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Mapfre Group

Primary Credit Analyst:
Taos D Fudji, Milan (39) 02-72111-276; taos.fudji@standardandpoors.com

Secondary Contact:
Marco Sindaco, Madrid (44) 20-7176-7095; marco.sindaco@standardandpoors.com

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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	

Anchor a + Modifiers 0 = SACP* a + Support 0 = Ratings

*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 Spain and Latin America, as well as in the international reinsurance market.
- Broad, successful diversification by business line and geography.
- Heightened business risks linked to ambitious growth strategy in a decelerating economic environment as well as presence in vulnerable countries.

Financial Risk Profile: Strong

- Capital and earning position expected to be maintained at moderately strong levels, supported by robust retained earnings.
- 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

- Resilience of Spanish, Brazilian, and re-insurance profitability to financial turmoil and weak GDP growth. This provides stability to the group's performance and therefore we 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.

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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 the sovereign. We also expect Mapfre to retain its capital adequacy near the 'A' threshold under our methodology, and its wide access to capital markets; these factors are the cornerstones of its strong financial risk profile.

Upside scenario

We could raise the ratings on Mapfre's core entities if, following a similar action on Spain, we consider the group's business risk profile has strengthened over the next two years. Such an improvement would include evidence that Mapfre's ambitious expansion strategy has successfully increased business volumes and earnings diversification in key major markets outside Spain (Brazil, Mexico, the U.S., and other European countries). At the same time, we would expect to see that the group had preserved its net combined (loss and expense) ratio at 96% or below, its return on equity at 10% or above, and its strong financial risk profile.

Downside scenario

We could lower the rating on Mapfre's core entities if we lowered the rating on Spain. We could also lower the rating if:

- Capital adequacy unexpectedly dropped materially to levels significantly below the 'A' threshold. This could result from a severe combined global and domestic financial market stress; or
- We did not expect Mapfre to pass the sovereign default test, which could result from an unexpected drop in regulatory capital or an increase in Spanish assets relative to regulatory capital.

Base-Case Scenario

Macroeconomic Assumptions

- Average GDP growth for Spain at 3.0% in 2015 and 2.5% for the following two years.
- Average yield on Spanish 10-year government bonds to slightly increase from current levels in 2015-2016.

Company-Specific Assumptions

- We estimate consolidated gross premiums written (GPW) will increase by about 5% annually over the next three years. In particular, we expect strong growth in property/casualty (P/C) while life will be subdued because of low rates and the sale of a subsidiary in Spain.
- Our base case includes an average net combined (loss and expense) ratio of below 98% in 2015-2017. We forecast year-end annual net earnings (after minorities) of €800 million-€900 million over the same period.
- We expect Mapfre to maintain its capital adequacy near but below the 'A' level of confidence in 2015-2017 as the capital requirements linked to the ambitious growth plans will offset internal capital generation.

Key Metrics

Mapfre Group -- Key Metrics

(Mil. €)

	2016f	2015f	2014	2013	2012
Gross premiums written	>23,500	>23,000	22,400.9	21,835.6	21,579.8
Net Income (after minorities)	>800	>800	845.1	790.5	665.7
Reported shareholders equity	>11,000	>11,000	11,469.4	9,893.7	10,136.3
P/C Net combined ratio (%)	<98	<98	96.7	96.9	95.9
S&P Capital Adequacy	Moderately Strong	Moderately Strong	Moderately Strong	Moderately Strong	Moderately Strong

E--expected. F--forecast. Figures are calculated according to Standard & Poor's criteria and may differ from those reported by Mapfre.

Company Description

Established in 1933 in Spain as a mutual, 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.

Iberia. This division includes the Spanish and Portuguese business, accounting for some 33% of GPW. Mapfre is the leading insurer in its domestic market with 13% market share.

Latin America. This division accounts for over 40% of consolidated GPW and includes Mapfre's operations in 17 countries in Latin America. 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. The U.S. accounts for almost 10% of the total premiums, representing Mapfre's third-largest single market after Spain and Brazil.

Mapfre Re. This division operates as the group entities' sole reinsurer as well as a separate entity selling reinsurance globally. In 2014, Mapfre Re generated €1.7 billion from external reinsurance (60% of its total premiums), accounting for about 8% of the group business.

