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Mapfre Group

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Mapfre Group

SACP* Assessments				SACP*		Support		Ratings
Anchor	a	+ Modifiers	0	= a		+ 0		= Financial Strength Rating: A/Stable/--
Business Risk: Strong		ERM and Management	0	Liquidity	0	Group Support	0	Holding Company Rating: BBB+/Stable/--
Financial Risk: Strong		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Strong

- Strong brand recognition and leading, profitable positions in Mapfre's core insurance markets of Spain and Latin America, as well as in the international reinsurance market.
- Broad, successful diversification by business line and by geography, well-balanced between mature and developing markets.
- Exposure to relatively high country risk in Spain, Portugal, South America, and other developing markets, which together account for over 75% of the overall business.

Financial Risk Profile: Strong

- Capital adequacy expected to be maintained at moderately strong levels, supported by retained earnings and moderate business growth.
- Credit risk exposure is a relative weakness, owing to significant exposure to Spanish investments.
- Strong financial flexibility, with demonstrated access to capital markets through multiple sources.

Other Factors

- Successful diversification in a relatively high number of geographies and businesses, with limited correlation, which we believe sustains and provides stability to the group's performance and financial and business risk profiles, including during turbulent times. We therefore use the higher 'a' anchor for Mapfre (our strong business and financial risk profile assessments lead to an anchor of 'a' or 'a-' under our criteria).
- Under our criteria, core operating entities of the Spain-based insurance group Mapfre can be rated up to three notches above Spain. This reflects our view of Mapfre's ability to withstand a hypothetical Spanish sovereign default, and its moderate-to-high sensitivity to country risk.

Factors Specific To the Holding Company

- Since 2006, Mapfre S.A. (BBB+/Stable/--) has been the group non-operating holding and listed company controlling all group operating entities. The issuer credit rating on Mapfre S.A. reflects our standard two-notch downward adjustment from the insurer financial strength rating on the core group entities, and the subordination of Mapfre S.A. creditors to the core entities' policyholders.

Outlook: Stable

The stable outlook reflects that on Spain, as Mapfre's core operating entities are unlikely to be rated more than three notches above Spain. We also incorporate our expectation that Mapfre will retain its strong business and financial risk profiles over the next two years.

Upside scenario

We could raise the rating on Mapfre's core entities following a similar action on Spain, accompanied by an improvement in the group's financial and business risk profiles. For example, this could happen if:

- The economic risk to which Mapfre is exposed were to decrease sustainably, improving its business risk profile;
- The group's average asset credit quality were to substantially improve; and
- Capital and earnings were to reach very strong levels.

Downside scenario

We could lower the rating on Mapfre's core entities if the financial risk profile were to weaken as result of weakening capital adequacy. We could also lower the rating if:

- We lowered the rating on Spain;
- We perceived that the group's sensitivity to country risk had increased, which could occur if we saw a material increase in Mapfre's Spanish and life business; or
- Exposure to Spanish assets increased such that Mapfre might not pass the sovereign default test.

Base-Case Scenario

Macroeconomic Assumptions

- Average GDP growth for Spain at 1.6% in 2014-2016 (revised upward from 1.2% in May 2014).
- Average yield on Spanish 10-year government bonds to slightly increase from current levels in 2014-2015.
- Notwithstanding improved economic forecasts for Spain, we believe economic conditions continue to weigh negatively on the Spanish insurance sector country risk.

Company-Specific Assumptions

- Excluding currency fluctuations and potential acquisitions or disposals, we estimate consolidated gross premiums written (GPW) will grow at an annual rate above 3% over the next three years. In particular, we expect growth of about 1% in property/casualty (P/C) and average annual growth of 7% in life, driven by Spanish life-saving products and growth in Brazil.
- Our base-case assumptions include a conservative average net combined (loss and expense) ratio of below 98% in 2014-2016 (the five-year average was above 96% in 2013). We conservatively forecast year-end annual net earnings over the same period at about €700 million (€791 million in 2013).
- We expect Mapfre to maintain its capital adequacy at least at moderately strong levels in 2013-2015 as net retained earnings will more than offset capital requirements deriving from the expected moderate business growth.
- Our forecasts for Mapfre's capital position do not include positive developments in currencies exchanges and yields on Spanish government bonds. These factors had extraordinary negative impact on Mapfre's capital positionat year-end 2012 and year-end 2013.

