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Mapfre S.A.

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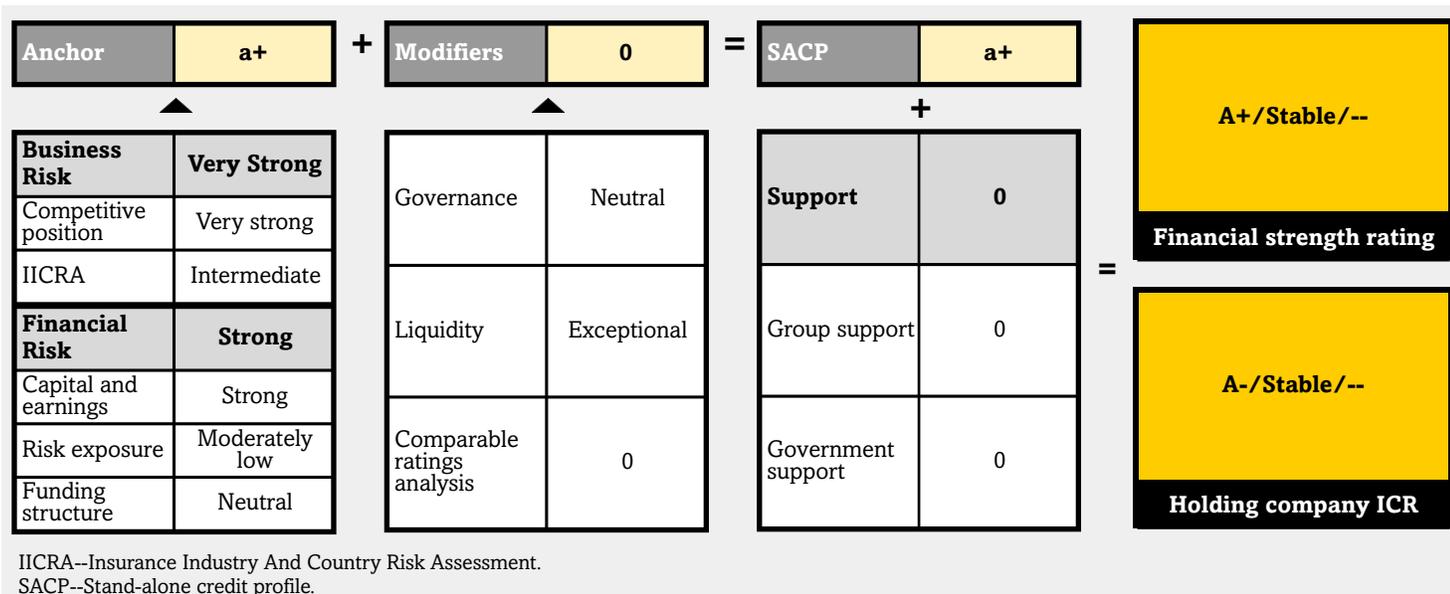
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Mapfre S.A.



The rating scores and financial strength rating in the graphic above relate to Mapfre Re, the group's core operating entity.

Credit Highlights

Overview

Strengths	Risks
Well-recognized international insurance brand that has leading positions in Spain and Latin America.	Distribution capabilities in the Spanish life insurance business are affected by the loss of bancassurance agreements.
Effective implementation of restructuring measures enhances the group's underlying earnings, diversification, and competitiveness.	Moderate premiums and earnings sensitivities to currency fluctuations, mainly derived from operations in emerging markets.
Solid capitalization as measured by our risk-based capital model and against Solvency II requirements with limited volatility.	Geopolitical and pandemic-related uncertainties in Latin American, mainly Brazil, could create some volatility in results.

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'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. However, the group's distribution capabilities in the Spanish life operations have been dampened by the loss of bancassurance agreements in recent years.

Premium growth in the domestic property and casualty (P/C) and reinsurance business will be partly offset by a difficult business environment in Latin America and the Spanish life business in 2021, but we expect technical results will remain strong. We believe that an enhancing economic environment in its domestic market, as well as improving rate conditions in the reinsurance market will have a positive premium influence on Mapfre's Spanish P/C and reinsurance operations. However, COVID-19-related mobility and economic activity constraints and currency volatility in Latin America, as well as lower domestic life premiums will partly offset the group's growth aspirations. Technical

performance will benefit from low P/C claims frequency across regions, mainly in motor, and improved reinsurance results offsetting pandemic-related claims from higher mortality, as well as economic and currency valuation volatilities especially in Latin America. We expect after tax results to improve in 2021 in the absence of one-off goodwill impairments, partly offset by lower volumes due to the deconsolidation of the Bankia Mapfre Vida operation. Potential gains from the divestment are not included in our estimations.

Mapfre is likely to maintain solid solvency levels and a diversified investment portfolio over 2021-2022. 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 2020, Mapfre Group disclosed a Solvency ratio of 192.9% compared with 186.8% in 2019, despite the pandemic's impact on operating conditions. The positive development was influenced by the application of an internal longevity risk model for the Spanish life business. At the end of March 2021, the group reported a further enhancement of the Solvency ratio to 201%, driven by the recovery of financial conditions associated with the pandemic. 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/Negative/A-1).

Outlook: Stable

The stable outlook is based on our expectation that the group will take advantage of a recovery in the Spanish economy, partly offset by challenges in its Latin American operations. 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 consistently at least to the 'AA' rating level.

Key Assumptions

- GDP growth improvement of 5.7% in Spain for 2021 and 6.6% for 2022.
- Long-term interest rates to remain at historical lows, with Spanish 10-year government bonds expected to be 0.5% in 2021 and 0.7% in 2022.
- GDP growth for Brazil of 3.4% in 2021 and 2.5% in 2022.
- Long-term rates in Brazil to average 9.4% in 2021 and 9.1% in 2022.