Business Risk Profile: Strong

Our view of Mapfre's business risk profile reflects the group's very strong competitive position and intermediate industry and country risks. These strengths are mitigated by risks derived from the group's ambitious growth strategy while some key emerging markets are experiencing a slowdown. In addition, Mapfre's material exposure to countries with speculative-grade foreign currency sovereign ratings that are also on negative outlook--totaling about 10% of its premiums--also generates vulnerability to country risk. These countries are Argentina, Puerto Rico, Turkey, and Venezuela.

Insurance industry and country risk: Intermediate

We assess Mapfre's industry and country risk as intermediate. Our view is based on the mix of non-life and life insurance sectors from which Mapfre derives its business. Mapfre will benefit, in our view, from the more benign Spanish country risk as Spain concentrates over 30% of GPW.

Earlier this month we upped our projections for Spain's economic growth by a bigger margin than any other eurozone economy. We expect this to support a return to growth in insurance premium volumes, following years of decline.

We still assess industry risk for the Spanish life and property/casualty (P/C) sectors as intermediate. We expect the Spanish insurance market to maintain strong earnings, despite increased pressure deriving from low investment yields, still-modest growth, and the increasing frequency of claims in motor. Life insurers have historically had closely matched assets and liabilities, supported by the regulatory framework. We consider that this mitigates the risks associated with low interest rates.

Table 1

Mapfre Group -- Insurance Industry And Country Risk

(Mil. €)

Business Segment (% of GPW)	**IICRA**	**Business Mix**
Spain Life	Intermediate Risk	12%
Spain P/C	Intermediate Risk	21%
Brazil Life	Intermediate Risk	9%
Brazil P/C	Intermediate Risk	16%
USA P/C	Intermediate Risk	9%
Global Reinsurance P/C (excluding intragroup)	Intermediate Risk	6%
Global Reinsurance Life (excluding intragroup)	Low Risk	2%
Mexico P/C	Intermediate Risk	4%
Mexico Life	Intermediate Risk	1%
Turkey P/C	Moderate Risk	3%
Other (mostly Other South America)	Moderate Risk	17%
Weighted Average IICRA	Intermediate Risk	100%

P/C--Property and casualty. Figures are calculated according to Standard & Poor's criteria and may differ from those reported by Mapfre.

Competitive position: Successful geographic diversification and ambitious growth plans

We regard the group's overall competitive position as very strong. The group benefits from increasing geographic diversification, enhanced by leading and profitable positions in its larger markets of Spain and Brazil, which have together consistently represented over 60% of net group profits. Underpinning Mapfre's leading positions are diversified and sizable distribution networks, a client-service focus, and successful sharing of best practices.

We also view positively Mapfre's business diversification outside primary P/C business into life insurance and reinsurance. Both businesses have demonstrated stable and strong profitability.

At the same time, we consider that historical outperformance in P/C compared to international peers has narrowed. In particular, we believe the P/C combined ratio is now in line with larger globally active international peers such as AXA or Allianz.

We expect the Mapfre business to accelerate the pace of growth, taking into account the following:

- Acquisition of Directline business in Italy and Germany, contributing to €700 million GPW;
- Acquisition of renewable rights on a U.S. motor book of US$127 million;
- Strong organic growth drive in Mexico with the objective to increase market share to 10% from the current 6%; and
- The sale of the Catalunya Caixa subsidiary.

We consider that the strategic focus on accelerating growth in Mapfre's major emerging markets, while many are displaying weakening economic trends, carries additional risks.

Finally, in our opinion, Mapfre's objective of significantly expanding its U.S., German, and Italian P/C operations generates execution and underwriting risks. The three entities are relatively small and modestly profitable, and the German and Italian entities were only recently acquired in June 2015 from Directline.

Table 2

Mapfre Group -- Competitive Position

(Mil. €)	--Year-ended Dec. 31--				
	2014	**2013**	**2012**	**2011**	**2010**
Gross premiums written	22,400.9	21,835.6	21,579.8	19,600.2	16,973.1
Change in Gross Premiums Written (%)	2.6	1.2	10.1	15.5	8.8
P/C gross premiums written	16,931.8	16,703.5	15,939.9	14,841.9	13,052.7
Change in P/C Gross Premiums Written (%)	1.4	4.8	7.4	13.7	8.1
Life gross premiums written	5,469.1	5,132.1	5,639.9	4,758.3	3,920.4
Change in Life Gross Premiums Written (%)	6.6	(9.0)	18.5	21.4	11.0
Net premiums written	19,533.5	18,788.5	18,943.5	17,459.3	15,178.0
Change in Net Premiums Written (%)	4.0	(0.8)	8.5	15.0	8.7
P/C Reinsurance utilization (%)	15.7	16.6	14.8	12.6	12.3

Figures are calculated according to Standard & Poor's criteria and may differ from those reported by Mapfre.

