MAPFRE

Investor & analyst call – Unrevised draft transcript

3M 2024

Company participants

- Fernando Mata Verdejo, MAPFRE SA, Vice Chairman & Chief Financial Officer
- José Luis Jiménez, CIO & Deputy CFO
- Felipe Navarro López de Chicherí, MAPFRE SA, Deputy General Manager – Finance Area
- Leandra Elizabeth Clark, MAPFRE SA, Head of Investor Relations

Presentation

Leandra Clark

Good evening, and welcome to Mapfre's Activity Presentation for the First Quarter of 2024. This is Leandra Clark, Head of Investor Relations. Thank you for being here with us today.

It is a pleasure to have with us Fernando Mata, Group CFO and Vice Chairman; as well as Felipe Navarro, Deputy General Manager in the Finance Area. They will walk us through the main numbers. We are also happy to have with us Jose Luis Jimenez, CIO and Deputy CFO, who will participate in the Q&A session at the end of the call.

As we have said, we are reporting new IFRS financial information twice a year, at half- year and year-end. We continue with our commitment to transparency with the quarterly activity updates reports like the one we released this morning. Just as a reminder, this information is prepared under the accounting policies applicable in each country.

As a reminder, you can use the Ask a Question link at any point during the call, and we will open up the question-and-answer session at the end of the presentation.

Let me turn the call over to Fernando. The floor is yours.

Fernando Mata Verdejo

Good evening, everyone. Thank you, Leandra. Thank you all for being here with us again. The quarter's strong results are proof that our profitable growth strategy is working and that the KPIs are in line with the targets set at the recent AGM. We are growing strong in almost all markets and accelerating measures to correct imbalances. Our proven business model with high levels of diversification is helping us again, and we continue growing in the most profitable segments, while motor is still overcoming challenges.

Regarding our main KPIs, premiums are up 4.6%, over 7% excluding life savings, reaching more than EUR8.1 billion, with solid growth in LATAM, Iberia, and North America, as well as reinsurance. The net result of EUR216 million is up 70%. These strong results was based on, first, the relevant improvement in non-life technical profitability with an almost 3 percentage point reduction in the combined ratio to 95.8%.

We have made significant progress, and the underwriting measures and tariff adjustments already implemented are showing results, but we still have some way to go in the coming quarters. Second, the growing contribution of financial income in all regions, especially LATAM. And third, the stability of the life protection business in Iberia and LATAM. With this result, we have delivered an ROE of over 10%, 11% excluding the 2023 goodwill write-down.

Regarding Solvency II, the provisional ratio, including transitionals, was 208%, and 2023 year-end, almost 200% fully loaded. Final figures, as you know, we will report it on May 20th with the Group Solvency Financial Condition Report. These strong figures reflect the positive trends in our main markets. LATAM, especially Brazil, continues the Group's growth engine and it is the largest contributor to Group earnings. Iberia maintains leading market shares in main lines of business with continuous technical improvements.

In North America, the already implemented technical measures have led to a radical turnaround in profitability. Mapfre RE has doubled its profit, supported by solid business growth and also the absence of relevant Nat Cat events. The decision made in 2022 to boost Mapfre RE's capital position in a hard market is now paying off.

Finally, I would like to announce that the Board of Directors agreed this morning that the final dividend of EUR0.09 will be paid on May 24th.

Here, we have the breakdown of premiums. Non-life premiums are up over EUR405 million with almost 8% growth in General P&C, 6% in Accident & Health, and 3% in Auto. Life Premiums are down slightly by EUR50 million after a really strong first quarter last year for life savings, particularly in Iberia. Life Protection, a very profitable segment, is growing well, over 16%.

As you can see on this chart, our business mix is well diversified with around 75% in non-life and 25% in life. Life business is evenly split between savings and protection. And General P&C is our largest line of business with around 34%, which includes homeowners, commercial, agricultural, and Burial expenses. Motor represents 24% of total premiums, while Accident & Health represents 17%.