Key Metrics

(Mil. €)	2015f	2014f	2013	2012	2011
Gross premiums written	<23,500	<22,500	21,835.6	21,579.8	19,600.2
Net income (after minorities)	<750	<750	790.5	665.7	963.0
Reported total equity	<10,500	<10,200	9,893.7	10,136.3	9,726.6
P/C Net combined ratio (%)	97-98	97-98	96.9	95.9	97.3
S&P Capital Adequacy	Moderately strong	Moderately strong	Moderately strong	Moderately strong	Moderately strong

f--Forecast.

Company Description

Established in 1933 in Spain as a mutual providing coverage for work-related accidents, Mapfre is a multinational insurance group, listed since 2006 on the Madrid and Barcelona stock exchanges. Mapfre S.A. is ultimately 67.7%-owned by Cartera Mapfre, S.L., which is fully owned by Fundación Mapfre, a charitable foundation. Since the disposal of Bankia's 12% participation in Mapfre in 2013, the remaining stock not owned by Cartera Mapfre is widely distributed.

In 2013, its premiums totaled €21.8 billion (75% P/C and 25% life) and total equity totaled €9.9 billion. The group writes most lines of insurance business and operates in 46 countries. As of 2013, Mapfre groups its operations into four main business divisions.

Iberia. This division includes the Spanish and Portuguese business, accounting for some 33% of GPW in 2013. Mapfre is the leading insurer in its domestic market with 12.7% market share, operating via three major entities (which are not rated): Mapfre Familiar for individual non-life insurance, Mapfre Vida for life insurance, and Mapfre Empresas for commercial insurance.

Latin America. This division accounted for over 40% of the consolidated business in 2013, and includes Mapfre's operations in 17 countries in Latin America, with various leading positions. Overall, Mapfre is the second-largest insurer in the region. Over half of the South American business is generated in Brazil, where Mapfre has signed a major bancassurance agreement with Banco do Brazil.

International. This division includes Mapfre's operations in EMEA (Europe, the Middle East, and Africa), the U.S., and APAC (Asia-Pacific), accounting for some 15% of the total business in 2013. USA accounts for almost 10% of the total premiums, representing Mapfre's third-largest single market after Spain and Brazil. It has a strong position in P/C insurance in Massachusetts, where it operates via the Commerce and Citation brands.

Mapfre Re. This division operates as the group entities' sole reinsurer as well as a separate entity selling reinsurance globally. In 2013, Mapfre Re generated €1.8 billion from external reinsurance (56% of its total premiums), accounting for about 8% of the group business.

Business Risk Profile: Strong

Mapfre's strong business risk profile reflects our view of the group's very strong competitive position, constrained by its exposure to moderate country and industry risk. This risk mostly arises because the group generates much of its revenues, and in particular its earnings, in Spain, Portugal, and other lower-rated countries, in particular in South America.

Insurance industry and country risk: Moderate, with relatively high country risk in Spain and South America

We assess Mapfre's industry and country risk as moderate. Our view is based on the mix of non-life and life insurance sectors from which Mapfre derives its business. With over 75% of its business derived from Spain, Portugal, South America, and other developing countries, our view of Mapfre's overall competitive position is constrained by its significant exposure to country risk relative to peer Europe-based global insurance groups. Particularly in its domestic market, notwithstanding improved economic forecasts (1.6% GDP growth forecast for 2014-2015, revised upward from 1.2% in May 2014), we believe economic conditions and financial system risk continue to weigh on the quality of the Spanish assets as well as on the Spanish insurance sector growth and profitability prospects.

