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## Mapfre S.A.

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### Table Of Contents

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Credit Highlights

Outlook

Key Assumptions

Business Risk Profile

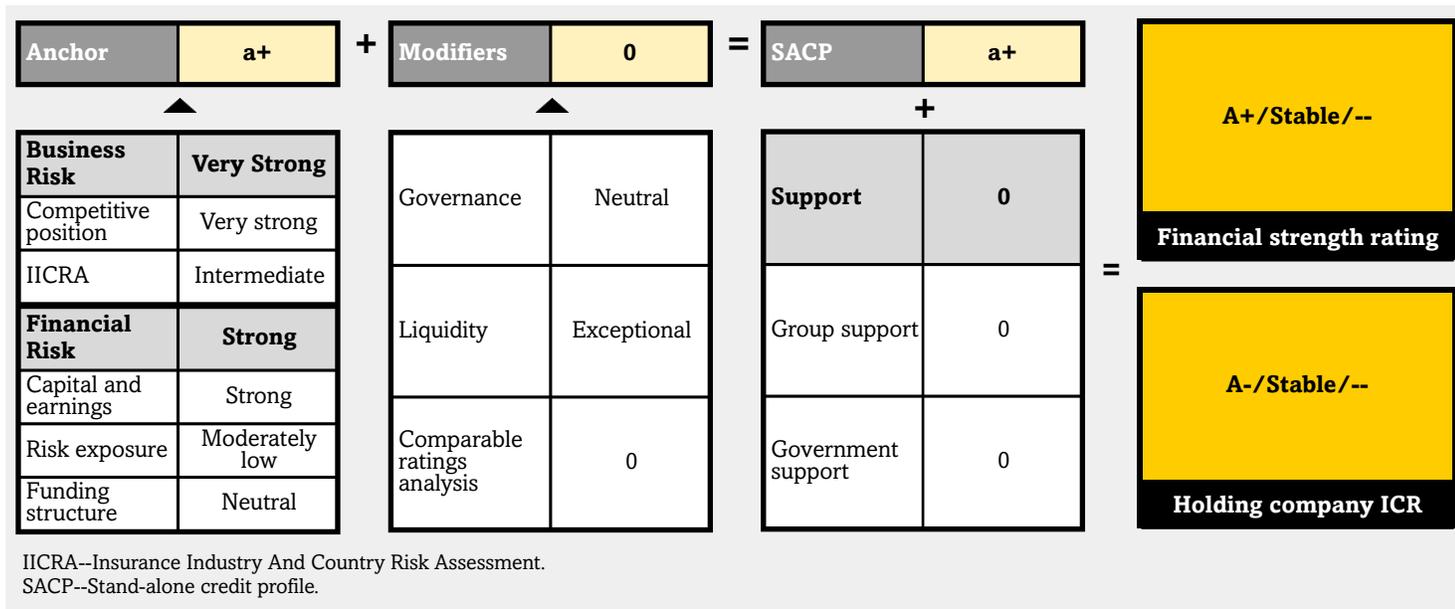
Financial Risk Profile

Other Key Credit Considerations

Related Criteria

Appendix

# Mapfre S.A.



The rating scores and financial strength rating in the graphic above relate to Mapfre Re, the group's core operating entity.

## Credit Highlights

Overview	
Key strengths	Key risks
Well-recognized international insurance brand maintaining leading positions in Spain and Latin America.	Rising inflation and macroeconomic uncertainties globally are putting pressure on technical performance, especially in the motor business.
Resilient earnings thanks to strong geographic and business diversification.	Moderate premiums and earnings sensitivities to currency fluctuations, mainly derived from operations in emerging markets.
Close matching of assets and liabilities limits volatility of solid capitalization as measured by our risk-based capital model and against Solvency II requirements.	

**S&P Global Ratings expects Mapfre Group will maintain its top ranking in the insurance markets of Spain and select Latin American countries.** Mapfre is a well-established international insurance group that benefits from a strong brand name, a multichannel distribution strategy, and diversification by business line and geography. Mapfre continues to implement its strategic plan focusing on core markets with the aim to further enhance its underlying profitability and add diversity to the group's overall earnings.

