Call for Analysts and Investors

Transcript

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Speakers:

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Mark Brewer

Presentation

Mark Brewer
Investor Relations

Welcome, everybody. My name is Mark Brewer, Investor Relations at Linea Directa. We published our 4Q results earlier this morning and I have here with me, our CFO, Carlos Rodriguez Ugarte to present this report.

Let's start by reminding we started to report under IFRS 17 figures in 2023. We've been reporting in parallel under IFRS 4 for a smooth transition. On this matter, there are certain key messages we would like to highlight:

- The profit and loss account changes format.
- Income from insurance service is equivalent to premiums earned.
- The discounting effect in claims reserves is accounted for in Other Comprehensive Income. So, we are reporting a combined ratio which is undiscounted. This being said, please bear in mind that differences in calculations appear from IFRS 4 to IFRS 17 (such as: a statistical methodology in Home versus a case-by-case reserve, and the best estimate under IFRS 17 with many more parameters to which we calculate the risk adjustment…). This is to underline that some upward or downward differences are taking place and will continue to take place.
- Reclassification of certain items move from expenses to claims and to non-assignable expenses.
- Regarding the investment result: realised gains from equity investments are accounted for in OCI. The mark-to-market of investment funds will add some volatility to the P&L (which before was accounted for in OCI). Also, we are presenting the unwinding of the discounting effect in the claims provision separately from the investment result for clarity purposes. Finally, IFRS 9 is not restated for 2022, adding an extra layer of complexity for comparison purposes.

As always, the Investor Relations department is here to help you with the transition and a full reconciliation has been prepared. We are providing the Excel financial supplement both in IFRS 4 and IFRS 17&9 and we'll try to make this transition as smooth as we can for you.

Nevertheless, please let's recall that IFRS17&9 doesn't have much impact in our accounts and it does not change the way we manage our business.

With this introduction, over to you Carlos.

Carlos Rodríguez Ugarte
Chief Financial Officer

Thank you, Mark, good morning. I will go straight to page 5.

2023 presented significant challenges, especially in cost management due to the abrupt increase in inflation, which was transferred to the cost of claims in the profit and loss account.

Given this context, our strategy was focused on cautious reserving, strict pricing discipline and emphasis on efficiency to navigate the inflationary pressures.

In the second half of the year, we delivered a significant improvement in our margins. The profit before tax for the fourth quarter stood at 10.5 million, driven by a substantial reduction of 3.7 percentage points in the combined ratio. 2023 was a year to put margins before growth. Still, GWP grew at a solid 2.8%. Policyholders, on the other hand, dropped by 4.2% alongside the hardening of subscription. Capital position remains robust at 180%.

As usual, we provide with our full year results a summary of the insurance context. Turning to page 7 on the Spanish Motor market.

The year was defined by strong inflation, CPI took a softer line as compared to 2022, yet on a cumulative basis increased more than 12% in the last couple of years. This had a toll on personal injury and repair costs with a steep increase in the cost of claims.

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Growth in the Motor segment gained momentum mainly explained by rising average premiums carried out by the sector to cope with inflation and, to a lower extent, to the increase in the vehicle park by 1.5%. Aging of the vehicle park continued to rise and currently stands at 14.3 years of average.

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The Home segment is facing its own challenges: high financing costs and loss of household purchasing power resulted in the fall of housing transactions for the 11th consecutive month. The year was also marked by many storms as compared to last year. Inflation also had an effect.

All the same, business volumes continue to grow at a significant pace on the back of an increase in average premiums in the sector to cope with inflation and, to a lower extent, increased penetration of Home insurance.

As with regards the Spanish Health market, it grew at a remarkable 6.6%. Similarly, turnover was supported by an increase in the sector average premiums given the rise of medical costs.