Our assessment of the group's industry risk benefits from the still-good profitability of both P/C and life markets, strict life asset-liability management, and low P/C product risk in Spain. The latter derives from the lack of property catastrophe volatility, as this risks is covered by the state, and the high predictability of motor claims. However, we observe that pressure is building on the market's historically strong earnings trends, as a result of pressure on motor tariffs, shrinking net investment yields, and lower volumes of profitable life risk products.

Mapfre's exposure to the country and industry risk associated with Latin America is partly mitigated by its exposure to over 17 countries.

Table 1

Mapfre Group -- Insurance Industry And Country Risk

Business segment	IICRA	Business mix (% of GPW)
Spain life	Moderate Risk	12%
Spain P/C	Moderate Risk	21%

Table 1

Mapfre Group -- Insurance Industry And Country Risk (cont.)		
Brazil life	Intermediate Risk	9%
Brazil P/C	Intermediate Risk	15%
USA P/C	Intermediate Risk	8%
Global reinsurance P/C (excluding intragroup)	Intermediate Risk	8%
Global reinsurance life (excluding intragroup)	Low Risk	1%
Mexico P/C	Intermediate Risk	3%
Mexico life	Intermediate Risk	1%
Turkey P/C	Moderate Risk	2%
Other (mostly other South America)	Moderate Risk	20%
Weighted average IICRA	Moderate Risk	100%

GPW--Gross premiums written. P/C--Property and casualty.

Competitive position: Successful geographic diversification and leading positions in Spain and South America

We regard the group's overall competitive position as strong. The group business and risk profiles benefit from increasing geographic diversification, enhanced by leading and profitable positions in its core markets of Spain and Latin America, a balanced exposure between mature and fast-growing countries, and reducing reliance on Spain, its core market. Underpinning these leading positions are diversified and sizable distribution networks, a client-service focus, and successful sharing of best practices. The modest 1.2% business growth in 2013 was held back by a 9% contraction in the domestic business as well as by the negative impact of the appreciation of the euro versus the Brazilian real, other South American currencies, and the U.S. dollar. We expect Mapfre business to continue to grow modestly, averaging above 3% over the next three years. Our forecast, which assumes stable foreign currency exchanges, is based on the expectation of 1% annual growth in P/C and growth above 7% in life, thanks to a recovery in Spanish life-saving products and continuous growth in emerging markets, in particular Brazil.

Table 2

Mapfre Group -- Competitive Position					
	--Year-ended Dec. 31--				
(Mil. €)	**2013**	**2012**	**2011**	**2010**	**2009**
Gross premiums written (GPW)	21,835.6	21,579.8	19,600.2	16,973.1	15,606.8
Change in GPW (%)	1.2	10.1	15.5	8.8	9.1
P/C GPW	16,703.5	15,939.9	14,841.9	13,052.7	12,076.3
Change in P/C GPW (%)	4.8	7.4	13.7	8.1	10.0
Life GPW	5,132.1	5,639.9	4,758.3	3,920.4	3,530.5
Change in life GPW (%)	(9.0)	18.5	21.4	11.0	6.3
Net premiums written	18,788.5	18,943.5	17,459.3	15,178.0	13,968.2
Change in net premiums written (%)	(0.8)	8.5	15.0	8.7	9.2
Reinsurance utilization (%)	16.6	14.8	12.6	12.3	12.4

Financial Risk Profile: Strong

Mapfre's strong financial risk profile reflects our view of the group's moderately strong capital and earnings, intermediate risk position, and strong financial flexibility.

Capital and earnings: Capital adequacy to remain at moderately strong levels on sustainable retained earnings

Strong underwriting discipline, together with successful geographic and business diversification, will continue to fuel Mapfre's long-term strong earnings. We expect earnings over the next three years will stabilize at lower levels than in the five years prior to 2012 (net income averaged €900 million over 2008-2012), mostly as result of contracting margins in Spain.

