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Ratings

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Mapfre S.A.

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Anchor	a+
Business Risk	**Very Strong**
Competitive position	Very strong
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a+
Support	**0**
Group support	0
Government support	0

=

A+/Stable/--	Financial strength rating
A-/Stable/--	Holding company ICR

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

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 that has leading positions in Spain and Latin America.	Inflation trends and macroeconomic uncertainties are putting pressure on technical performance, especially in the motor business.
Strong geographic and business line diversification supports earnings.	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.

We expect gross premiums will increase by more than 6%, with some headwinds in technical results driven by high inflation in 2022. We believe that Mapfre will be able to show strong business growth in 2022, supported by further firming rates in the reinsurance business, some tailwinds from foreign currency movements in Latin America, especially in Brazil, and a positive premium development in Spain despite the termination of the business with Bankia.

However, the premium growth will likely not translate into higher results, since macroeconomic challenges, especially a high inflation, as well as losses from the Brazilian drought are putting pressure on technical results. This negative development is partly offset by a higher earnings contribution from the life business due to fewer COVID-19-related claims.

Mapfre is likely to maintain solid solvency levels, despite volatility in capital markets. Increasing interest rates are having a negative impact on shareholder's equity, which declined by €834 million or 9.9% over the first half of 2022. However, the strong matching of assets and liabilities reduces capital sensitivity to interest rate movements. We forecast that capital adequacy will remain robust in the current macroeconomic environment, and that Mapfre will maintain capitalization at least at the 'A' level of our capital model, over our two-year forecast horizon. The group should also comfortably maintain regulatory solvency capital within its internal target range of 175%-225%. In 2021, Mapfre Group disclosed a Solvency II ratio of 206.3% compared with 192.9% in 2020. At the end of March 2022, the group reported a small decline of the Solvency II ratio to 205.3%, demonstrating the low sensitivity to interest rate movements. In April 2022, Mapfre issued a €500 million Tier 3 hybrid bond, which we expect will increase the Solvency II ratio by more than 10 percentage points. 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: Stable

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

- Decline in GDP growth in Spain to 4.1% for 2022 and 2.7% for 2023.
- Gradual increase in long-term interest rates, with Spanish 10-year government bonds expected to be 2.1% in 2022 and 2.8% in 2023.
- Inflation in Spain to increase to 7.9% in 2022 from 3.2% in 2021.
- GDP growth for Brazil of 1.2% in 2022 compared with 4.9% in 2021, followed by 1.4% in 2023.
- Long-term rates in Brazil to average 12.5% in 2022 and 11.6% in 2023.
- Inflation to increase to 10.5% in 2022 from 8.3% in 2021.

Mapfre S.A.--Key Metrics

	2023f	2022f	2021	2020	2019	2018	2017
Gross premiums written (mil. €)	>25,000	>23,500	22,154.6	20,482.2	23,043.9	22,537.1	23,480.7
Net income* (mil. €)	>1,000	>900	1,035.6	820.7	955.3	877.5	1,098.4
Return on equity* (%)	8-10	8-10	10.6	8.2	9.9	8.9	10.0
Net combined ratio (%)	94-96	97-99	97.5	94.8	97.6	97.6	98.1
S&P Global Ratings' capital adequacy	At least strong	At least strong	Very strong	Very strong	Very strong	Strong	Very strong

f--S&P Global Ratings' forecast. *Before noncontrolling interests.

Business Risk Profile: Very Strong

Mapfre is a leading insurer in its domestic market by premium in both property and casualty (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, where it ranks No. 2 in the P/C market; 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 the first six months in 2022. A volatile global macroeconomic environment and high inflation in Iberia and Brazil are putting pressure on its P/C technical profitability, especially in the motor and health business. The group disclosed a high half-year combined ratio in motor and health of 105.1% and 102.3%, respectively. However, the overall P/C technical performance remained positive, with a combined ratio of 98.3%, demonstrating the effectiveness of its diversification within the segment and the efforts of the company to reduce costs, which reduced its expense ratio by 2 percentage points to 27.1%. Life results improved in 2022 year to date, especially in the protection business, benefiting from lower COVID-19-related claims compared with 2021. The life business contributed €135 million to the half-year results, leading to a consolidated attributable result of €338 million and a return on equity of 9.2% after noncontrolling interest as disclosed by the company.