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- All business lines made a positive contribution, with premiums up 2.8% and insurance revenues up 3.8%

- Technical result shows sound signs of improvement, reflecting the underwriting, claims management and efficiency measures carried out during the year. The 4Q standalone reached a positive €3.5 million.
- Technical result has its corresponding item in the combined ratio, which was below 100% in the 4Q, reaching 98.5% on a consolidated level. Here I would like to highlight the quarter-on-quarter evolution. Since the 2Q where we reached a peak, the evolution of the 3rd and 4Q has been downward. Remember please that the figures here presented are undiscounted.
- The focus on efficiency continues to be our roadmap, expense ratio falling 0.3 percentage points.
- Investment result was down 18.8%. Several non-recurring items took place in 2022 that I will explain later on in detail in page 22. Excluding singular effects both in 2022 and 2023 underlying investment result is up 19.8% on the back of fixed income higher reinvestment yields, remuneration of deposits and increased revenues of the hedging derivative.
- Now, we have a new item in the P&L account: credited interest. This is the financial unwinding on the prior year discounting of the provision for claims incurred. We are presenting this item separately from the financial result for clarity purposes. The unwinding was an expense of 4.6 million for the full year.

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Here the message is that 2023 was a year to put margins before growth, both in Motor and Home insurance. Hardening subscription and risk selection had an impact of policy count.

Health, on the contrary, experienced both a very satisfactory growth both in clients and premiums.

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In Motor insurance, the year presented notable challenges due to the sharp increase in the cost of claims. 2023 was not a year to subscribe at a loss, but to apply rates at the current level of risk and prioritise a progress in margins.

Rate actions continue to earn through our book and the combined ratio improved to 98.2% in the 4th quarter.

Interestingly enough, Linea Directa's combined ratio gradually improved while the sector worsened. To compare on equal basis, in local - IFRS4 accounting - our combined ratio improved 3 percentage points this quarter while the sector worsened by 3.4.

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In the Home business, premiums grew 4% and insurance income grew 9.4%, despite rate actions also triggering some sliding effect on retention.

Combined ratio was strong at 95.8 and 92.8% for the full year and 4Q, respectively. Heavy storms had an impact on technical result. Claim related atmospheric events added 7.2 million or 5 points to the combined ratio (as compared to 2.1 million in 2022). Expenses, as we'll see later, continue to have an outstanding trend.

As with regards the Health business, premiums and insurance income grew a solid 4.5% and 5.2%, respectively. In autumn, we began to sell Health insurance under the Linea Directa brand, reflecting the multi-line strategy as we target greater efficiency in our operations.

Frequency significantly dropped, confirming the improvement in risk selection and underwriting. Loss ratio improved by almost 12 percentage points. On the negative side, expense ratio shows the absence of the proportional reinsurance commission, which amounted to 4.3 million in 2022. Excluding this effect in 2022, expense ratio would have improved by another remarkable 12.6 percentage points.

Full disclosure on combined, loss and expense ratios by line of business is provided in page 19.

Please let's move now to slide 18, where we explain and compare the differences in between IFRS 17 and IFRS 4 combined ratio.

As with regards the loss ratio:

- Loss ratio is undiscounted. The discounting effect of the provision for claims incurred is accounted for in Equity – Other comprehensive income.
- Although an expense item in IFRS17, we include expenses attributable to claims (staff, etc) into the loss ratio, consistent with the underlying concept and IFRS4.
- Losses on onerous contracts are similar in nature to the provision for unexpired risks under IFRS4. Health is considered an onerous contract. Still, with the improvement of the year there is a reversal of 1.4 million.
- The 27 thousand positive change in reinsurer default effect, although negligible, reflects the variation in the expected default of our reinsurance panel, which is AA- average rated.

As with regards the expense ratio:

- Investment management expenses and personnel attributable to investments expenses are now registered under the expense ratio. Under IFRS4, these expenses were included in the financial result.
- Under local accounting and IFRS4, the change in the provision for claims settlement agreements in Spain when the policyholder was innocent was recorded under expenses. This is because the Spanish Directorate General for Insurance and Pension Funds (DGSFP) consider these settlements, agreements between companies and not an obligation with the client. As such, they were registered separately. Under IFRS17, they are reclassified in the loss ratio.
- In addition, the profit sharing of the "Other" segment (travel insurance to cardholders) is now included in the loss ratio.

All in all, combined ratio under IFRS17 stood at 104.1% versus 105.4% under IFRS4, a difference of 1.4 percentage points. This is not to say that the gap will be maintained, or that the gap could be narrower or wider. Some differences will always appear by how technical provisions are calculated. Here the idea is to stick to the current accounting in force IFRS17&9 from now onwards and explain the movements. Anyhow, you should keep in mind that IFRS17 has very little impact on the company's results.

