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Research Update:

Outlooks On Spain-Based Mapfre And Core Subsidiaries To Neg Pending Rebuilding Of Capital

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Rationale

On Dec. 9, 2008, Standard & Poor's Ratings Services revised its outlook on Spain-based Mapfre S.A (Mapfre) and related core subsidiaries (Mapfre Empresas, Compañia de Seguros y Reaseguros, S.A. and Mapfre Re Compañía de Reaseguros, S.A.) to negative from stable. At the same time, we affirmed our 'A+' long-term counterparty credit rating on Mapfre and our 'AA' long-term counterparty credit and insurer financial strength ratings on Mapfre's core operating subsidiaries. The ratings and outlook on Mapfre's Massachusetts-based subsidiary Commerce Group Inc. (Commerce; BBB/Stable/--), including its insurance subsidiaries Commerce Insurance Co. and Citation Insurance Co. (MA) (both rated A/Stable/--), are unchanged.

We revised the outlook because the level of capitalization continues to be below that implied at this rating level. We have some tolerance for highly rated insurers operating with a level of capital lower than the rating would normally imply, particularly during times of significant market dislocation (see "Credit FAQ: Global Insurers Take A Hit In The Third Quarter, But Ratings Should Withstand The Test" published on RatingsDirect on Nov. 11, 2008). That said, although Mapfre has a very strong earnings track record, we believe that its ability to rebuild capital to a more supportive level over the rating horizon is constrained by the weaker operating environment. This environment includes prospectively lower investment returns, more challenging economic conditions in Mapfre's core markets--Spain and Latin America--and the current constraints on raising capital. At the same time, Mapfre is working to embed its recent acquisitions, most notably Commerce.

Outlook

The negative outlook reflects Standard & Poor's concerns that the economic and market environments may limit Mapfre's ability to rebuild capital adequacy to a level more supportive of the ratings in 2009. Although the group has signaled its intention to issue further hybrid equity, it is unclear when this option will become financially viable for the group.

In addition, we believe that, in common with most insurers, reduced investment returns may put pressure on earnings, which in Mapfre's case may also be negatively affected by the weakening Spanish, U.S., and Latin American economies. The ratings may be lowered should Mapfre fail to meet our expectations regarding rebuilding of capitalization, while the outlook could revert to stable if Mapfre is able to rebuild capital through 2009 to a level more supportive of the rating.

Ratings List

	To	From
Outlook Revised; Rating Affirmed		
Mapfre S.A.		
Counterparty credit rating	A+/Negative/--	A+/Stable/--
Mapfre Empresas, Compañia de Seguros y Reaseguros, S.A.		
Counterparty credit rating	AA/Negative/--	AA/Stable/--
Insurer financial strength rating	AA/Negative	AA/Stable
Mapfre Re Compañía de Reaseguros, S.A.		
Counterparty credit rating	AA/Negative/--	AA/Stable/--
Insurer financial strength rating	AA/Negative	AA/Stable

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