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. Its Solvency II ratio (including transitional measures) was 205.3% at the end of March 2022, well within its internal target range of 175%-225% and marginally lower than at year end 2021, where the Solvency II ratio stood at 206.3%. The low volatility, despite net unrealized capital losses increasing by €626 million until March 2022 because of interest rate movements, highlights the effectiveness of the close asset-liability matching.

We expect regulatory solvency will improve at half-year 2022, mainly due to the issuance of a €500 million Tier 3 hybrid bond, which will have a positive impact of about 10 percentage points on the ratio. This bond does not meet our criteria for capital credit and therefore we do not include it in our estimation of capitalization based on our internal capital model. However, we expect capital adequacy will remain solid, at least at our 'A' confidence level according to our risk-based capital model, over our two-year forecast period. We expect that strong earnings of more than €900 million in 2022 and more than €1 billion in 2023 including minorities 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 expect the combined ratio will be impacted by high inflation leading to 97%-99% in 2022. We believe that the group will be able to adjust the prices in loss-affected lines, improving the net combined ratio to 94%-96% in 2023. The impact of inflation on the business will be partly offset by investment results supported by a positive development in inflation-linked bonds, leading to a return on equity of about 8%-10% over the same period.

Mapfre's investment portfolio has historically been conservative. Bonds--mostly government and corporate--accounted for about 66.6% of the invested assets at the end of June 2022. Fixed-income investments rated below 'BBB' are mainly concentrated in Brazilian government bonds, which represent about 5.9% of the group's total investment portfolio. Exposure in equity investments decreased to 5.9% 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 a maturity of eight years. For 2021, Mapfre disclosed financial leverage of 24.2% and its fixed-charge coverage was 17.5x. We expect that leverage and coverage will not be impacted by the additional hybrid bond, since it replaces an existing credit facility. We expect the group's financial leverage will average less than 25% and anticipate that it will continue to comfortably cover financial interests by more than 15x.

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	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

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 alphanumerical 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 S.A.

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, 2019
- 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

(Mil. €)	2021	2020	2019	2018	2017
S&P Global Ratings' capital adequacy	Very strong	Very strong	Very strong	Strong	Very strong
Total invested assets	44,904.5	43,738.6	52,484.4	48,013.7	48,490.9
Total shareholder equity	9,666.6	9,837.8	10,106.0	9,197.6	10,512.7
Gross premiums written	22,154.6	20,482.2	23,043.9	22,537.1	23,480.7
Net premiums written	17,846.8	16,833.8	18,906.6	19,162.8	19,416.3
Net premiums earned	17,464.1	16,701.5	19,172.9	19,212.0	19,309.7
Reinsurance utilization (%)	19.4	17.8	18.0	15.0	17.3
EBIT	1,437.0	1,200.9	1,357.8	1,407.0	1,598.8
Net income*	1,035.6	820.7	955.3	877.5	1,098.4
Return on revenue (%)	7.6	6.6	6.5	6.6	7.5
Return on assets (including investment gains/losses) (%)	2.4	1.8	2.1	2.3	2.5
Return on shareholders' equity (%)	10.6	8.2	9.9	8.9	10.0
P/C: net combined ratio (%)	97.5	94.8	97.6	97.6	98.1
P/C: net expense ratio (%)	29.3	29.1	28.6	27.8	27.5
P/C: return on revenue (%)	7.9	6.7	6.3	5.1	6.3
Life: Net expense ratio (%)	23.8	26.3	23.7	22.6	24.9
EBIT fixed-charge coverage (x)	17.5	14.6	17.3	18.4	17.7
Financial obligations / EBIT adjusted	2.2	2.5	2.2	1.9	1.5
Financial leverage including pension deficit as debt (%)	24.2	23.3	22.7	22.5	18.1
Net investment yield (%)	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 July 29, 2022)*	
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.