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## Mapfre S.A.

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### Table Of Contents

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Credit Highlights

Outlook

Key Assumptions

Business Risk Profile

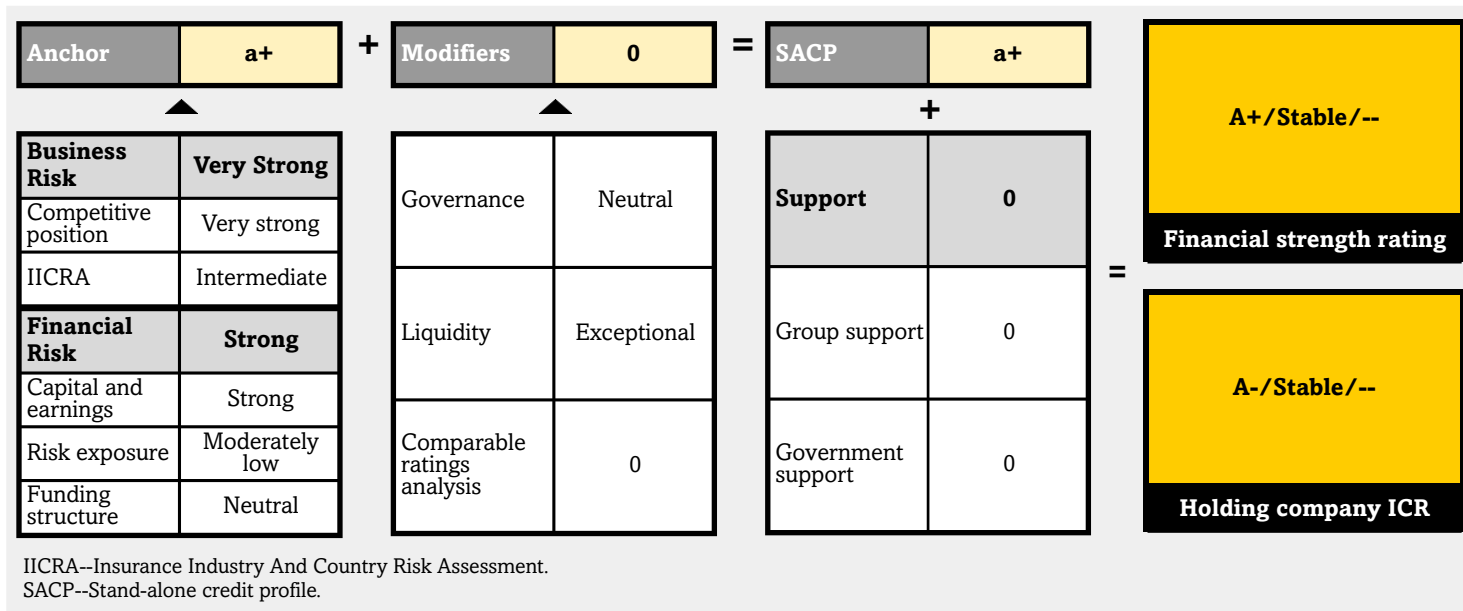
Financial Risk Profile

Other Key Credit Considerations

Related Criteria

Related Research

# Mapfre S.A.



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

## Credit Highlights

| Overview  |  |
|---|--|
| Key strengths   | Key risks  |
| A well-recognized international insurance brand maintaining leading positions in Spain and Latin America.                           | Global macroeconomic uncertainties are putting pressure on technical performance, especially in the motor business.    |
| Resilient earnings thanks to strong geographic and business diversification.  | Moderate premiums and earnings sensitivities to currency fluctuations mainly stem from operations in emerging markets. |
| Closely matching assets and liabilities limits the volatility of solid capitalization, as measured by our risk-based capital model. |  |

**S&P Global Ratings expects Mapfre Group to maintain leading positions in Spain and Latin America.** Mapfre is a well-known global multiline insurance group that benefits from a strong brand name, a developed multichannel distribution strategy, and diversification by business line and geography. Nevertheless, we choose the lower anchor of 'a+' because Mapfre group's premiums and earnings are less diversified than other global multiline insurers we rate 'AA-', especially in the life sector, and is more exposed to emerging markets, ("How Global Multiline Insurers' Net Profit Rose Almost 70% In 2023," published April 25, 2024, on RatingsDirect).