Now, I would like to discuss the key figures by region and units. First, in Iberia. Premiums reach nearly EUR3.4 billion. Non-life is up 6.4% with strong trends in homeowners, condominium, and health, among others. Life Premiums are down due to an extraordinary 2023 in savings, while Protection is growing around 5%, with both contributing significantly to results.

Net profit stands at EUR73 million with ROE at 11.6%. Business in LATAM is consolidating the strong trends of the previous year and is the largest contributor to earnings with an ROE of close to 17%. Performance in Brazil has been exceptional and there have also been relevant contributions from Mexico and also, Peru. The Life business and financial income continue contributing very positively across the region.

Focus on Brazil. Premiums are growing over 10%, supported by Agro and Life Protection, which grew 8% and 15%, respectively. The net result was EUR61 million, up nearly 14%, with ROE at 24%. The non-life combined ratio is down significantly to 77.5%, with both motor and General P&C improving. The Life Protection business also had a strong contribution to results.

Regarding North America, premiums increased 8% on the back of relevant motor and homeowners' tariff increases, which will continue feeding into P&L. The auto combined ratio improved substantially, down over 3 points. And in General P&C, the combined ratio stands at 96%, down over 35 points, thanks to benign weather and significant tariff adjustments implemented last year. These improvements have led North America to deliver a EUR15.5 million net result, extraordinary compared to losses of EUR9 million the previous year. Puerto Rico recorded a 31% increase in business volume, surpassing EUR76 million in premiums and contributing EUR4 million to results.

In EMEA, premiums reached EUR416 million, a 4.7% decrease, due to a fall in the Life business with profits in Malta and also, Auto in Italy. The region recorded almost EUR9 million in losses, concentrating in Italy and Germany, as a result of the current complicated auto environment. In Turkey, the positive performance of euro- denominated investment has offset hyperinflation impacts, reporting profit in the quarter. And finally, Malta maintains earnings stability.

Focus on Mapfre RE. Premiums were up 7%, reaching nearly EUR2.2 billion. The combined ratio was down nearly 5 points to 93.8%, supported by improving tariffs, especially for Cat covers. There have been no large claims in the quarter compared to 2023 when there was a relevant earthquake in Turkey with a EUR72 million net impact. However, we are still seeing an upward trend in secondary perils and attritional claims.

Net profit reached EUR67.3 million double last year and ROE is now over 13%. MAWDY continues to focus on strategic markets for the group, with total business volumes growing 13.5%, with a net result of EUR1.4 million.

I would also like to comment on two specific items. Hyperinflation adjustments had around EUR24 million impact, EUR11 million in 2023, mainly from Argentina. And also, the second, in holding expenses, there was a EUR15 million positive extraordinary tax impact, as a result of the Constitutional Court decisions to reinstate, it was January this year, to reinstate tax benefits in the corporate income tax law that were eliminated in 2016.

On the right of this slide, you can see the combined ratios by business segments. General P&C has an excellent combined ratio of 83.5%, down nearly 4 points. The auto combined ratio still has a high loss experience but improved over 1 point to around 105%. And the Accident & Health combined ratio stands at 102.8% and is up 1 point due to an increase in costs.

Now, let's move on to the Motor business. Given the current context, we are focused on rate sufficiency and defending our current portfolio. This is an ongoing process that we mentioned in previous presentation. We're beginning to see the effects of the already implemented measures, but volatility and dispersion continues.

The net result from Motor has improved with losses down for nearly EUR30 million last year to under EUR13 million. The turnaround in the U.S. was spectacular, and now both Brazil and North America are in positive territory. The result in Iberia has improved modestly and still needs time for tariff increases to feed into results. Other markets in LATAM are performing quite well, mitigating the complicated situation we're living in Germany and Italy.

As we already mentioned, the Group's strategy is to prioritize the most profitable segments.

As a result, premium growth has been modest 3.4%, with insured units down 5%. In Iberia, premiums increased 5%. The portfolio stands at a little under 6.1 million vehicles, down over 2%. In North America, premiums grew over 8%, with units down 5.6%. And finally, in Brazil, the Auto business is down 7.7%, while the portfolio of vehicles is down 6%, with less appetite in fleets.