Our base-case assumptions include an average net combined ratio of below 98% in 2014-2016 (97% at year-end 2013), as a result of pressure on prices and increasing claims frequency, particularly in the motor business in Spain. Our forecast year-end annual net earnings over the same period are about €700 million (€791 million in 2013), with the dividend payout policy below 50%. We believe Mapfre's life business will also continue to generate strong new business margins on present value of new business premium (PVNBP) above 4% and strong operating results, although we anticipate that margins are trending down. We expect the decline to be driven by the lower volumes of the highly profitable Spanish protection products versus saving products, though we believe Mapfre will continue to sustain investment margins by steadily realizing gains on its bond portfolio. While we believe the Brazilian life business contributes strongly to Mapfre's life insurance book performance, its positive effect is not reflected in its capital position, owing to the very high level of dividends paid to minority shareholders.

Over the next three years, we expect net retained earnings and other capital reserves growth to more than offset growth in capital requirements. We accordingly expect Mapfre to maintain its capital adequacy at least at moderately strong levels in 2014-2016, benefiting also from the modest business growth. The group comfortably covered its Solvency I minimum regulatory capital requirements by 2.5x at year-end 2013. We expect Mapfre to report a comfortable regulatory capital position under Solvency II as well.

Table 3

Mapfre Group -- Earnings Statistics					
	--Year-ended Dec. 31--				
(Mil. €)	**2013**	**2012**	**2011**	**2010**	**2009**
Consolidated					
Total revenue	20,436.7	20,540.4	19,649.1	16,942.4	15,861.7
Gross income (attribuable to all shareholders)	1,563.9	1,372.0	1,636.9	1,431.0	1,446.2
Net income (attributable to all shareholders)	1,189.8	962.8	1,219.8	1,063.7	1,036.1
Net Income (after minorities)	790.5	665.7	963.0	933.5	926.9
Return on total reported capital (%)	10.8	8.7	11.9	11.8	12.3
Net expense ratio (%)	27.1	26.2	24.5	23.0	22.7
P/C					
Technical result	1,190.8	1,255.6	1,142.3	1,233.6	1,181.6

Table 3

Mapfre Group -- Earnings Statistics (cont.)					
Net expense ratio (%)	29.3	28.3	28.0	25.5	25.2
Net loss ratio (%)	67.5	67.6	69.3	70.5	70.7
Net combined ratio (%)	96.9	95.9	97.3	96.1	96.0
Return on revenue (%)	8.3	8.9	8.4	10.3	10.6
Life					
Technical result	501.8	406.0	581.4	372.2	310.2
Net expense ratio (%)	18.7	19.3	14.6	15.6	14.8
prebonus pretax earnings/total assets (%)	3.3	3.3	3.8	3.7	4.0
New business margins (NBV/PVNBP Mapfre Vida) (%)	4.1	5.3	6.1	5.4	5.6

Table 4

Mapfre Group -- Capitalization Statistics					
	--Year-ended Dec. 31--				
(Mil. €)	**2013**	**2012**	**2011**	**2010**	**2009**
Total assets	53,779.2	53,707.3	51,550.3	45,579.7	40,621.7
Reported total equity	9,893.7	10,136.3	9,726.6	7,795.8	7,093.8
Change in total reported equity (%)	(2.4)	4.2	24.8	9.9	24.1
Total hybrid debt	596.4	605.6	607.9	610.1	620.7
Value of in-force (Mapfre Vida only including minorities)	1,478.5	1,713.1	1,781.4	1,734.8	1,655.9

Risk position: A liquid portfolio, though concentrated in Spain and 'BBB' rated investments