Financial Risk Profile: Strong

Capital and earnings: Capital adequacy to be maintained at moderately strong levels as accelerating growth will likely offset retained earnings

Combining our expectation of consistent retained earnings with increased capital requirements stemming from Mapfre's ambitious growth plans, we forecast Mapfre's consolidated capital adequacy will remain near but below the 'A' level of confidence over 2015-2017.

We expect net profit (after minorities) will range from €800 million-€900 million over the next three years. Although weather-related losses in the U.S. weighed on the first half of the year, a gain on the sale of the Catalunya Caixa subsidiary will likely improve full year results for 2015. The benefits of P/C premium growth and geographic and business diversification will be mitigated by some headwinds, in our view:

- Margin pressure in P/C in Spain as a result of price competition and increasing claims frequency, particularly in the motor business;
- Expansion costs, particularly for operations with modest current profitability, such as the U.S., Italy, and Germany; and
- Weakening currencies in some emerging markets, such the sharp drop in exchange rates applied to the Venezuelan business.

With regards to P/C, our base-case assumptions include an average net combined ratio of below 98% in 2015-2017. We believe Mapfre's life business will also continue to generate strong new business margins on present value of new business premium (PVNBP), although likely to decline from the 4% reached in 2014 and on lower volumes. Premium were down 13% in the first half of 2015 (excluding the Catalunya Caixa sale) and we expect only a gradual recovery in the following quarters given the diminished attractiveness of Spanish life insurance products with the current low interest rates. 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 compensate growth in capital requirements, after taking into account the dividend payout policy at 50%. The group comfortably covered its Solvency I minimum regulatory capital requirements by 2.59x at year-end 2014. We expect Mapfre to report a comfortable regulatory capital position under Solvency II as well.

Table 3

Mapfre Group -- Earnings Statistics					
(Mil. €)	**--Year-ended Dec. 31--**				
	2014	**2013**	**2012**	**2011**	**2010**
Consolidated					
Total revenue	20,866.6	20,436.7	20,540.4	19,649.1	16,942.4
Gross income (attribuable to all shareholders)	1,824.1	1,563.9	1,372.0	1,636.9	1,431.0
Net income (attributable to all shareholders)	1,323.5	1,189.8	962.8	1,219.8	1,063.7
Net Income (after minorities)	845.1	790.5	665.7	963.0	933.5

Table 3

Mapfre Group -- Earnings Statistics (cont.)					
Return on total reported capital (%)	11.3	10.8	8.7	11.9	11.8
Net expense ratio (%)	26.0	27.1	26.2	24.5	23.0
P/C					
Technical Result	1,316.3	1,190.8	1,255.6	1,142.3	1,233.6
Net expense ratio (%)	27.9	29.3	28.3	28.0	25.5
Net loss ratio (%)	68.8	67.5	67.6	69.3	70.5
Net combined ratio (%)	96.7	96.9	95.9	97.3	96.1
Return on revenue (%)	9.0	8.3	8.9	8.4	10.3
Life					
Technical Result	733.7	501.8	406.0	581.4	372.2
Net expense ratio (%)	19.3	18.7	19.3	14.6	15.6
prebonus pretax earnings/total assets (%)	3.5	3.3	3.3	3.8	3.7
New business margins (NBV/PVNBP Mapfre Vida) (%)	4.0	4.1	5.3	6.1	5.4

Figures are calculated according to Standard & Poor's criteria and may differ from those reported by Mapfre.