The Group's auto-combined ratio was 105%, improving modestly by 1 point compared to last year and the last quarter. Iberia reached 105.7% in the quarter, slightly improving compared to last year, and is in line with the fourth quarter. The ratio should gradually trend downward.

In North America, the ratio improved over 3 points and should continue to come down based on tariff increases. And Brazil's combined ratio is down 5 points year- on-year to 101.3%, with performance as well as slightly better than the last quarter of 2023.

In summary, we are committed to adapting tariffs as much as necessary across the group. Brazil and the U.S., are already improving, and the tariff increases in the U.S., should continue to feed through the results. Spain will need some time to bear fruits, but we are pretty confident that we are on the right track.

Let's move on to General P&C, which had an extraordinary performance. Premiums are up almost 8%, and the combined ratio is down almost 4 points. In Brazil, premiums are growing 13%, and the net result is up 7.5% to EUR35 million. The combined ratio stands at an excellent 69.6%, supported by the Agro business in the absence of relevant weather-related events.

In Iberia, premiums are up 6.7%, driven by homeowners and condominium lines, and Accident & Health. The result reached EUR48 million, up 30%, and the combined ratio was under 94%, even with some weather-related events in March and also some relevant claims.

In summary, the well-diversified General P&C portfolio is performing well, with a significant contribution to profitability, nearly EUR93 million in the quarter.

On this slide, I would like to comment on the Life business, another relevant profit contributor. Premiums at insurance units are down close to EUR17 million, after a really strong first quarter last year in Iberia. Life savings premiums, although down 12% from the extraordinary issuance in 2023, stand at EUR935 million, doubling 2022 levels.

In Iberia, the Retail segment remains strong, and Life Protection is up around 5%. In Brazil, Premiums are up 13%, and the Life Protection business combined ratio stands at 81.6%, up 3.8 points, but still an excellent levels. The other markets remaining countries, showed excellent premium and profitability trends, especially in LATAM, with Mexico extending out.

Now, I will hand the floor over to Felipe to discuss our capital position and the investment portfolio. Felipe, go ahead.

Felipe Navarro López de Chicherí

Thank you. Thank you very much, Fernando. On the left of the slide, you can see our capital structure. Shareholders' equity reached over EUR8 billion, quite stable since the close of 2023. You can consult the breakdown of movements during the quarter on the right.

As you can see, both leverage at 23% and solvency at 208% are in line with the reference framework included in our strategic plan. On the bottom left, we have included the 2023 embedded value figures, which is up 5.5% to over EUR6.9 billion. The largest move was in the ANAV due to the strong increase in unrealized gains as well as retained earnings.

The new business contributed positively during the year, driven by Spain and Life Protection in Brazil. The return on embedded value improved, reaching 10%. The detailed figures are available on our website with a reconciliation of the VIF and CSM, among other details.

Regarding an investment portfolio, there was no relevant change in asset allocation during the quarter, with a slight increase in a corporate fixed income. Spanish sovereign debt continues to be the largest exposure, with EUR9.7 billion.

Regarding asset management, we are confident moving forward. Pension funds are up almost 4% and mutual funds are over 8% during the year. We have more than EUR13.7 billion in assets under management, placing us among the leading non- bank players in Spain.

On the screen, you can have some additional details regarding our nearly EUR32 billion fixed-income portfolio. First of all, I would like to remind you that a large share of our portfolio is immunized or matched, so we will focus on the actively managed portfolios, which are the main contributors to the net income.

On the top, there are the details of the euro area portfolios, with a market value of over EUR12 billion. Overall duration is down and yields are stable, or slightly up. The accounting yield in Iberia non-life and re, are both over 2.5%. On the bottom, there are other main markets amounting to around EUR8 billion.

Duration is slightly down in Brazil and the rest of Latin America and remains stable in North America. Yields are relatively unchanged, except Brazil, which is down to 9.5%, very much in line with the market yields, which places our portfolio in a comfortable position.

Non-life income is up EUR45 million, growing 30%. EMEA is up over EUR12 million, with an important share coming from positive exchange rates gained in Turkey, where a large share of the assets are in euro.