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The reclassification of items between claims and expenses shows certain differences yet overall combined ratio has no major difference, and the trend should move in parallel.

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Loss ratio continues to improve since the 2nd quarter when the Company reached its peak.

- Motor reflects all the underwriting and claims management actions, and risk adjusted earned premiums flow through the income statement. We continue to improve our underwriting efforts to try to ensure the business we're writing is classified and priced adequately.
- Home was affected by storms and water damages in 2023 as I mentioned earlier.
- Health showed a remarkable improvement in claims incurred, down 8.2%

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On expenses the Company firmly sticks to our roadmap. The global customer vision recently implemented allows us to be more commercially efficient. The strict control in overhead expenses resulted in a decrease of 6.7% in administrative expenses. Overall, the development was exceptional.

Turning to page 22 on financial result.

We are now providing very good disclosure on the investment result, which, we think will be useful.

Let's remember now we have the *mark to market* of investment funds in the P&L.

Investment result reached €34 million, down 18.8%. There were several non-recurring items that need to be described:

- 2022 include revenues from investments in Economic Interest Groupings of 4.8million that did not occur in 2023.
- Also, 2022 included realised gains primarily in investment funds and currency gains as the USD rallied of 7.2 and 3.8 million, respectively.
- In 2023, the Company sold an investment property generating a gain of 1.4 million.

Excluding these items and the and the mark to market of investment funds which bring volatility to the P&L, investment result would have been up 19.4%. The increase is explained by higher reinvestment income from bonds, the remuneration of deposits and income from the financial swap.

We are also providing the movements taking place in other comprehensive income: first, as usual, the mark-to-market of fixed income and equity investments. Second, the new item of realised gains (or losses) in equity instruments.

On slide 23 you can see the overall yield of the portfolio is up to 2.96% excluding net realised gains. Portfolio composition is pretty much stable with strong weight of the bond portfolio.

The overall duration of the fixed income portfolio is 3 years.

Moving on to our solvency position, Solvency margin remains very solid and stable. As with regards eligible own funds, the Company is now generating capital with its positive quarterly result, and we had the positive change in the market value of the available-for-sale portfolio driven by lower interest rates in the quarter. The last column includes a lower discount curve, increasing the provision for claims and other items.

For its part, SCR increased by 7.3 million in the quarter driven by market and underwriting risk. Market risk due to the quarterly symmetric adjustment published by EIOPA. Underwriting risk driven by the inclusion of 2023 in the temporal series of the specific parameter, which added volatility and resulted in a higher factor.

To conclude, we were responding decisively to a complex scenario and believe we are adopting the appropriate measures on addressing profitability. Our strategy was focused on cautious reserving, strict pricing discipline and emphasis on efficiency to navigate the inflationary pressures.

We closed the year with an encouraging change of trend in our combine ratio and a positive second half results, something that we have been anticipating every quarterly results presentation throughout 2023.

We are cautiously optimistic about 2024 and believe the transformation is underway.

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

Q&A

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

Moderator: Ladies and gentlemen, we will now begin the Q&A session. If you would like to ask a question, please press star five on your telephone keypad. If you change your mind, please press star five again.

Please ensure that your device isn't muted locally before proceeding with your question.

The first question comes from Max Mishyn from JB Capital. Now your line is open.

Max Mishyn: Hello, good morning. Thank you for the presentation and taking our questions. I have three.

The first one is on client portfolio in Motor insurance. It decreased by almost 5% yoy and I was wondering if this is related to higher churn or whether you are less aggressive in capturing new customers. What kind of evolution for customer portfolio you expect for 2024?

The second one is on average premiums in Motor. What kind of increases are you currently implementing and how much of unearned premium reserve do you currently have on your balance sheet?

And finally on Health, there was a notable increase in the number of customers in the fourth quarter and I was just wondering if you could explain the causes. Was it related to the change in brand name and what are your expectations for 2024?

Thank you.

