

Research Update: Mapfre S.A. Outlook Revised To Stable On Improving Capitalization; 'A+' Ratings Affirmed

Publication date: 31-Jul-2009
Primary Credit Analyst: Angelo Sacca, London (44) 20-7176-7073;
angelo_sacca@standardandpoors.com
Secondary Credit Analyst: David Laxton, London (44) 20-7176-7079;
david_laxton@standardandpoors.com

Overview

- Mapfre S.A. has made significant progress toward rebuilding capitalization to a level more supportive of the ratings.
- We are revising our outlooks on Mapfre S.A. and related core subsidiaries to stable from negative.
- We are affirming our ratings on Mapfre S.A. and related core subsidiaries.

Rating Action

On July 31 2009, Standard & Poor's Ratings Services revised its outlooks on Spain-based Mapfre S.A. (Mapfre) and related core subsidiaries (Mapfre Empresas, Compania de Seguros y Reaseguros, S.A. and Mapfre Re Compañía de Reaseguros, S.A.) to stable from negative. At the same time, we affirmed our 'A+' 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.

Rationale

The ratings reflect the group's very strong operating performance, very strong competitive position in Spain and the core regions of Latin America, prospectively very strong capitalization, and the group's management, which we consider as a positive ratings factor.

We have revised the outlook because we believe that Mapfre has made significant progress toward rebuilding capitalization to a level more supportive of the ratings. In our opinion, Mapfre's half-year figures demonstrate considerable earnings resilience in the face of a difficult operating environment generally. Our view is reinforced by the measures taken by the group to remove risk from its balance sheet, notably in terms of reduction of debt leverage.

Outlook

The stable outlook reflects our view that Mapfre's earnings and management of capital will restore capitalization somewhat closer to historical levels by the end of 2009. We believe that, notwithstanding prospectively lower investment returns, more challenging economic conditions in Mapfre's core markets--Spain and Latin America--and the current competitive pressures in Spain, Mapfre will post net income in the region of €1 billion and an underlying return on equity in excess of 14% at 2009 year-end. Over the longer term, we have slight concerns that Mapfre's very strong earnings quality may be diluted by weakening profitability in Commerce in the light of stronger competitive

pressures in its home state of Massachusetts. Should this weakening in earnings quality occur to any significant degree, then it may lead to the ratings being lowered. We currently see no potential upside to the ratings.

Ratings List

To From
Ratings Affirmed; Outlook/Creditwatch Action

Mapfre S.A.

Counterparty credit rating
A+/Stable/-- A+/Negative/--

Mapfre Empresas, Compañía de Seguros y Reaseguros, S.A.

Counterparty credit rating
AA/Stable/-- AA/Negative/--
Insurer financial strength rating
AA/Stable AA/Negative/--

Mapfre Re Compañía de Reaseguros, S.A.

Counterparty credit rating
AA/Stable/-- AA/Negative/--
Insurer financial strength rating
AA/Stable AA/Negative/--

NB: This list does not include all ratings affected.

Additional Contacts:

Peter McClean, London (44) 20-7176-7075;

peter_mcclean@standardandpoors.com

Insurance Ratings Europe;

InsuranceInteractive_Europe@standardandpoors.com

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