The next largest improvement is Mapfre, up EUR10 million. The contribution from Latin America is also up, with relative stability in Brazil and still growing contribution from other markets.

Regarding net realized gains and losses, they are slightly down as the excellent quarter for markets allowed us to actively manage the equity portfolio, realizing gains, which offset a prudent provisioning approach, mainly for the real estate.

I will now hand the floor back to Fernando for a few closing remarks.

Fernando Mata

Thank you, Felipe. To wrap up, I would like to highlight that our profitable growth strategy is boosting growth in segments with higher margins. These figures are proof of the strength of our business model, with high levels of diversification both by geography and by product mix.

Our financial strength is underpinning this growth and our strong commitment to our shareholders. We continue heading in the right direction and we will be working on those loss-making operations that still need to be fixed during 2024. Our KPIs, based on local accounting principles, show positive growth and profitability trends, and we shouldn't expect any significant deviation in trends under the new IFRS 9 and 17 figures.

Thank you very much for your attention. I will now hand the floor over to Leandra to begin the Q&A.

Q&A

Leandra Clark

Thank you, Fernando. Although most of you are already familiar with the process. Just as a reminder, you can use the Q&A tool at the bottom of your screen. We've already received a lot of your questions, and we'll organize them by topic and answer them as time allows. If there are any pending calls -- pending questions, pardon me, we can take them after the call.

So the first group of questions we're going to start with is for Brazil. We have several questions. The first from, I'm actually going to read through all of them, and then we can answer them.

Carlos Peixoto from the Caixa would like us to elaborate on how sustainable the P&C combined ratio is in Brazil.

And Max, his question is very much in line. Max from JB Capital is asking a very similar question. What are our expectations and the outlook for this line of business? And are the current levels at 70% sustainable?

Fernando Mata Verdejo

Yes. Thank you very much both. And this is a permanent question that they is being raised practically at every presentation. And the answer is pretty simple. I mean, at every single presentation, we say that the current combined ratios are extraordinarily low, but actually what we've seen is they're quite stable as well, even being low. So on the non-life side, the explanation is that the Cat event has been practically none. So let's say that we had to wait because, in the other region, there is still -- in the second and third quarter, there is still some seasonality regarding droughts and heavy rains.

What we've seen is not in the non-life, but on life, in Protection, we've seen a small deterioration is due to an increase in the acquisition cost that was already budgeted. But in a nutshell, we're happy with the Brazil performance. We believe that in the long run, both, I mean life and non-life combined ratio should converge into higher levels. But so far, let's enjoy the current moment, and we will live in the sweet moment.

Felipe, anything else?

Felipe Navarro López de Chicherí

No, I would just like to add that. We are being asked this question repeatedly because of the excellent situation of the Agro business, which is providing us with very stable profitability. It is true that without any kind of climate event that is relevant during this period of time, we should expect that the claims related with the climate- related events could start feeding into the profit and loss at some time. But for the moment, things are going perfectly well.

What we should see is that if there is any kind of deterioration of this combined ratio because of the increase in the claims, that will be offset with other lines of business. The thing is that we are seeing that other lines of business are already improving while this line of business is not deteriorating for the moment.

Fernando Mata Verdejo

But we've seen during this quarter is a very nice rebound in Mapfre's distribution channel performance compared to last year. So hopefully, we'll see that the numbers remain quite stable as well for Mapfre in the remaining quarters.

Leandra Clark

We have another question on Brazil from Thomas Bateman. He asks, do you expect 2024 financial income in Brazil to be higher or lower than 2023?

José Luis Jiménez

Yes, good afternoon. I mean, in terms of Brazil, what we expect maybe interest rates will be reduced slightly, but not too much. So probably we could consider that the financial income will be roughly speaking more or less the same.

Leandra Clark

Thank you, Jose Luis. We have another question from -- now moving on to Iberia, from David Barma at Bank of America Merrill Lynch. He asks, it seems that the mutual companies were increasing prices and reducing growth target this year, but that isn't reflected in your first quarter numbers. Can you give us an update on the competitive landscape? You lost 0.8% of your Iberia Motor car vehicle pool in the first quarter. Do you expect the same for the coming quarters?