**We expect the group to continue executing on its strategic plan focusing on its core markets with the aim of further enhancing its underlying profitability and add diversity to the group's overall earnings.** Improvement of technical results from diverse geographies and business units, such as the reinsurance operations, Brazil, and more recently the U.S. are balancing the persisting challenges of price adjustments in Spain on motor insurance policies. The recent acquisition of 94% of the shares of Proyecto Insignia, owning Insignia Life, a life insurance company in Mexico, albeit

for a modest amount of around €75 million, also demonstrates this focus.

***We think Mapfre Group will sustain a strong financial risk profile.*** This reflects our projection that the group will maintain at least a capital adequacy above our 99.80% confidence level under our capital model ("Mapfre Group Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable," July 11, 2024). We also expect the group's catastrophic losses to remain within its risk appetite. We view no additional risks arising from the strategic asset allocation or concentration. Finally, it encompasses a reasonable level of indebtedness.

***We think the group will continue to demonstrate robust performance thanks to diversified activities and despite the challenging inflationary environment of the past two years.*** The group grew its net income by 21% to €1.1 billion as of Sept. 30, 2024. This was the result of an improved combined ratio (loss and expense) of 94.8% under local accounting standards for the first nine months of the year (down 2.0 percentage points in comparison with last year), as well as better investment yield supported by the higher level of interest rates. The group still faces some challenges in adjusting pricing in the motor line of business, notably in Spain and other European countries, but we observe a positive trend supported by technical underwriting measures and tariff adjustments. The absence of significant natural catastrophe events in the first nine months of the year also had a positive impact, which could be dampened by more frequent and severe events in the remainder of the year. The flash floods that occurred at the end of October in the region of Valencia in Spain consequent to the record heavy rains are expected to have limited impact for the Mapfre group because most of the economic losses will be covered by the public entity Consorcio de Compensacion de Seguros.

***We anticipate the group will continue to pass our sovereign stress test in the case of a default of Spain.*** 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/Stable/A-1).

## Outlook: Stable

The stable outlook is based on our expectation that the group will continue to navigate the current macroeconomic and capital market uncertainties, profiting from strong geographic and business line diversifications. We also expect the group will keep its capital position comfortably at least at the 99.80% level, according to our capital model, backed by sound earnings that support Mapfre's growth and dividend targets.

### Downside scenario

While unlikely at this time, we could consider downgrading the group over the next 24 months if:

- Capitalization declined on a prolonged basis below our 99.80% confidence level threshold, based on our capital model. This could result from severe global and domestic financial market stress;
- Performance consistently deteriorated 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 could take a positive rating action over the next 24 months if Mapfre's:

- Capital adequacy remained at the 99.95% confidence level for a protracted period; and
- Operating performance and diversified earnings generation improved, reaching a level in line with 'AA-' rated peers.

## Key Assumptions

- GDP growth in Spain is expected to remain stable, growing at around 2.2% in 2024, slightly down from 2.5% previously in 2023. We believe the growth will stagnate and develop at nearly 2% until 2027.
- Steady increase in long-term interest rates, with Spanish 10-year government bonds expected to reach 3.26% next year in 2024, marginally dropping from 3.48% as recorded last year.
- GDP growth for Brazil is estimated at 2.0% for 2024 and 2025 compared to 2.9% earlier in 2023.
- Long-term rates in Brazil to average about 11.11% in 2024 and approximately 10.00% by 2025.
- Inflation in Spain to fall to 3.0% in 2024 from 3.4% in 2023 before averaging at around 2.0% for the next two to three years. Likewise, in Brazil, we project the consumer price index is projected will reduce and remain around 4.2% next year before being approximately 3.5% until 2027.

### Mapfre Group--Key metrics

|   | 2025f   | 2024f   | 2023a  | 2022a  | 2021a  |
|---|---------|---------|--------|--------|--------|
| Insurance revenue   Gross premiums written* | ~28,000 | ~27,000 | 24,781 | 24,540 | 22,155 |

**Mapfre Group--Key metrics (cont.)**

|  | 2025f          | 2024f          | 2023a | 2022a  | 2021a       |
|--|----------------|----------------|-------|--------|-------------|
| EBITDA   | 1,800-1,850    | 1,750-1,800    | 1,760 | 1,500  | 1,437       |
| Net income (including non-controlling interest)          | 1,100-1,300    | 1,100-1,300    | 1,267 | 1,084  | 1,036       |
| S&P Global Ratings capital adequacy                      | at least 99.8% | at least 99.8% | 99.9% | Strong | Very Strong |
| Return on shareholder's equity (%)                       | 10.0-13.0      | 10.0-13.0      | 13.7  | 12.0   | 10.6        |
| EBITDA fixed-charge coverage (x)                         | >8             | >8             | 8.8   | 14.7   | 17.6        |
| Financial leverage including pension deficit as debt (%) | ~22            | ~22            | 22.1  | 26.0   | 24.2        |
| P/C: Net combined ratio (%)                              | 95-97          | 95-97          | 96.6  | 98.0   | 97.5        |
| Net investment yield (%)                                 | ~4             | ~4             | 3.7   | 3.1    | 2.6         |
| Return on revenue (%)                                    | 3.0-5.0        | 3.0-5.0        | 3.6   | 7.1    | 7.6         |
| Return on assets (excluding investment gains/losses) (%) | ~2.5           | ~2.5           | 2.1   | 2.7    | 2.4         |