In our opinion, Mapfre has an intermediate risk position. Mapfre's investment portfolio is consistent with a strategy of closely managing asset-liability mismatches, focusing particularly on liquid and fixed-income investments. Bonds, mostly government and financials, accounted for over 80% of Mapfre's invested non-linked assets (€38 billion) at year-end 2013. Over 50% of Mapfre's portfolio is concentrated in Spain and in 'BBB' rated investments, which we consider a relative constraint as it limits our financial risk profile assessment at the current strong level. Mapfre's exposure, via deposits and fixed-income investments, to the Spanish banking sector (see "Banking Risk Indicators," published June 18, 2014), is a negative for its risk position, in our view. Partially offsetting these risks is the systemic importance of most of the banks to which Mapfre is exposed, as well as the quality of its exposure, which mostly comprises bank deposits, senior bonds, and covered bonds.

Table 5

Mapfre Group -- Risk Position					
	--Year-ended Dec. 31--				
(Mil. €)	**2013**	**2012**	**2011**	**2010**	**2009**
Total invested assets	39,789.5	39,120.1	37,609.9	34,957.4	31,488.1
Change in invested assets (%)	1.7	4.0	7.6	11.0	1.6
Separate accounts/unit linked assets	2,225.3	2,044.5	1,878.7	1,716.7	798.7
Net investment income	1,752.6	1,672.2	1,757.4	1,591.3	1,479.0
Net investment yield including investment gains/(losses) (%)	4.9	4.8	5.1	5.7	5.3

Table 5

Mapfre Group -- Risk Position (cont.)					
Portfolio composition (% of General account invested assets)					
Cash and short term investments (%)	3.1	2.7	3.5	4.5	2.8
Bonds (%)	83.1	84.3	81.9	80.3	84.0
Equity investments (%)	5.8	5.1	5.8	4.6	3.6
Real estate (%)	6.2	6.5	7.0	7.4	6.2
Other investments (%)	1.9	1.4	1.7	3.2	3.4

Financial flexibility: Proven ability to access capital markets

We regard Mapfre's financial flexibility as strong. In recent years, the insurer has demonstrated its ability to raise both equity and debt capital via its listed entity, Mapfre S.A., more effectively than under its previous mutual-based structure. We expect the group's financial leverage to stabilize at around 15% of the ECA (economic capital available, our economic view of shareholders' capital) and we anticipate that it will continue to comfortably cover fixed charges by around 15x.

Table 6

Mapfre Group -- Financial Flexibility					
	--Year-ended Dec. 31--				
(Mil. €)	**2013**	**2012**	**2011**	**2010**	**2009**
Fixed-charge coverage including realized and unrealized gains/(losses) (x)	16.4	19.1	23.3	20.7	17.8
Debt leverage (%)	10.0	10.9	10.9	13.1	13.1
Financial leverage (%)	15.3	15.9	16.0	18.5	18.8
Common shares dividend payout ratio (%)	50.6	50.9	48.0	48.4	46.9

Other Assessments

We regard Mapfre's enterprise risk management (ERM) and management and governance practices as neutral for the ratings.

Enterprise risk management: Adequate with strong risk controls, particularly for underwriting

ERM is adequate with strong risk controls, in our view. ERM's importance to the ratings is high, owing to the group's active capital management strategy, complex and diversified business risk profile, and relatively high asset-risk exposure.

The group benefits from strong underwriting risk controls and a robust risk culture, although we view the latter as a neutral factor because Mapfre has yet to fully articulate its risk appetite in a comprehensive framework, in line with international and multiline peers. We see ERM as increasingly embedded in the strategic decision-making process.

Management and governance: Proven ability to grow profitably

We view Mapfre's management and governance as satisfactory. It has demonstrated its ability to grow, both organically and through acquisitions, without losing its focus on profitability, underwriting discipline, and customer service. However, management has pursued growth that has consumed capital while, in our opinion, financial management remains relatively traditional and does not benefit from well-embedded internal models.

Liquidity: Excellent, with liquid assets and strong cash flows

Liquidity is exceptional, given the high percentage of readily realizable assets and strong operating cash flows. Concentration in Spanish bonds could weaken the ability and willingness of Mapfre to freely dispose of bonds to raise cash during times of highly volatile yields.