Fernando Mata Verdejo

Yes. Thank you. Quite interesting question. Let me elaborate a little bit longer regarding our current or the domestic Motor market in Spain. And first, this is the first quarter, so there are a lot of moving parts. First is most of the large fleets are being renewed 1st of January with a significant increase of prices. Mapfre is not in this business, even we're considering no renewal in some of the fleets. So, let's say that the average price increase will be impacted by this situation. Obviously, those peers, the largest insurance players that are active in Spain, they are taking most of the cake of fleets, and also some mutuals as well.

We've seen different strategies. Those that are betting on fleets, those that are betting in stability, and those they are betting on increasing vehicles units of fleet. Mapfre is in the middle. I mean, we are quite stable. The numbers that we presented during this quarter shows a lot of stability. Average premium grew a little bit over 7%, which is a similar pace than previous quarter. The toll we're paying is approximately 1 point something percent loss of vehicles, which is something that we budgeted and is part of the toll we're paying.

There are other, and they're larger -- the large insurance, European insurers, that they're with negative premium growth during this quarter. I guess those that are with a lot of pruning in their portfolios, not that much as Mapfre, but they're focused on underwriting -- the stricter underwriting policies. So, in a nutshell, Mapfre is in the middle, quite stable on both tariff policies and also some pruning in loss-making portfolios.

We have to wait to see more quarters during the year to see a more stable trends for players. But in the end, I mean, we're happy with the numbers that we produce regarding average premium and also number of vehicles. A little bit disappointed with combined ratio, frankly, I expected it to be lower. But we had to work on this and keeping the current pace of tariff increases in the following quarters and just wait for the way that these increases are feeding P&L. That's basically the overview of the market. Let's say that the churn ratio I didn't mention, but it's quite stable as well. And frankly, Mapfre -- we haven't changed our general policy of not having an appetite for growth at any price.

That's basically the overview of the market. I spoke too much, Felipe, I guess.

Felipe Navarro López de Chicherí

No, I could insist just in two main topics. First of all, is that we are quite consistent in the average premium growth that we have on a quarterly basis. And we are fixed in this around 7%, which allows us to provide a couple of points above the inflation, a little bit more than 2 points above inflation. This is the first topic.

Second is, as Fernando said during his intervention, is that first quarter is very, very, very much influenced by the fleet renewals, which was very, very different from previous years.

And the third one is that I think that we are quite consistent. And if we see that our consistency is moving forward, we will see the fruits -- the bearing of the fruits by the end of the year, as we said. It's something that we are quite confident. We are in the right -- we think that we are in the right direction. And it seems that the market regarding prices is already moving together with us.

Leandra Clark

Okay. We've received a few more questions on Iberian Motor. Some of them have already been answered, basically the evolution of insured units and the competitive environment.

But specifically, Max from JB Capital ask, if there has been any abnormal frequency in the quarter in Motor? And if not, what was the reason for the pickup in the combined ratio? And both Max from JB Capital and Thomas Bateman from Berenberg would like to know if we reiterate our guidance of hitting 100% sometime in the last quarter of the year.

Fernando Mata Verdejo

Thank you, Max. Regarding your first question, the frequency is quite stable. Weather-related claims has not been substantially increasing during the first quarter. I should blame severity for the current, let's say, stability of the combined ratio. Usually, the first quarter is the one that reflects the increase in baremo. This is not an excuse, but actually, it is what we have seen in individual claims.

Hopefully, the second and third quarters are usually much better and with lower severity, but my conclusion is we have to wait to see at least a couple of quarters to see if there is a change in trend. But the thing we are doing is what we expected to do. We will correct our policy if there is any unexpected change in severity. But so far, we should have expected a lower combined ratio, but we are keeping our current policy on rates in order to keep the fleet stable, which is the main target to protect our portfolio.