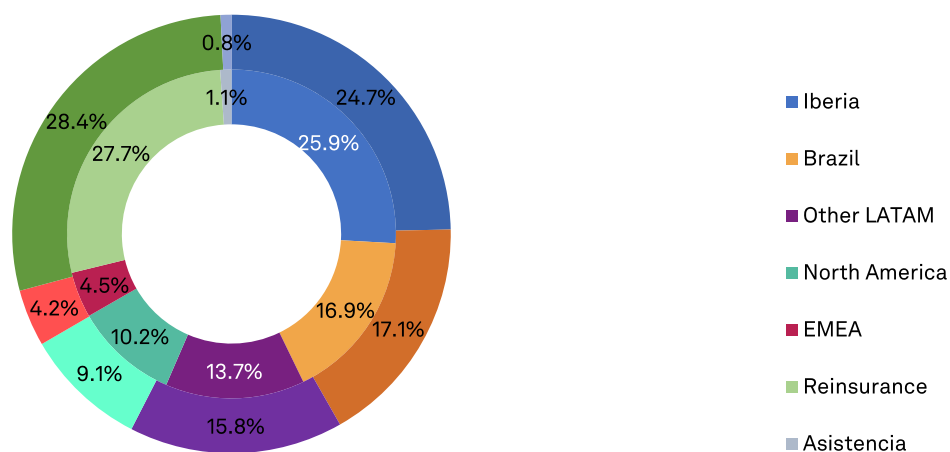
\*Data prior to 2023 is based on IFRS 4. f--Forecast. P/C--Property/Casualty. Source: S&P Global Ratings.

**Business Risk Profile: Very Strong**

Mapfre Group stands as a prominent insurer in its home market, among the leading entities in terms of premiums across both property and casualty (P/C) and life insurance sectors. Furthermore, the company has successfully established a global presence, primarily through its reinsurance activities, extending its operations beyond Spain mainly in Latin America, including Brazil, as well as regions in the U.S., Europe, and Asia.

**Chart 1**

**International footprint brings strong diversification among Mapfre's operations, split by insurance revenue**

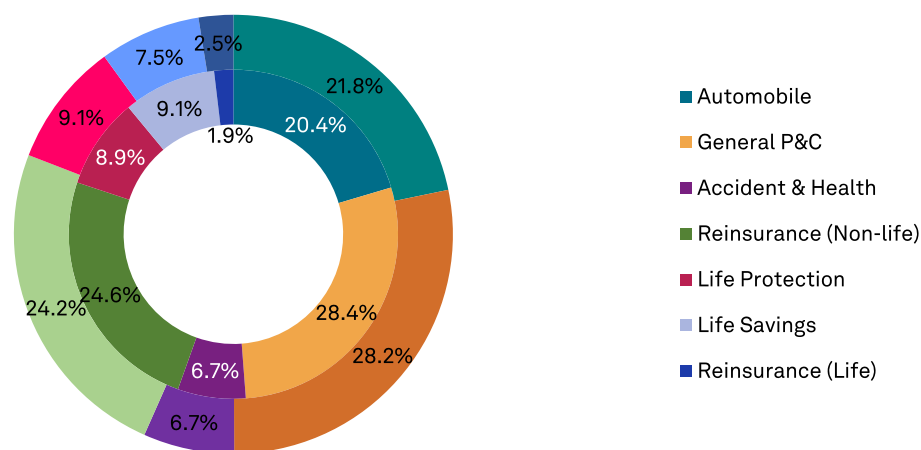


Source: S&P Global Ratings based on data disclosed by Mapfre. Inner circle: 2023. Outer circle: 2022.

