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Mapfre S.A.

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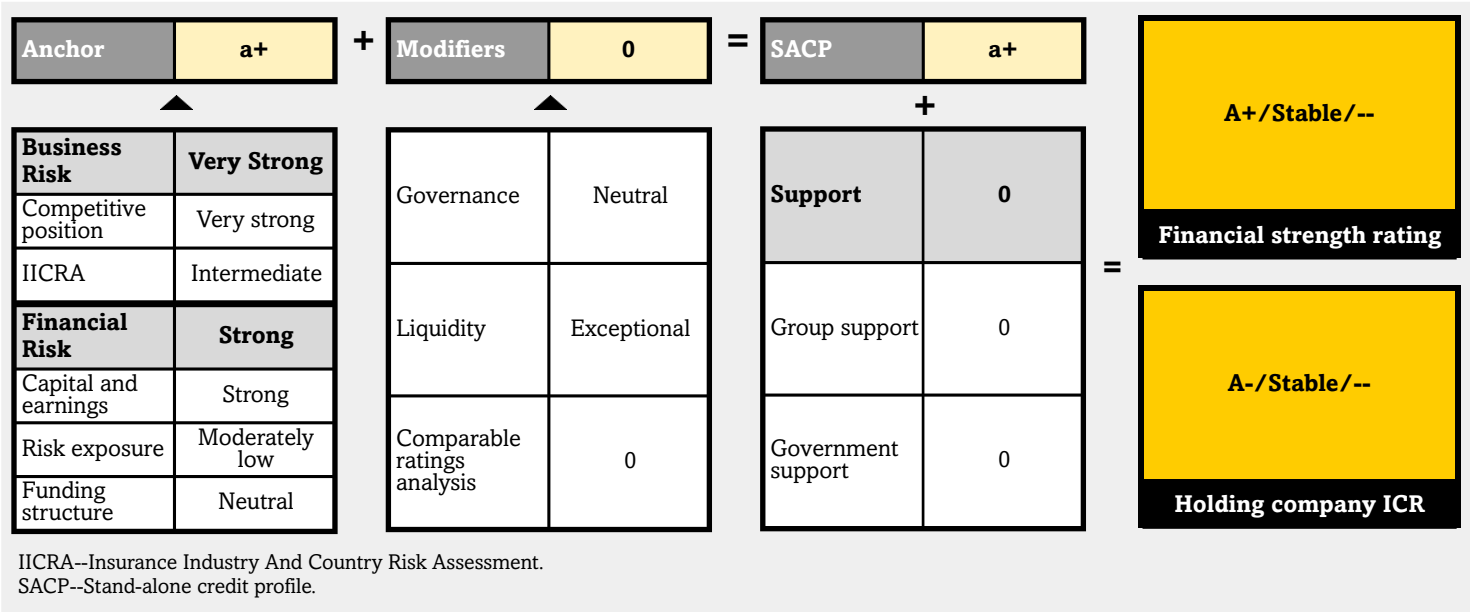
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Mapfre S.A.



Credit Highlights

Overview	
Strengths	Risks
Well-recognized international insurance brand that has market-leading positions in Spain and Latin America.	Potential for higher-than-expected losses from COVID-19 as a result of its exposure to loss-affected lines like business interruption, especially in its reinsurance operations.
Effective implementation of restructuring measures enhances the group's underlying earnings, diversification, and competitiveness.	Moderate earnings sensitivities to currency fluctuations, mainly derived from operations in emerging markets, and some natural catastrophe exposure.
Solid level of capital as measured by our capital model and against Solvency II requirements.	Larger share of business than higher rated peers in emerging markets, which can be more volatile than mature markets.

S&P Global Ratings expects Mapfre Group to maintain its top-tier ranking in the Spanish and selected Latin American insurance markets. 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's implementation of its strategic plan has enhanced the underlying profitability of its underperforming lines, mainly in Brazil and the U.S., and added diversity to the group's overall earnings.

We estimate that Mapfre Group's premium and earnings will decline in 2020, due to losses related to the COVID-19 pandemic and the adverse global macroeconomic environment. Negative foreign exchange movements affecting its foreign operations, combined with lower demand for life savings products, are likely to cause Mapfre's consolidated gross premiums to decline by more than 10% in 2020. Bottom-line performance could also decline, as the return on equity of 7%-9% for 2020 is likely to be dampened by losses related to the pandemic and volatile capital markets. However, we expect a gradual recovery in premium and earnings during 2021 and 2022.