Carlos Rodriguez Ugarte: Thank you very much, Max. Well, in terms of client portfolio, it is true that we have lost in the neighbourhood of 145,000 clients, mainly in the Motor insurance and in Home insurance, but very, very much focused in Motor insurance, and clearly this has been the result of the strategy of the Company in terms of rising average premiums to the portfolio. I mean, keep in mind that the increase in average premiums and also answering your second question has been in the neighbourhood of 9% both the new business and also in the portfolio, and of course, that had an impact on losing clients to competition which were lagging a little bit behind in increasing average premiums.

Looking forward, well if we take a look at the fourth quarter versus the third quarter, the number of clients that we have lost has decreased. So that clearly gives a sense of what's happening in the market which are rising average premiums by 5.1% on the last quarter, whereas in the third quarter the market was rising average premiums by only 4%.

Looking to 2024 in terms of clients, well on the first part of the year, in the first quarter of the year, we will keep on raising average premiums because our strategy of raising average premium last year began probably on the second quarter. But looking at the entire year, our intention is not to lose clients, our intention is to gather clients in the portfolio as the year goes on.

On Health, I think it was the third question because I also answered the second question on the average premium. In terms of Health, well, I think it helps, I mean having the Health business under the same brand, it really helps, you know, clients will link much more the Health business to Linea Directa. I think it also helps in our selling force which is able to sell three different products under the same brand. And also the fourth quarter is also triggered by the fact that insurance in the Health business normally, really the selling effort is done on the fourth quarter. I think on a yearly basis we have increased almost by 8,000 clients the portfolio. And looking forward in 2024, our aim is that 2024 is going to be a very sound and very good year for Health given the fact that now our selling effort is able to sell these products under the same brand.

Max Mishyn: Thank you very much.

Moderator: The next question comes from Freya Kong from Bank of America. Now your line is open.

Freya Kong: Good morning. Thanks for taking my questions. Firstly, Carlos, you mentioned that your combined ratio improved in Q4 while the sector deteriorated. I just want to understand if you're attributing this to more conservative loss picks on your end, you know in Q4 versus early in the year, i.e. have you changed your reserving prudence throughout the year or are you seeing a genuine improvement in the backdrop? I'm just trying to understand the difference here.

And secondly, just trying to square the 9% average rate increases with the claims inflation backdrop. What combined ratio are you actually writing up to day? I think previously you said something along the lines of 95% to 96%.

And then third if we could get some more colour on the change in the SCR for non-life underwriting. You mentioned an increase in the specific parameter. Should we view this as a true up for incorporating 2023 and therefore shouldn't be repeated in the coming quarters?

Thank you.

Carlos Rodriguez Ugarte: Well, in terms of the combined ratio and the evolution of the Company as compared to the market, I think it's something that we explained throughout the year. I think Linea Directa was among the first companies to start increasing average premiums in the market whereas the market, especially for the first half of the year, was still being very aggressive on pricing, whereas Linea Directa was the other way, I mean we were raising average premiums throughout the second, third quarter and fourth quarter. I also explained that we thought 2023, the last part was going to be very hard for the market and that's what happened. I mean market started increasing average premiums on the third quarter by 4%, on the fourth quarter by 5%, you know and that had an impact of course, you know, on the evolution of the market.

For Linea Directa earned premium which comes from GWP of the year. I mean it starts to show numbers on the P&L in the last part of the year and in terms of the loss ratio for Linea Directa, well frequency was very good in the fourth quarter I might say, especially on the bodily injury frequency and on the materials frequency, and that helps to boost a little bit our combined ratio in a better number, you know?

Again, I think it's a combination of the strategy of rising average premiums that is starting to reflect on the earned premium of the company, together with the management of our claims side of the business with good news on the frequency side of the business.

It's not a matter of reserving. Our reserving has been always the same. I mean, we have, as you know we use a statistical methodology which puts our risk margin in 85% percentile, and we closed the year with that risk margin on 85% percentile.

In terms of at what combined ratio we are gathering clients as of today. Surely it's kind of difficult to give you an average number, but surely it's below 100% and it's more on the levels that we want to be in terms of 95%, you know?

