, but under local GAAP. So in the future, we have a better way to explain our business, and we're working hard in order to get this objective. For those that they are [ starting ] holidays, well deserved summer holidays. Hope you have a resting -- wonderful resting time and enjoy. Bye-bye.

**Felipe Navarro Lopez de Chicheri**
*Corporate Director of Capital Markets & Treasurer*
Thank you very much everybody.