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**Chart 2**

**Significant business-line distribution across both life and P/C, split by insurance revenue**



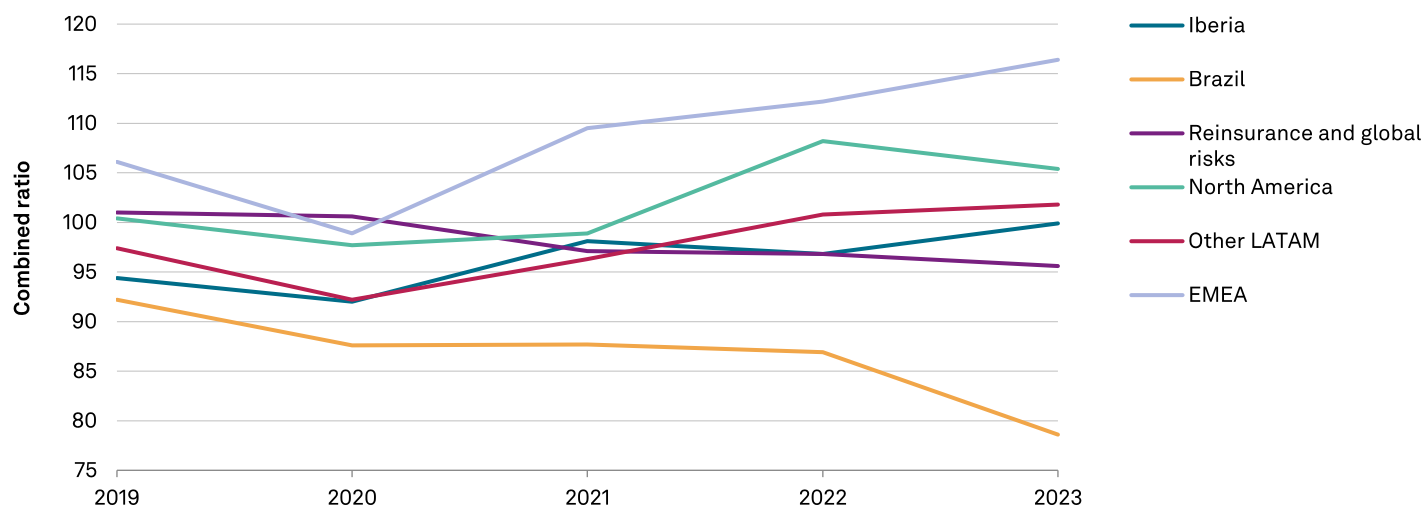
Source: S&P Global Ratings based on data disclosed by Mapfre. inner circle: 2023. Outer circle: 2022.

The group has successfully established a strong brand reputation within its primary markets, thereby enhancing its competitive advantage. Furthermore, the rigorous execution of its strategic plan aims at optimizing its operations and focus on the core markets, which in turn enhances earning diversification.

In 2023, the group reported a combined ratio of 106.0% in the motor line and 98.9% in accident and health business (local accounting). Nevertheless, the overall technical performance in P/C remained favorable, with a net combined ratio of 97.2% (under local accounting standards), reflecting the success of its diversification strategies both within the segment and across different geographical areas, alongside the company's initiatives to adjust prices. The group posted strong business growth in 2023, with gross premiums increasing by 9% to €26.9 billion, supported by strong business generated mainly in Brazil and Spain, and the reinsurance business lines, taking advantage of the increasing rates and some tailwinds from foreign currency movements. For the year 2023, the group achieved a consolidated result of €1.27 billion (under IFRS 17) and a return on equity (ROE) of 13.7%, including minorities. We anticipate the group will maintain similar strong performance in terms of profitability, with net income projected to be between €1.0 billion-€1.3 billion in the forthcoming years, and an ROE ranging between 10% and 13%. We expect the combined ratio under IFRS 17 to be 95%-97% in the upcoming years.

**Chart 3**

**Mapfre's combined ratio distribution as per geographies**



Source: Homogenized local accounting published by Mapfre.  
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## Financial Risk Profile: Strong

