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Research Update:

Spain-Based Insurance Group Mapfre's Core Entities Affirmed At 'A'; Outlook Positive

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Research Update:

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Overview

- Spanish insurance group Mapfre benefits from a sizable and internationally diversified insurance portfolio, leading competitive positions in large markets such as Spain and Brazil, and overall sound capital adequacy.
- We believe Mapfre is implementing a strategy focused on consolidating positions in its major markets and enhancing profitability in markets that the group has entered more recently.
- We are affirming our 'A' ratings on Mapfre's core subsidiaries. We are also affirming our 'BBB+' ratings on Mapfre S.A. and its senior unsecured debt and our 'BBB-' issue rating on Mapfre S.A.'s subordinated debt.
- The positive outlook indicates that we could raise the ratings in the next 6-12 months if we saw a continued focus on, and evidence of, improving operating performance, while the group's overall financial risk profile remains strong.

Rating Action

On July 26, 2019, S&P Global Ratings affirmed its 'A' long-term insurer financial strength and issuer credit ratings on core subsidiaries of Spain-based insurer Mapfre Group. The outlook is positive.

We also affirmed our 'BBB+' long-term issuer credit and senior unsecured debt ratings on Mapfre S.A. and the 'BBB-' issue rating on the group's subordinated debt.

Outlook

The positive outlook indicates that we could raise the ratings in the next 6-12 months if we saw the group continuing to enhance its profitability and competitive position through the effective implementation of its strategic plan. At the same time, we would expect Mapfre Group's acquisitions and dividend policy not to dilute its level of capital adequacy, which we estimate will remain in the 'A' range.

Downside scenario

We could revise the outlook to stable if, contrary to our expectations, capital adequacy unexpectedly drops below the threshold for the 'A' rating. This could result from severe combined global and domestic financial market

stress. We could also revise the outlook to stable if the group's earnings normalize at levels significantly below our assumptions, or if earnings diversification is not progressing in line with peers.

We could lower the ratings if we no longer believed Mapfre Group would pass the sovereign default test, which could result from an unexpected drop in regulatory capital or from an increase in Spanish assets relative to regulatory capital.

Rationale

The ratings on Mapfre S.A. and its core subsidiaries (together, Mapfre Group) reflect the group's top-tier ranking and renowned brand name in Spain, Brazil, and selected markets in Latin America, as well as its diversified business profile by business line and geography. The ratings also reflect our view of Mapfre's solid consolidated capital position; we estimate the group's Solvency II ratio and capital adequacy, according to S&P Global Ratings' capital model, will stabilize around 180% and in the 'A' confidence level, respectively. In our opinion, Mapfre will continue to generate sufficient retained earnings to compensate for the rise in capital requirements deriving from both organic growth and small bolt-on acquisitions.

The ratings also reflect Mapfre Group's international investment diversification, which allows us to rate its core operating entities up to three notches above the long-term rating on Spain.

The limited profit contributions from countries where the group has expanded in the past few years (such as Turkey and Italy), and from the U.S. and certain South American countries, mitigates our view of its business strengths, however. We believe that the group's priorities set in the latest strategic plan and strengthening of its bancassurance agreements are allowing it to consolidate its market positions, integrate operations more closely, and achieve stronger performance.

While we estimate that the group can generate normalized annual net profit (after minorities) of nearly €700 million, goodwill write-down, currency depreciation, and the effect of natural catastrophes constrained overall performance in 2018.

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 above the Spanish sovereign long-term rating up to a maximum of three notches, reflecting our view of Mapfre Group's moderate to high sensitivity to country risk.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong

IICRA	Intermediate
Financial Risk Profile	
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral
Anchor*	a
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A
*This reflects the insurer's strong brand, leading market positions, as well as diversified product and geographical profile compared to peers.	

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Mapfre S.A.

Issuer Credit Rating

Local Currency	BBB+/Positive/--
Senior Unsecured	BBB+
Subordinated	BBB-

Mapfre Re, Compania de Reaseguros, S.A.

Issuer Credit Rating

Local Currency	A/Positive/--
Financial Strength Rating	

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Local Currency

A/Positive/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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