And in terms of SCR, the symmetric adjustment that is a percent adjustment posted by the European regulator to mitigate, well to cope with the volatility of the equity markets. That number in September was -1.7% whereas in December, that number was +1.4%. That had an impact on the SCR of the equities of more or less three or four million euros and then the adjustment, you know, the specific parameter is basically, we use a specific parameter for other guarantees and that is adjusted at the end of the year, including 2023 evolution of claim side that really had a hit on the SCR of the business. But it's a one-off hit. I mean just throughout the year 2024 you will stick to that number. So you will have no impact or minor impacts looking forward in 2024. It's an adjustment that you have to do, you are required to do by regulators at the end of the year.

Freya Kong: OK. Thank you.

Moderator: The next question comes from Carlos Peixoto from CaixaBank. Now your line is open.

Carlos Peixoto: Yes, hi, good morning. A couple of questions from my side as well. The first one would actually be a follow-up on what you were discussing before. Just to make sure that I understood correctly. You mentioned you expect combined ratio of the Motor business to be below 100% this year, around the 95% level. Did I understand that correctly?

And then a second question would be on the Health insurance, particularly when we look at the IFRS for accounting, we see a significant increase in the combined ratio in the Health business in the fourth quarter versus the third quarter. And so there on your evolution, I understand that it relates to the accounting criteria that you were describing before and the reinsurance effect, well I forgot now the expression for it. Basically it has to do with that.

The quarter-on-quarter evolution, I was wondering what is it? Is it the function of the increase in clients that we saw in the quarter or how should you think about what explains it, and basically how should you think about the evolution into 2024 as well? Thank you very much.

Carlos Rodriguez Ugarte:

Thank you, Carlos. I have some difficulties hearing your questions, but I think I got them. In terms of the combined ratio. Looking forward, I mean we have always said that Linea Directa should be a company that of course our combined ratio should be below 100% and I'm probably below you know, or in the neighbourhood of 90 to 95 at the beginning. I mean we are still thinking that this is a business very much based on efficiency and that has to have an impact on the combined ratio.

Looking forward for 2024, one thing is gathering clients, new clients on those combined ratios, and another thing is having the entire combined ratio of the organization on those levels. My perception is looking forward to 2024 is that you will keep, we will, we will keep improving our combined ratio onwards especially on the second part of the year, and probably we'll have some stand-alone quarters that the combined ratio should be in that neighbourhood of 95 or 94, although throughout the year, I think it's going to be difficult to be on those levels on a yearly basis.

And then on the Health insurance business, which I understand you were asking about the difference between the combined ratio. Well you have to keep in mind that the Health business, in terms of combined ratio, its performance has been quite good. First, in terms of clients we have been able to gather clients, almost 8,000 clients, you know, with good pricing. We have increased prices also in this business. Keep in mind that the medical cost has increased by almost, in the market, by 8%, whereas for Linea Directa, it has increased in the neighbourhood by 4 or 5%. Our claim cost I think it's very, very Healthy, I might say. I mean our frequency is way below what we expected and our average cost as well. So no problems in the loss ratio. I think the loss ratio performer has been quite good.

And then on the expense ratio, as I tried to explain, we have a one-off impact which is the fees that we get for our proportional reinsurance that we have with third parties. As any proportional insurance program, the evolution of the fee income for the Company goes down year on year. I mean it begins with high-fee income from the reinsurance and that goes down every year-on-year. This year the impact, the negative impact because of less fees from the insurance has been almost €5 million, you know. If we were take out or to isolate this impact, I mean the combined ratio for the business was much better by the end of the year than prior years, clearly. It's a matter of €5 million of impact on the fee.

Carlos Peixoto: Thank you.

Mark Brewer: The growth in clients in Health for the last quarter.

Carlos Rodriguez Ugarte: Well client's growth in the last quarter is, I mean really the bulk of the businesses, of the Health business, comes in the last quarter of the year. I think around 50% of the client evolution or the client growth comes on the last part of the year because in Spain, Health insurance contracts are ae normally renewed in January, you know so, so basically all the selling is done in the fourth quarter.

Are we happy with the numbers in terms of growth in clients? Well, I think we need more, we need a little bit more. That is one of the reasons why we decide to change the brand and incorporate the Health business into the Linea Directa brand, in order to be much more able in our cross-selling effort with our portfolio of clients. I think looking forward for 2024, my expectation is that the growth of clients on the Health business will be much more than in 2023. I think bringing together the hHealth insurance under Linea Directa branding and giving our selling force the capability to cross-sell this business, I think it's going to have a very good impact on the Health business.