Regarding other questions, churn ratio is quite stable as well. The guidance, we should hit 100% for the 2024 year, full year. Sorry –

Felipe Navarro López de Chicherí

One month for the last quarter 2024.

Fernando Mata Verdejo

One month for the last quarter of 2024. And we should expect one quarter to come as well, with a significant drop, as the one we saw for the U.S., because it is going to happen. We already saw in Brazil, we saw as well in the U.S., and we should expect a significant drop in Spain.

Leandra Clark

Thank you, Fernando. Moving back to Brazil. We have received a few additional questions. Thomas Bateman would like to know if we can give a little color on the life protection claim trends in Brazil.

And Carlos Peixoto from the Caixa also has a question regarding the margin, our outlook for premium trends in Brazil throughout the year.

Fernando Mata Verdejo

Yes. As I mentioned, regarding Life Protection, there is a small increase in acquisition costs that it was already agreed with the Bank of Brazil, so nothing else to report. I mean, the combined ratio is excellent, so let's keep this around for me. This is an extraordinary combined ratio.

What was the other question?

Leandra Clark

Is the outlook for premium growth in Life Protection?

Fernando Mata Verdejo

Well, 10% over in two digits, fantastic so far. I mean, as long as the lending activity is working well in Brazil, our premium growth will be fantastic.

Leandra Clark

Thank you, Fernando. Moving on to other geographies. Paz Ojeda has a question regarding the German business. Could you please elaborate on the deterioration that Fernando mentioned? Is this temporary? Should we expect negative results in the next quarters?

Fernando Mata Verdejo

Yes. Thank you, Paz. First of all, I mean, Germany doesn't move the needle. That's very important. I mean, it's one of the significant auto portfolio in Europe, but we focus on Iberia. What happened in Germany, it is an industry issue. Frequency was horrible at year-end, and also it was a sort of runoff, not Germany, in Central Europe for hailstorms and other Cat events.

Let's assume that part of the increasing combined ratio was due to these seasonal Cat events, but I had to tell you the truth and to true up that the current operation, as most of the insurance coverage in Germany, auto business in Germany is underpriced. It's pretty clear. I've read some of the rating agencies' expectation on combined ratio for Germany is well above 110% that it happened many years ago. So we should expect a significant correction on rates in Germany, and Mapfre will surf the wave as well. We are smaller than other countries, and this is a strong condition in order to follow increases of rates in the market. That's basically Germany.

Leandra Clark

Thank you, Fernando. We're going to move on to some questions we received about the realized gains that took place in the quarter. Both Max from JB Capital and Farquhar from Autonomous would like to know what was the reason for these gains? Given the positive equity market were there any negative effects? And what's your expectations going forward in your approach to the markets at this level?

José Luis Jiménez

Okay. Thanks. In terms of the investment portfolio, we have to say it has performed really well during the last quarter. Most asset classes had gains in the last three months, with the exception of bonds due to high-interest rates. Real estate valuations suffered a bit, and for the reason we managed to do some equity gains in order to make a provision for more than EUR40 million in order to cover it. As we only invest in offices in prime locations in Europe – Paris, London, Munich, to give you an example – with good tenants and long-term contracts. We are confident this provision will come back to the P&L on due course.

On the other hand, we have a positive view in terms of interest rates looking forward, as high for longer will stay with us for some time, and this will help us to improve the accounting yield. Furthermore, a strong U.S. dollar will give us some support in terms of FX movements and the positive economic momentum in Spain, LatAm, and U.S. despite all geopolitical uncertainty are positive trends for our portfolio. In any case, we will continue with a prudent investment management and we expect to keep in line for the next quarter.

Felipe Navarro López de Chicherí

Just if I may, I would add that all in all, I mean, the flexibility of our financial portfolio allows us to have more or less capital gains during the quarters and adapt to the different needs of the group, which is what we've been doing. So there is no change at all. I mean, we keep, as Jose Luis said, a very prudent portfolio, but it's still very flexible and we can adapt very quickly to the different surroundings.