Table 4

Mapfre Group -- Capitalization Statistics					
(Mil. €)	**--Year-ended Dec. 31--**				
	2014	**2013**	**2012**	**2011**	**2010**
Total assets	63,864.7	53,779.2	53,707.3	51,550.3	45,579.7
Total shareholders' equity (reported)	11,469.4	9,893.7	10,136.3	9,726.6	7,795.8
Change in total shareholders equity (reported) (%)	15.9	(2.4)	4.2	24.8	9.9
Intangibles/reported shareholders' equity (%)	35.5	39.4	43.5	48.5	40.5
Minorities/reported shareholders' equity (%)	20.2	20.8	22.9	27.6	16.1
Hybrid Debt	595.6	596.4	605.6	607.9	610.1
Value of In-Force (Mapfre Vida only including minorities)	1,811.3	1,655.9	1,713.1	1,781.4	1,734.8

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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 in its Spanish life business and limiting the regulatory charge of its investments in light of the implementation of Solvency 2. As with most other large multi-line European insurers, bonds, mostly government and financials, accounted for over 80% of Mapfre's invested non-linked assets. Close to 60% of Mapfre's portfolio is concentrated in 'BBB' rated investments, of which investments in Spanish assets alone represent about 50% of the investment portfolio. We consider this a relative constraint as it limits our financial risk profile assessment at the current strong level.

Table 5

Mapfre Group -- Risk Position					
(Mil. €)	**--Year-ended Dec. 31--**				
	2014	**2013**	**2012**	**2011**	**2010**
Total invested assets	47,770.9	39,789.5	39,120.1	37,609.9	34,957.4
Change in invested assets (%)	20.1	1.7	4.0	7.6	11.0
Separate accounts/unit linked assets	2,087.2	2,225.3	2,044.5	1,878.7	1,716.7
Net investment income	1,829.1	1,752.6	1,672.2	1,757.4	1,591.3
Net investment yield including investment gains/(losses) (%)	5.8	4.9	4.8	5.1	5.7
Portfolio composition (% of General account invested assets)					
Cash and short term investments (%)	2.6	3.1	2.7	3.5	4.5
Bonds (%)	85.4	83.1	84.3	81.9	80.3
Equity investments (%)	5.3	5.8	5.1	5.8	4.6
Real Estate (%)	5.2	6.2	6.5	7.0	7.4
Other investments (%)	1.4	1.9	1.4	1.7	3.2

Figures are calculated according to Standard & Poor's criteria and may differ from those reported by Mapfre.

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 below 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.

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

The importance of ERM 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. 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: High share of 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, excluding the assets of the Catalunya Caixa subsidiary and unit-linked investments, Spanish sovereign and corporate bonds, bank deposits, real estate, and equities represented about 54% of Mapfre's total investments and 2x its regulatory solvency capital at end-2014.

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%.

We cap the ratings at three notches above those on the sovereign, reflecting our view of Mapfre's moderate-to-high sensitivity to country risk. In our view, Mapfre has a substantial non-life focus (75% of total premiums and close to 40% of total technical reserves) but one with significant Spanish life reserves (about 50% of technical reserves excluding Catalunya Caixa reserves) This leads us to consider that its sensitivity to country risk is higher than a purely non-life insurer but less significant than peers that focus on life insurance.

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 the group's 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 6

Mapfre Group -- Financial Flexibility					
(Mil. €)	**--Year-ended Dec. 31--**				
	2014	**2013**	**2012**	**2011**	**2010**
Fixed-charge coverage (x)	16.3	14.3	15.1	21.3	17.6
Financial leverage (%)	13.3	15.3	15.9	16.0	18.5

Table 6

Mapfre Group -- Financial Flexibility (cont.)					
Common shares dividend payout ratio (%)	49.5	50.6	50.9	48.0	48.4

Figures are calculated according to Standard & Poor's criteria and may differ from those reported by Mapfre.

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 total accepted reinsurance GPW (both life and non-life), minus all the consolidations adjustments.

Our combined ratio calculation differs from that which Mapfre publishes: Mapfre excludes some revenues and costs allocated to other business activities. We consider these activities (such as investment management costs, medical services, assistance, funeral services, technology services) to be part of insurance operating expenses and so we include them in the combined ratio.

In calculating our measure of total-adjusted capital, our most material adjustments to the 2014 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

Related Criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 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
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Ratings On Four Spain-Based Insurers Affirmed On Improved Domestic Country Risk, July 16, 2015
- Eurozone Economic Outlook: Will The Catch-Up Lead To A Let-Down?, July 1, 2015
- Banking Industry Country Risk Assessment: Spain, April 22, 2015
- Ratings On Spain Affirmed At 'BBB/A-2'; Outlook Stable, April 10, 2015

Ratings Detail (As Of August 6, 2015)	
Holding Company: Mapfre S.A.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Senior Unsecured	BBB+
Subordinated	BBB-
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. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:
Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com