**Despite a challenging environment, in 2022 and Q1 2023 Mapfre's resilient performance benefitted from its diversification.** Mapfre posted strong business growth in 2022, with gross premiums increasing by 10.8% to €24.5 billion, supported by strong development mainly in the Brazilian and reinsurance business taking advantage of increasing rates and some tailwinds from foreign currency movements. Net income was in line with 2021 despite the

macroeconomic challenges, especially high inflation, the impact of rising interest rates on financial results, and losses arising from several natural catastrophes. These negative developments were mitigated by a higher earnings contribution from the life business due to fewer COVID-19-related claims.

For the first quarter of 2023, the group has accentuated its growth on the back of continued inflation and tariffs increases. Notably, in Spain Mapfre's life premiums significantly grew thanks to life savings products offering better yields to policyholders than deposits. Life premiums in Spain more than doubled and are now above €1 billion. Non-life Q1 combined ratio for the group marginally increased by 0.4% to 98.5%, with the earthquake in Turkey having a negative estimated 3 percentage point impact. Motor remains the line of business suffering most from inflation, increasing 2.5 percentage points to 106.3%. It is balanced by the strong profitability of general property and casualty (P/C) line of business (87.3% combined ratio), while health and accident is at 101.8%.

***Mapfre is maintaining its solid solvency levels, despite volatility in capital markets.*** Shareholder's equity declined by €1.2 billion (14%) in 2022. This was mainly due to increasing interest rates leading to a negative impact of 1.8 billion net unrealized capital losses on its available for sale portfolio (equity and fixed-income). The strong matching of assets and liabilities somewhat reduced capital sensitivity to interest rate movements, as some other market participants in Europe have had more pronounced declines. We forecast that capital adequacy to remain robust in the current macroeconomic environment, and that Mapfre will maintain capitalization at least the 'A' level of our capital model over 2023-2024. At year-end 2022 the group reported a decline of the Solvency II ratio to 201.2% (including transitional measures), due again to the rise of interest rates, in comparison to 206.3% in 2021. This decline was mitigated by the issuance of a €500 million Tier 3 hybrid bond in April 2022. However, this bond does not meet our requirements for equity content under our hybrid criteria and therefore has no impact on our capitalization assessment. The insurer's international investment diversification allows us to rate its core operating entities up to three notches above the long-term rating on Spain (unsolicited A/Stable/A-1).

## Outlook

The stable outlook is based on our expectation that the group will be able to navigate the current macroeconomic and capital market uncertainties, profiting from its strong diversification by country and business lines. We also expect that the group will keep its capital position comfortably at the 'A' level, according to our capital model, backed by sound earnings and supporting Mapfre's growth and dividend targets.

### Downside scenario

We could downgrade the group over the next 24 months if:

- Capitalization declined on a prolonged basis below our threshold for the 'A' level, based on our capital model. This could result from severe combined global and domestic financial market stress;
- Performance consistently deteriorates below our expectations with combined ratios (profit and loss) higher than 100%, cutting into the group's competitive strength; or
- We no longer expected Mapfre Group to pass our sovereign default test, which could result from an unexpected drop in regulatory capital or from an increase in Spanish assets relative to regulatory capital.

### Upside scenario

We see limited rating upside in the next 24 months. We could take a positive rating action if we were to see a substantial enhancement in Mapfre's capital position through higher earnings contribution, bringing capitalization consistently at least to the 'AA' rating level.

## Key Assumptions

- GDP growth in Spain to remain constant at 5.5% for 2022, 1.1% for 2023, and 1.6% for 2024.
- Gradual increase in long-term interest rates, with Spanish 10-year government bonds expected to be 2.32% in 2022 and 4.25% in 2023.
- Inflation in Spain to increase to 8.4% in 2022 from 3.0% in 2021 and 4.6% in 2023.
- GDP growth for Brazil of 3.0% in 2022 compared with 5.3% in 2021, followed by 0.8% in 2023.
- Long-term rates in Brazil to average 14.35% in 2022 and 14.47% in 2023.
- Inflation to increase to 9.3% in 2022 from 8.3% in 2021 and 4.8% in 2023.