Mapfre is likely to maintain solid solvency levels and a diversified investment portfolio over 2020-2021. We forecast that capital adequacy will remain robust under the current macroeconomic environment, and that Mapfre will maintain capitalization at least at the 'A' level, based on our capital model, over our two-year forecast horizon. The group should

also maintain regulatory solvency capital within its target of 175%-225%. 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.

Outlook: Stable

The stable outlook is based on our expectation that the weaker economy in Spain will weigh on the group's premium development and earnings, exacerbated by the effects of the pandemic and the global recession. That said, the group's strong diversification by country and business lines will likely diminish the negative impact, supporting its leading position in its main markets. 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 sustainably 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 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 at least to the 'AA' rating level.

Key Assumptions

- GDP decline of 11.3% in Spain for 2020, recovering in 2021 to 8.2% growth.
- Long-term interest rates to remain at historical lows, with Spanish 10-year government bonds expected to be 0.3% in 2020 and 0.4% in 2021.
- GDP decline of 5.8% for Brazil in 2020 and growth of 3.5% in 2021.
- Long-term rates in Brazil to be at average 6.9% in 2020 and 7.0% in 2021.

Mapfre S.A.--Key Metrics

	2021f	2020f	2019	2018	2017
Gross premium written (mil. €)	20,000-21,000	19,000-20,000	23,043.9	22,537.1	23,480.7
Net income (mil. €)*	900-1,000	800-850	955.3	877.5	1,098.4

Mapfre S.A.--Key Metrics (cont.)

	2021f	2020f	2019	2018	2017
Return on shareholders' equity (%)*	8-10	7-9	9.9	8.9	10.0
Net combined ratio (%)	96-98	97-99	97.6	97.6	98.1
S&P Global Ratings capital adequacy	At least strong	At least strong	Very strong	Strong	Very strong

*Before noncontrolling interests. N/A--Not available. f--S&P Global Ratings forecast.

Business Risk Profile: Very Strong

Mapfre Group benefits from wide geographic diversification, and leading positions in its larger business units--Spain, reinsurance, and Brazil--which together generate about 70% of premium and about 86% of net group profits, based on half-year 2020 numbers. The group is successfully implementing its strategic plan to enhance the underlying profitability of its underperforming lines, mainly in Brazil and the U.S., adding diversity to the group's overall earnings. Mapfre Group's diversified and sizable distribution networks, client-service focus, and successful sharing of best practices underpin its leading positions.

Mapfre Group's operations in low risk and highly profitable markets such as Spanish property/casualty (P/C) balance those in riskier and less-profitable markets, such as Turkey and some Latin-American countries.

The group is a leading insurer in its domestic market by premium in both P/C and life insurance. Mapfre has been able to demonstrate its capacity 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. The stringent implementation of profitability measures led to a reported combined ratio of 92.2% in Brazil and 100.4% in North America for 2019, compared with a five-year average of about 95% in Brazil and 103% in North America. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.)

Within the reinsurance operations, in line with the global reinsurance market, the group has been facing high natural catastrophe and other large losses. This elevated the combined ratio to 99.2% in 2019, which is 3.2 percentage points higher than in 2018. However, compared with higher-rated peers, Mapfre's earnings are less diversified in life insurance. The group also generates more of its business in emerging markets, which can be more volatile than mature markets.

Overall, we expect premium to decline by about 15% in 2020, affected by uncertainties related to the economic downturn triggered by measures to contain the pandemic. The downturn has had a negative impact on foreign exchange rates and lowered demand for life savings products. In the first half of 2020, premium declined by 12.3%. For 2021, we expect a gradual recovery in top-line growth as the economy recovers. In terms of profits, we estimate that 2020 group profits will show a moderate decline compared with previous years. Losses associated with the COVID-19 pandemic and natural catastrophe events will likely be partly offset by lower claims frequency elsewhere--for example, in the group's motor business--demonstrating the group's efficient business diversification. We also assume that investment returns will remain under pressure, given the current volatility in the capital market, combined with some impairments in Spanish real estate valuations and historically low interest rates.

Financial Risk Profile: Strong

Mapfre Group has a solid consolidated capital position. Its Solvency II ratio (including transitional measures) was 184% at half-year 2020, well within its internal target of 175%-225%. We expect capital adequacy to remain solid, at least at our 'A' confidence level according to our risk-based capital model, over our two-year forecast period. Mapfre is less sensitive to interest rate movements than peers, which supports our view on capitalization. We expect that strong retained earnings will continue to support the group's capital adequacy, while financing organic and inorganic growth and expected dividend payouts of about 50% of net income.