Having said that, I mean as you know, our technical result on the on the Health insurance is already positive which is good cost-wise, especially on the expense ratio, you should expect good improvements because it's going to be benefiting from selling under the same brand. So all things together, I think 2024 is going to be a very positive year for the Health business.

Moderator: The last question comes from Thomas Bateman from Berenberg. Now your line is open.

Thomas Bateman: Hi, good morning and thanks for taking my questions. I was hoping just to get a little bit more clarity on the underlying loss ratio for the Motor business. There are three things:

One, has there been any adjustment for Baremo in Q4? Two, what was the tailwind from reserve releases in Q4? I remember you saying that you benefited from some reserving position being particularly strong in the middle of the year and you're expected to release it by Q4, so I was just wondering what that tailwind was in Q4? And finally, how much would you estimate that… you alluded to low frequency in Q4, how much was that a tailwind also?

The second question is just on, could you remind us what the requirements are to restart dividends and clear the solvency ratios in a good place? I was just wondering, is there like a more material level of earnings that you expect to get to?

And finally, just on the Home combined ratio. I appreciate there's a small improvement versus last quarter, but it's still relatively high compared to, I guess long-term expectations. So could you just give us a bit of a guide in terms of what you expect long term behind business?

Thank you.

Carlos Rodriguez Ugarte: Well, thank you very much, Tom. Starting from the last one, Home insurance business, I think the performance on the last quarter in terms of combined ratio was very good. I might say that December was excellent with a combined ratio below 90. But Home insurance is clearly affected by the atmospheric events and 2023 has not been a very good year. I think on the presentation, we posted the number of storms that we had in Spain. There were 18 as compared to 8 last year and as compared to 9 the prior year. So it really had an impact especially in July and especially in October where weather conditions were not very good.

On the other hand, I think the expense ratio performed quite well, quite well, you know, and it's keeping of improvement. I think we close it with an expense ratio below 30% which is something very differential as compared to as compared to the market, you know?

Going forward and looking to next year, we still think that we need volumes in in the Home insurance business. I think all the alliances that we are having especially the ones that we have signed with Movistar Prosegur where we will share clients and we will sell our Home insurance to their clients and so on. That will give us some growth capabilities on the gross-written premium. Then, on the expense ratio, we will keep on improving our expense ratio. Of course, a scale also starts to grow. And then on the claims side of the business, I think the million-dollar question here is whether conditions will apply in 2024. Of course in our budget we all we always estimate an important amount for the atmospheric events, but it depends very much on the performance. Having said that, clearly it's a business that is a profit-making business, it's a business that it should be in the neighbourhood of, you know, 90, 95, 96 combined ratio, and of course it's much better than the market.

And in terms of the Motor insurance, I mean in terms of releases or no releases, I mean I think the performance of the Motor insurance is not that much on releases I think it's a combination of many things. First, of course, the average cost of repair has gone down as compared to the first part of the year even though it has increased, you know, the average cost per repair is nothing similar as the beginning of the year. So that has helped quite a bit. Frequency has also performed quite well. I mean frequency was more or less in line with 2019, but it is true that in the first half of the year we have some problems with own damage, own damage frequency which increased by 200 basis points and that has gone down in the last part of the year. The own damage frequency is the frequency that we have when clients leave the company to go to another company. I mean at the beginning of the year, that frequency was not very good and it performed quite better on the last part of the year.

And the third component on the good evolution of the combined ratio is that throughout the year and given the situation on CPI, we have increased our opening provisions for claims, and when you open, you have an increase in opening provisions, you have the negative hit immediately. But then of course as you manage those claims throughout the year, especially on the material and own damage side, I mean you start to have some releases on those provisions. And that really happened during the beginning of the year we increased quite a bit our opening provisions of all new claims and that has a very negative impact on the first part of the year and some positive impact on the last part of the year as you close some of those claims.

Mark Brewer: Dividends

Carlos Rodriguez Ugarte: Oh, dividend policy. Well, we have always been saying the same thing. We are a company that our dividend policy is very much linked to our solvency position. Our solvency is 180% and, on those grounds, once we are able to make a positive P&L number, the board will decide whether to pay or not. But again, we have always been a company with a high dividend payout whenever we make money. My perception is that will be the case looking forward, of course depending on the board approval.