Leandra Clark

Thank you both. And we have another question regarding a one-off impact that took place in the quarter from Farquhar Murray in Autonomous. He asks if there's any more of this EUR15 million tax one-off to be recognized, and is there any recurring consequence on the tax rate from this at all?

Fernando Mata Verdejo

Yes. Before Felipe is giving his explanation regarding this situation, let me tell you that there is a very good disclosure on the notes of our financial statements for 2023. At that moment, it was the sentence that it was a tax ruling from the Constitutional Court in Spain. So what we disclosed is that there is two different tax issues. One was clarified in January, so we disclosed in the notes but -- and we booked during the first quarter.

There are a couple of more tax issues that will be hopefully cleared during the 2024 or even 2025. But so far, we consider both as some tax contingent income that we will book once the ruling -- tax ruling is published. Fortunately, both are positive, but it will come in 2024 or in 2025. It will depends on the moment of the ruling.

Felipe Navarro López de Chicherí

I don't know if I have anything to add. The main issue is that the Constitutional Court just was ruling about a Royal Decree that is a way of producing laws in Spain. And he was just questioning two or three, sorry, of the different things that were in this decree. What we need now is that when they said that the decree by nature was not the right way of changing the law, is that they need to say if the whole decree will be modified or not by this ruling. That should happen anytime soon.

And when I say soon in the Spanish law, sentences that could take between six to one year, one year and a half, we don't know. There will be for sure other opportunities for the group. We cannot book them or quantify them until we know how is going to be applied this kind of ruling. So probably going to be good news in the future. But for the moment, we cannot disclose anything else.

Leandra Clark

Thank you, Felipe. We have a question regarding Solvency from Max at JB Capital. With Solvency at 208%, do you have appetite to grow inorganically and which regions would you consider?

Fernando Mata Verdejo

Well, let's say, Max, we're quite happy at this level of Solvency to ratio. We want to grow the core business and the core geography that we explained before. But there's nothing on the M&A side currently on the table. We focus on fixing Iberia and Germany for this order, auto line of business. That's our main target. We currently will not focus on any potential transaction on that side.

Leandra Clark

Thank you, Fernando. Going back to the Motor business. We have a question regarding the U.S. Do you think that the combined ratio could go below 100% sooner than in the fourth quarter? And if not, why not?

Fernando Mata Verdejo

I wouldn't be that bullish, frankly, with the current volatility. Hopefully, let's say that the job is done on both, I mean, underwriting and also tariff adjustment. And fortunately, also the weather was pretty mild in New England. So, the homeowners' combined ratio is quite promising as well. But there are a lot of up and downs. And we said that we will hit at the end of 2024, in the last quarter, lower than 100%. And hopefully, we're in the right path. But we'll give you more color at the end of the second quarter, frankly. I'm not that bullish. Sorry about that.

Felipe Navarro López de Chicherí

We probably were not going to publish this combined ratio below 100%. As we say for Spain, they will be probably hitting one month, something that will be below 100%. But I mean, for the moment, we cannot commit that before this fourth quarter, we are going to print this 100% combined ratio on a quarterly basis.

Leandra Clark

So, I think, we have one last question. It's a follow-up on Solvency. And if -- were there any specific drivers that led to the increase versus the third quarter of the year?

Fernando Mata Verdejo

Yes. If I remember well, I tell you three drivers. First is the increase in the IFRS net equity that was substantially higher at the end of 2023. Regarding capital charge, it was a reduction on equity exposure, which obviously led to a reduction on capital charges for equity. And also it was a significant reduction in lapse risk as well due to the current context that helped us to have a lower SCR. So these are basically the three drivers.

Leandra Clark

Thank you, Fernando. Thank you. Well, I guess, it seems we have no further questions. Just as a reminder before we go, we'll be holding meetings in May with analysts and investors in Madrid on May 7th and in London on May 22nd.

And as a reminder, all the documents released today are available on our website, including the 2023 embedded value presentation. And we've also widened the information in the financial supplement. If you have any questions, you can contact us after the call. And thank you for your time today.

Fernando Mata Verdejo

Thank you very much for being here.

Felipe Navarro López de Chicherí

Thank you very much.

Disclaimer