Our prospective capital view is based on our expectation that net profits will decline by about 10% in 2020 to €800 million-€850 million including minorities, before recovering to about €900 million-€1 billion in 2021. The decline mainly stems from the global recession and Mapfre's restructuring measures, and has been partly offset by positive loss developments in less-affected lines, like motor. Consequently, we expect the combined ratio to remain broadly stable at about 97%-99% for 2020. The difficult capital market could partly counterbalance the stable technical development, leading to a ROE of about 7%-9% over the same period, compared with 9.9% in 2019.

We believe Mapfre Group benefits from strong and well-developed risk controls and view positively the insurer's enhancement of its investment and asset-liability management risk controls.

Mapfre's investment portfolio has historically been consistent with a strategy of closely managing asset-liability mismatches in its Spanish life business. Bonds--mostly government and corporate--account for about 74% of the invested assets. Fixed-income investments rated below 'BBB' are mainly concentrated at the Brazilian government and represent about 6% of the group's total fixed income portfolio. Exposure in equity investments is lower, at 4.8% of total invested assets, based on half-year 2020 figures.

In recent years, the group has demonstrated its ability to raise debt capital via its listed entity, Mapfre S.A. For 2019, Mapfre's financial leverage was 22.7% and its fixed-charge coverage was 17.3x. 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

Governance

Mapfre's management has demonstrated its ability to expand--both organically and through acquisitions--without losing its focus on underwriting discipline and customer service. Although we view the group's risk culture as robust, in the past, growth has weighed on profitability ratios owing to some of the acquired businesses' performance issues.

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

We consider Mapfre Group's exposure to environmental and social risks is in line with the insurance sector globally. Due to its presence in both developed and emerging countries, Mapfre's risks are more concentrated on environmental factors. Climate change could increase claims related to extreme weather, affecting Mapfre's P/C business in its key markets in Latin America and North America. Mapfre's life business is much smaller, being mainly focused on Spain and Brazil. In addition to environmental risk in its retail business, Mapfre is also exposed to environmental risks through its reinsurance subsidiary, Mapfre Re, which writes natural catastrophe business. Global reinsurance and industrial risks represent about 24% of the group's premium based on half-year 2020 figures. We consider Mapfre's exposure to such risks is below the reinsurance industry average because Mapfre Re has displayed a below-average appetite for reinsuring catastrophes. Much of the risk is retroceded to other reinsurers. In addition, the state covers the cost of catastrophe events in Spain, Mapfre's biggest market, via the Consorcio. Mapfre's life business is exposed to social risks, such as increased liabilities caused by greater longevity and the increase in chronic diseases. Most of these risks stem from Spain and Brazil, but the company has smaller exposures in Malta and Latin America. Mapfre's governance standards are typical for Spain and are in line with European regulatory requirements.

Related Criteria

- Insurers Rating Methodology, July 1, 2019
- Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Group Rating Methodology, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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

Appendix

Mapfre S.A.--Credit Metrics History			
	2019	2018	2017
S&P Global Ratings capital adequacy	Very strong	Strong	Very strong
Total invested assets	52,484.5	48,013.7	48,490.9
Total shareholder equity	10,106.0	9,197.6	10,512.7
Gross premium written	23,043.9	22,537.1	23,480.7
Net premium written	18,906.6	19,162.8	19,416.3
Net premium earned	19,172.9	19,212.0	19,309.7
Reinsurance utilization (%)	18.0	15.0	17.3
EBIT	1,357.8	1,407.0	1,598.8
Net income*	955.3	877.5	1,098.4
Return on revenue (%)	6.5	6.6	7.5
Return on assets (including investment gains/losses) (%)	2.1	2.3	2.5
Return on shareholders' equity (%)	9.9	8.9	10.0
P/C: net combined ratio (%)	97.6	97.6	98.1
P/C: net expense ratio (%)	28.6	27.8	27.5
P/C: return on revenue (%)	6.3	5.1	6.3
Life: Net expense ratio (%)	23.7	22.6	24.9
EBIT fixed-charge coverage (x)	17.3	18.4	17.7
Financial obligations / EBITDA adjusted	2.2	1.9	1.5
Financial leverage including pension deficit as debt (%)	22.7	22.5	18.1
Net investment yield (%)	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 October 15, 2020)*

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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