Thomas Bateman: Thanks Carlos. Can I just follow up on a couple of things there? Sorry. Can you just give us a little bit of clarity on the Baremo? Were there any adjustments to the Baremo in Q4?

And then secondly, I think you said that the average cost had fallen throughout the course of the year versus the start of the year. Are you just saying there's lower inflation than there was or the cost has actually fallen on a nominal basis?

And then finally, can you just remind us of the difference between IFRS 4 and IFRS 17 for Home? I guess I'm looking at the IFRS 4 number, which is 98.9% in Q4 for Home. So I'm just trying to understand what's so different because I think you're saying the discount is below the line, but there's quite a big difference there between the IFRS 4 and 17.

Carlos Rodriguez Ugarte: You were asking. The last question was on IFRS 4 and 17 in the Home business. Well, basically I mean IFRS 17 for Linea Directa really, really has a very small impact. I mean, on the Home business itself, when you go to IFRS 17, you have to use a statistical methodology to calculate the provision. On the IFRS 4, you go case-by-case because we don't have an approved statistical methodology. If you want a number, basically the number I think was a positive difference of €3 million calculating from a statistical methodology towards case-by-case in IFRS 4. And the other question was…

Mark Brewer: if there are any impacts in Q4 for Baremo?

Carlos Rodriguez Ugarte: Well, no. I mean we apply Baremo on the fourth quarter with increase on the prior year. And for the first quarter of the year, I mean the Baremo will be increased by 3.8%, I think. And that's for the entire year. That is set on November for 2024 and that applies to all the companies. And the Baremo increase for 2024 will be 3.8% as compared to 8.1% in 2023.

Mark Brewer: Asking about the average costs throughout the year, if they have come down…

Carlos Rodriguez Ugarte: Well they have come down. I mean especially on the repair side of the business. I mean we have some moments throughout the year where the increase in the average cost per repair was very high, 6%, six plus percent. And in the last part of the year that increase has gone down by to a level of 3% approximately. So yes, it has been an improvement.

Moderator: The next question comes from Freya Kong from Bank of America. Now your line is open.

Freya Kong: Thanks for taking the follow up. Just on frequency, how much of this in Q4 do you think was a one-off or do you think it's a persistent benefit that you're now getting because clients have left you? And then secondly, just a quick one on the atmospheric impact in Home in Q4, if you could share that please.

Carlos Rodriguez Ugarte: Well, it is true that frequency has been benefiting from the loss of clients. I mean when you lose 140,000 clients, I mean, of course you have less, less exposure and then you have less frequency. And of course when we start our strategy of raising average premiums, of course as we don't do general increases, we try to go client-by-client. Well, normally the higher increases has been to the clients with the higher risk premium and those are the clients leaving the company, so in terms of frequency, probably they are the worst clients to have in the portfolio. So it really had a positive impact by the end of the year, you know?

Looking forward. Well, my expectation is that frequency will behave very much in line with 2023. In 2024 we'll see our own damage frequency is improving. That will give us a positive impact on 2024, you know? But again, I think also the claim cost of the business has been impacted more positively in the second part of the year, you know, because in the first part of the year we did an effort of increasing our opening provision and again, when you increase opening provisions, you have the cost immediately on the P&L and the possible releases when you close the claims by the end of the year. And the other question was on…

Mark Brewer: Atmospheric events. They added €7.2 million throughout the year, which equates to five percentage points to the combined ratio in the Home business.

Carlos Rodriguez Ugarte: And that compares to two million in 2022. So the difference has been €5 million of negative impact on the combined ratio.

Freya Kong: Thank you.

Moderator: There are no further questions to the conference.

Mark Brewer: Thank you. We will now proceed with the questions received through the webcast. There's only one question from Francisco Riquel. The question is: "Can you provide guidance on the combined ratio expected in Q1, 2024?"

Carlos Rodriguez Ugarte: Yes, it's going to be much better than a combined ratio of Q1 in 2023.

Mark Brewer: There are no further questions. So thank you very much, Carlos, for your presentation. As always, the Investor Relations department is here to help if you have any further questions.

Carlos Rodriguez Ugarte: Thank you very much and have a nice day.