Sovereign risk: Rated three notches higher than the long-term rating on Spain

We consider Mapfre to have a material exposure to investments in Spain. We estimate that, in 2014, Spanish sovereign and corporate bonds, bank deposits, real estate, and equities represented about €22 billion, excluding unit-linked and third-party investments, equating to 58% of Mapfre's total investments and 2.4x its regulatory solvency capital.

Under our criteria for rating above the sovereign, we assess the potential impact of a hypothetical Spanish sovereign default on Mapfre's invested assets, based on a stress scenario. We estimate that the haircuts associated with the capital test would not lead to a full depletion of Mapfre's regulatory solvency capital. This indicates, according to our criteria, that Mapfre is unlikely to default on its insurance liabilities under the scenario. In addition, we consider that the liquidity test would result in a liquidity ratio of more than 100%. Mapfre therefore passes our sovereign default stress test, maintaining positive regulatory solvency capital, even after our stress test and without accounting for mitigating actions.

We have set the ratings at three notches above those on the sovereign, reflecting our view of its moderate-to-high sensitivity to country risk. Mapfre's substantial non-life focus (75% of total premiums and 35% of total technical reserves) and international diversification (Spain accounts for about 33% of total premium and 40% of consolidated results) lead us to consider that its sensitivity to country risk is less significant than peers that focus on life and domestic business. As a result, we apply one more notch of uplift to the ratings on Mapfre than the maximum two notches we would apply to the ratings on a pure life insurer.

Factors Specific To The Holding Company

The issuer credit rating of the group's top non-operating holding company (NOHC), Mapfre S.A., is 'BBB+', reflecting our standard two-notch differential with the insurer financial strength rating on group core entities, and the subordination of Mapfre S.A. creditors to the core entities' policyholders.

The stable outlook on Mapfre S.A. mirrors that on group core operating entities. Mapfre S.A. owns, directly or indirectly, all operating and service entities of the group. It is the debt-issuing vehicle of the group and is listed on the Madrid and Barcelona stock exchanges.

Mapfre S.A. is the central body with regard to corporate management, and capital and debt management, and plays a major role in capital fungibility. We view Mapfre S.A.'s liquidity as adequate, which is the highest assessment possible for an NOHC under our criteria.

Table 7

Mapfre Group -- Debt Maturities Schedule			
(Mil. €)	**2015**	**2018**	**2037**
Senior debt	1,000		
Revolving credit facility*		750	
Subordinated debt§			750

*Undrawn. §First repayment option July 2017.

Accounting Considerations

Mapfre reports under International Financial Reporting Standards (IFRS), although for regulatory purposes the Mapfre group still reports under Spanish generally accepted accounting practices (GAAP), which now closely resemble IFRS. Our data are derived from the IFRS annual accounts, which merge figures for direct non-life, indirect non-life, and indirect life insurance.

Our non-life GPW include the non-life direct insurance and accepted reinsurance gross written premiums, minus all the consolidations adjustments.

In calculating our measure of total-adjusted capital, our most material adjustments to the 2013 reported shareholders' funds were:

- Partial equity credit given to the off-balance-sheet value of Spain and international business in-force before minorities;
- Credit for off-balance-sheet unrealized gains on real estate investments, net of corporate taxes;
- Partial credit for discounted non-life claims and unearned premiums reserves; and
- Deduction of intangible assets included in the balance sheet, gross of taxes.

Related Criteria And Research

- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of July 10, 2014)	
Holding Company: Mapfre S.A.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Senior Unsecured	BBB+
Subordinated	BBB-

Ratings Detail (As Of July 10, 2014) (cont.)	
Operating Companies Covered By This Report	
Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A.	
Financial Strength Rating	
Local Currency	A/Stable/--
Counterparty Credit Rating	
Local Currency	A/Stable/--
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. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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