### Mapfre S.A.--Key metrics

	2023f†	2022	2021	2020	2019	2018
Gross premiums written (mil. €)*	>20000	24,541	22,155	20,482	23,044	22,537
Net income (mil. €)	>1000	1,084	1,036	821	955	878
Return on shareholders' equity (%)	>12	12.0	10.6	8.2	9.9	8.9
Net combined ratio (%)	95-98	98.0	97.5	94.8	97.6	97.6

**Mapfre S.A.--Key metrics (cont.)**

	2023f†	2022	2021	2020	2019	2018
S&P capital adequacy	At least strong	At least strong	Very strong	Very strong	Very strong	Strong

\*Insurance revenue under IFRS 17. †IFRS 17 basis, S&P Global Ratings' own assumptions. f--S&P Global Ratings forecast.

**Business Risk Profile: Very Strong**

Mapfre is a leading insurer in its domestic market by premium in both P/C and life insurance. Additionally, the group has been able to build a global business, operating outside of Spain mainly through its reinsurance business, in Brazil, and in the U.S. Its operations in low-risk and highly profitable markets, such as Spanish P/C, balance those in riskier and less profitable markets, such as Turkey and some Latin American countries.

The group has been able to build a well-perceived brand and reputation in its core markets, adding to its competitive strength. The group's stringent implementation of its strategic plan, which aims to streamline its operations and focus on its core markets, is enhancing earnings diversification. That was evidenced in 2022 and the beginning of 2023. A volatile global macroeconomic environment and high inflation are putting pressure on its P/C technical profitability, especially in the motor and health business. The group disclosed a high combined ratio in motor and health in 2022 of 106.1% and 100.1%, respectively. However, the overall P/C technical performance remained positive, with a combined ratio of 98.0%, demonstrating the effectiveness of its diversification within the segment and the efforts of the company to reduce costs, which reduced its expense ratio by 1.9 percentage points to 27.4%. Life results improved in 2022 notably because of lower losses arising from COVID-19 claims in Latin America in comparison to previous years, and contributed €721.9 million (before tax and minorities) to the year-end results. The group posted a consolidated result of €1.1 billion and a return on equity (ROE) of 12% after non-controlling interest. We expect net income to be above €1 billion in the coming years, with a ROE of at least 12%.

Despite high premium diversification, group earnings are less diversified than those of higher-rated peers, especially in life insurance. The group also generates more of its business in emerging markets, which can be more volatile than mature markets.

**Financial Risk Profile: Strong**

Mapfre Group has a solid consolidated capital position. We expect capital adequacy will remain at least strong over our two-year forecast period. Its Solvency II ratio (including transitional measures) was 201.2% at year-end 2022, well within its internal target range of 175%-225% and lower than at year end 2021, where the Solvency II ratio stood at 206.3%. The decline was mainly due to the increasing interest rates leading to a negative impact of 1.8 billion net unrealized capital losses on fixed-income investments, reducing own funds. We expect the latter to remain within its target range in 2023.

We saw strong earnings of €1.1 billion in 2022 and expect more than €1 billion in 2023 including minorities, which will continue to support the group's capital adequacy while financing organic and inorganic growth and expected dividend payouts of at least 50% of net income.

We estimate insurance revenue under IFRS 17 to be above €20 billion, as premiums for savings components--part of premiums under IFRS 4--will not be captured within insurance revenues. We estimate the net income to be in line with previous years, above €1 billion. We also expect the combined ratio for 2023 under IFRS17 to range between 95% and 98%. We expect a return on equity of above 12%, as we anticipate net income to be at least in line with previous years and shareholders' equity to slightly decrease due to the implementation of IFRS17.

Mapfre's investment portfolio has historically been conservative. Bonds--mostly government and corporate--accounted for about 65.7% of the invested assets at the end of 2022. Fixed-income investments rated below 'BBB' are mainly concentrated in Brazilian government bonds, which represent about 6.6% of the group's total investment portfolio. Exposure in equity investments decreased to 6.1% of total invested assets. Under the current market environment, Mapfre has lowered the credit risk and decreased the duration of its investment portfolio, with no exposure to investments in Russia or Ukraine.