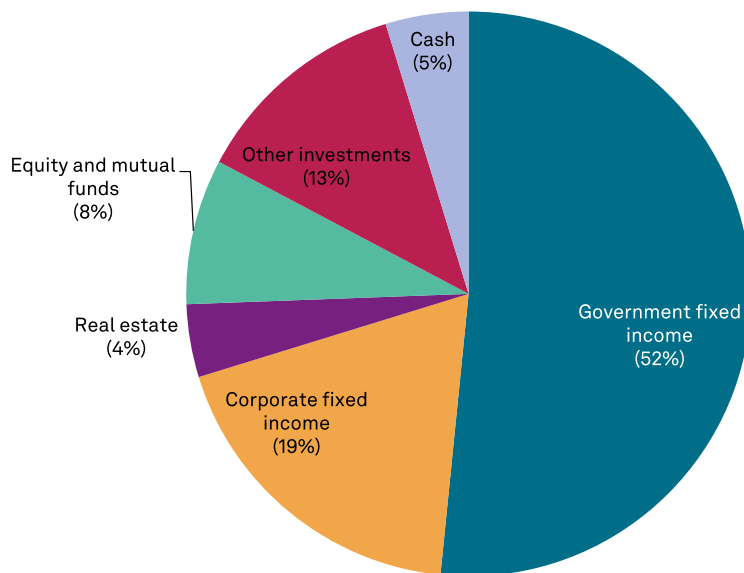
Mapfre Group's capital adequacy was above the 99.95% confidence level at year-end 2023 according to our model. The implementation of our revised capital model led to the inclusion of the €500 million Tier 3 instrument issued in April 2022 in our computation of total adjusted capital as part of debt-funded capital. The revised model also gives more diversification benefits due to the group's overall business mix. The strong matching of assets and liabilities, leading to a limited duration gap at the group level, also reduces sensitivity of the group to interest rate variations.

We expect Mapfre Group's capital adequacy to remain at least above the 99.80% confidence level over our two-year forecast period. We anticipate the group will post strong earnings with net income including minorities ranging between €1.1 billion and €1.3 billion in 2024 and 2025. Net income will continue to support the group's capital adequacy though only partly financing organic--and potentially inorganic growth. Indeed, we estimate risk charges will continue growing substantially. We are projecting insurance revenue under IFRS 17 to reach around €27 billion for the year ended 2024 before increasing to €28 billion by 2025. Our projections also include a dividend payment policy in line with previous years.

The group's Solvency II ratio (excluding transitional measures) was 196.6% at half-year 2024 (versus 199.6% at year-end 2023), within the targeted range of 175%-225% communicated by the company.

**Chart 4**

**Mapfre's strategic asset allocation limits its exposure to several risks**



Source: S&P Global Ratings based on data disclosed by Mapfre.  
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Mapfre Group's strategic asset allocation presents moderately low risk, being mostly geared toward government and corporate bonds (about 70% of the invested assets at the end of 2023). Fixed-income investments rated below 'BBB' represent about 15% of the group's total investment portfolio and are mainly concentrated in Brazilian government bonds. The strategic asset allocation diversifies away bonds through exposures in equity investments, which remains limited to 6.5% of total invested assets, and real estate notably.

In recent years, the group has demonstrated its ability to raise debt capital via its listed entity, Mapfre S.A. Latest issuance of financial debt dates back to April 2022, when the group issued a €500 million Tier 3 hybrid bond with an eight-year maturity. For 2023, we calculate Mapfre group's financial leverage to be at 22.1% and its fixed-charge coverage at 8.8x. We expect the financial leverage to remain comfortably below our 40% threshold and the fixed charge coverage ratio above 4x.

**Other Key Credit Considerations**

**Governance**

Mapfre Group's management and governance are strong, notably thanks to its strong track record of strategic planning and execution.



## Liquidity

Liquidity is exceptional, given the high percentage of readily realizable assets and strong operating cash flows. The group also benefits from a €500 million credit facility, recently signed for a period of five years. The lesser amount in comparison to the previous loan at €1 billion does not raise concern regarding liquidity.

## 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, he or she is 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.'s 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

ESG factors have no material influence on our credit rating analysis of Mapfre.

## Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Insurance Brief: Flash Floods In Spain Have Limited Effect On Insurance Ratings, Nov. 7, 2024
- Mapfre Group Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable, July 11, 2024

- How Global Multiline Insurers' Net Profit Rose Almost 70% In 2023, April 25, 2024

**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+         |
| <b>Very Strong</b>    | aa                     | aa/aa-      | <b>aa-/a+</b> | 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 November 15, 2024)\***

|  |              |
|--|--------------|
| <b>Mapfre S.A.</b>                             |              |
| Financial Strength Rating                      |              |
| Local Currency                                 | NR/--/--     |
| Issuer Credit Rating                           |              |
| Local Currency                                 | A-/Stable/-- |
| Senior Unsecured                               | A-           |
| Subordinated                                   | BBB          |
| <b>Related Entities</b>                        |              |
| <b>Mapfre Re, Compania de Reaseguros, S.A.</b> |              |
| Financial Strength Rating                      |              |
| Local Currency                                 | A+/Stable/-- |
| Issuer Credit Rating                           |              |
| Local Currency                                 | A+/Stable/-- |
| <b>Domicile</b>                                | 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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