Mapfre S.A.--Key Metrics

	2022f	2021f	2020	2019	2018	2017
Gross premiums written (mil. €)	>21,000	>20,500	20,482	23,044	22,537	23,481
Net income (mil. €)*	>1,200	>1,000	821	955	878	1,098
Return on shareholders' equity (%)	8-10	8-10	8.2	9.9	8.9	10.0
Net combined ratio (%)	94-96	93-95	94.8	97.6	97.6	98.1
S&P Global Ratings' capital adequacy	At least strong	At least strong	Very strong§	Very strong	Strong	Very strong

*Before noncontrolling interests. §Estimated. 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 premiums and about 85% of net group profits, based on 2020 numbers excluding the negative impact of €132 million in goodwill impairments. 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 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 and overall positive claims experiences from the pandemic, especially in motor, led to a reported group combined ratio (loss and expense; lower combined ratios indicate better profitability, with a ratio greater than 100% signifying an underwriting loss) of 94.8% in 2020, which is 2.9 percentage points lower than in 2019. In life, the group's net earnings after minorities dropped by 27% to €185 million in 2020, due to a lower business volume, a high mortality rate in Latin America (mainly Brazil), currency depreciations and lower financial income. Together with the already mentioned goodwill write-off, net earnings declined to €821 million in 2020 from €955 million in 2019, including minority interests.

Within the reinsurance operations, in line with the global reinsurance market, the group has been facing high natural catastrophe and manageable COVID-19 related losses mainly from business interruption. This elevated the reinsurance combined ratio to 101.2% in 2020 from 99.2% in 2019.

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.

Overall, we expect consolidated premiums to moderately increase in 2021, taking advantage of the improving economic activity in Spain and a firming pricing environment in the reinsurance operations. This will be broadly offset by lower premiums in life following the deconsolidation of Bankia Mapfre Vida, challenging conditions in the Spanish life savings business, and volatile premiums from Latin America due to pandemic-related uncertainties and currency volatility. In terms of profits, we estimate that 2021 group profits will show a moderate increase compared with previous years. Losses associated with the COVID-19 pandemic will likely be offset by lower claims frequency elsewhere--for example, in the group's motor and reinsurance business--demonstrating the group's efficient business diversification. We also assume that the lower volume in life due to the deconsolidation of Bankia Mapfre Vida and pressured investment returns will weigh on the group's results.

Financial Risk Profile: Strong

Mapfre Group has a solid consolidated capital position. Its Solvency II ratio (including transitional measures and the application of the internal model for longevity risk on the Spanish life business) was 201% at the end of March 2021, well within its internal target range of 175%-225%. 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. 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 at least 50% of net income.

Our prospective capital view is based on our expectation that net profits will increase in 2021 to more than €1.0 billion including minorities, and to more than €1.2 billion in 2022. The increase mainly stems from the absence of goodwill depreciation, improving technical results in the primary business from lower claims frequency and enhancing reinsurance results, partly offset by potential volatility in the Latin American life business, foreign exchange depreciation, and lower volumes in the Spanish life operations.

We expect the combined ratio will improve to 93%-95% in 2021, leading to a return on equity of about 8%-10% over the same period, compared with 8.2% in 2020.

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--accounted for about 70% of the

invested assets at the end of March 2021. Fixed-income investments rated below 'BBB' are mainly concentrated in Brazilian government bonds, which represent about 5% of the group's total investment portfolio. Exposure in equity investments increased to 6.6% of total invested assets.

In recent years, the group has demonstrated its ability to raise debt capital via its listed entity, Mapfre S.A. For 2020, Mapfre disclosed a financial leverage of 23.3% and its fixed-charge coverage was 14.6x. 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

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 28% of the group's premium based on 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 most of 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.

We do not foresee any material governance issues that could affect the ratings. 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.

Related Criteria

- Insurers Rating Methodology, July 1, 2019
- Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Group Rating Methodology, July 1, 2019
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Appendix

Mapfre S.A.--Credit Key Metrics				
Mil. €	2020	2019	2018	2017
S&P Global Ratings' capital adequacy	Very strong§	Very strong	Strong	Very strong
Total invested assets	43,739	52,484	48,014	48,491
Total shareholder equity	9,838	10,106	9,198	10,513
Gross premiums written	20,482	23,044	22,537	23,481
Net premiums written	16,834	18,907	19,163	19,416
Net premiums earned	16,702	19,173	19,212	19,310
Reinsurance utilization (%)	18	18	15	17
EBIT	1,201	1,358	1,407	1,599
Net income*	821	955	878	1,098
Return on revenue (%)	6.6	6.5	6.6	7.5
Return on assets (including investment gains/losses) (%)	1.8	2.1	2.3	2.5
Return on shareholders' equity (%)	8.2	9.9	8.9	10.0
P/C: Net combined ratio (%)	94.8	97.6	97.6	98.1
P/C: Net expense ratio (%)	29.1	28.6	27.8	27.5
P/C: Return on revenue (%)	6.7	6.3	5.1	6.3
Life: Net expense ratio (%)	26.3	23.7	22.6	24.9
EBIT fixed-charge coverage (x)	14.6	17.3	18.4	17.7

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

Mil. €	2020	2019	2018	2017
Financial obligations/EBIT adjusted	2.5	2.2	1.9	1.5
Financial leverage including pension deficit as debt (%)	23.3	22.7	22.5	18.1
Net investment yield (%)	2.7	2.8	3.4	3.4

*Before noncontrolling interests. §Estimated.

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 June 30, 2021)***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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