In recent years, the group has demonstrated its ability to raise debt capital via its listed entity, Mapfre S.A. In April 2022, the group issued a €500 million Tier 3 hybrid bond with an eight-year maturity. For 2022, Mapfre disclosed financial leverage of 26.0% and its fixed-charge coverage was 14.6. We expect the financial leverage to remain comfortably below our 40% threshold and the fixed charge coverage ratio above 4x.

## Other Key Credit Considerations

### Liquidity

Liquidity is exceptional, given the high percentage of readily realizable assets and strong operating cash flows.

### Ratings above the sovereign

Mapfre Group's international diversification makes it resilient to a hypothetical domestic sovereign stress situation. As a result, we can rate the core operating entities of the Mapfre Group up to three notches above the long-term rating on Spain, reflecting our view of the group's moderate-to-high sensitivity to country risk. In our assumptions, we add back to Mapfre Group's own Solvency II funds minority interests in excess of regulatory capital at subsidiaries that are excluded from Solvency II. We also estimate Mapfre Group's Solvency II regulatory capital in case of stress would benefit from the characteristics of most of its Spanish life saving liabilities--if the holder surrenders the policy, they are paid the market value of the assets, if this is lower than the technical provisions. The policies mainly have a terminal guarantee.

### Factors specific to the holding company

The issuer credit rating on the group's top nonoperating holding company, Mapfre S.A., is the standard two notches below the insurer financial strength rating on the group's core entities. The holding company depends on cash flows from its operating entities to fulfil its financial obligations, and Mapfre S.A. creditors are subordinated to the core entities' policyholders. The stable outlook on Mapfre S.A. mirrors that on the group's core operating entities.

### Environmental, social, and governance

## ESG Credit Indicators

E-1	<b>E-2</b>	E-3	E-4	E-5	S-1	<b>S-2</b>	S-3	S-4	S-5	G-1	<b>G-2</b>	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of Mapfre.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2022
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Appendix

Mapfre S.A.--Credit metrics history						
Ratios	2022	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	At least strong	Very strong	Very strong	Very strong	Strong	Very strong
Total invested assets	40,340	44,905	43,739	52,484	48,014	48,491
Total shareholder equity	8,360	9,667	9,838	10,106	9,198	10,513
Gross premiums written	24,541	22,155	20,482	23,044	22,537	23,481
Net premiums written	19,921	17,847	16,834	18,907	19,163	19,416
Net premiums earned	19,212	17,464	16,702	19,173	19,212	19,310
Reinsurance utilization (%)	19	19	18	18	15	17
EBIT	1,500.0	1,437.0	1,201	1,358	1,407	1,599
Net income*	1,084	1,036	821	955	878	1,098
Return on revenue (%)	7.1	7.6	6.6	6.5	6.6	7.5
Return on assets (including investment gains/losses) (%)	2.7	2.4	1.8	2.1	2.3	2.5
Return on shareholders' equity (%)	12.0	10.6	8.2	9.9	8.9	10.0
P/C: net combined ratio (%)	98.0	97.5	94.8	97.6	97.6	98.1
P/C: net expense ratio (%)	27.4	29.3	29.1	28.6	27.8	27.5
P/C: return on revenue (%)	1.5	7.9	6.7	6.3	5.1	6.3
Life: Net expense ratio (%)	24.9	23.8	26.3	23.7	22.6	24.9

## Mapfre S.A.--Credit metrics history (cont.)

Ratios	2022	2021	2020	2019	2018	2017
EBIT fixed-charge coverage (x)	14.6	17.5	14.6	17.3	18.4	17.7
Financial obligations / EBIT adjusted	2.0	2.2	2.5	2.2	1.9	1.5
Financial leverage including pension deficit as debt (%)	26.0	24.2	23.3	22.7	22.5	18.1
Net investment yield (%)	3.1	2.6	2.7	2.8	3.4	3.4

\*Before noncontrolling interests.

## Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

## Ratings Detail (As Of June 29, 2023)\*

**Mapfre S.A.**

Financial Strength Rating

Local Currency

NR/--/--

Issuer Credit Rating

Local Currency

A-/Stable/--

Senior Unsecured

A-

Subordinated

BBB

**Related Entities****Mapfre Re, Compania de Reaseguros, S.A.**

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

**Domicile**

Spain

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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