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Mapfre Group

Primary Credit Analyst:
Peter McClean, London (44) 20-7176-7075; peter_mcclean@standardandpoors.com

Secondary Credit Analyst:
David Laxton, London (44) 20-7176-7079; david_laxton@standardandpoors.com

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Mapfre Group

Please note that the ratings covered by this full analysis apply only to core entities of the group, which are listed below. These ratings do not apply to any noncore or unrated entities of the group. Ratings assigned to noncore entities of the group are published individually.

Major Rating Factors

Strengths:

- Very strong competitive position in Spain and Latin America.
- Very strong capitalization.
- Very strong operating performance.
- Positive management.

Weaknesses:

- Challenging economic and financial climate in Spain, Mapfre's core market.

Holding Company: Mapfre S.A.
Counterparty Credit Rating
Local Currency
A+/Negative/--
Operating Companies Covered By This Report
Financial Strength Rating
Local Currency
AA/Negative/--

Rationale

The ratings on Mapfre Global Risks, Compañía Internacional de Seguros y Reaseguros, S.A. and Mapfre Re Compañía de Reaseguros, S.A., core operating entities of the Spain-based Mapfre insurance group (Mapfre), reflect Mapfre's very strong competitive position in Spain and Latin America, its very strong capitalization, and its very strong operating performance, together with its management, which Standard & Poor's Ratings Services considers as positive for the ratings. These factors are partially offset by the challenging economic and financial climate in Spain, Mapfre's core market.

The Mapfre group has a very strong competitive position. It is currently present in 43 countries and is the leading Spanish insurance group, with an overall market share of 13% at the 2009 year-end. Mapfre is also one of the strongest groups in Latin America, where it has a presence in 17 countries. Underpinning the Mapfre group's very strong competitive position are: its strong and diversified distribution network in Spain, a sizable distribution network in Latin America, and its increasing expansion outside its traditional markets. As at the second quarter of 2010, the proportion of gross premiums written (GPW) derived from business outside Spain exceeded 50% for the first time ever. We expect GPW to increase by about €3 billion to over €18 billion in 2010.

We consider the Mapfre group's consolidated capitalization as very strong. According to Standard & Poor's risk-based capital model, capital adequacy remains supportive of the ratings. We believe that the quality of capital remains very strong, with its high equity component, improved fungibility of capital, adequate reserving, and a low reliance on reinsurance. In our opinion, the de-risking and capital management actions that Mapfre initiated in 2008, together with retained earnings, have together restored capital to its historically very strong levels.

Mapfre's operating performance continues to be very strong, despite the challenging operating environment in Spain and the expected impact on its 2010 results of the Chile earthquake, the largest loss event in the company's history. 2009 underwriting results weakened slightly compared with 2008, with the non-life combined ratio up only slightly to 95.7% from 93.9% in 2008. The quality of earnings continues to improve, as evidenced by the substantially increased contribution from operations outside Spain. Although the economic and financial climate in Spain constrains our view of prospective earnings, we anticipate that the growing contribution from the Latin American business and from recent acquisitions will enable Mapfre to post a pretax result in the region of €1.5 billion in 2010.

We consider management as a positive factor for the ratings. It has demonstrated its ability to grow, both organically and by acquisition, without losing its focus on profitability and customer service. In our view, this reputation has been put to the test by its more aggressive growth and acquisition strategy outside Mapfre's traditional core regions in recent years, with the associated risks that such a strategy entails.

Outlook

The negative outlook reflects that on the Kingdom of Spain (AA/Negative/A-1) and our view of the potential weakening in Mapfre's investment portfolio if we were to lower the sovereign rating further. Although Mapfre has considerably expanded its presence outside Spain in recent years, we believe that it still has significant exposure to its domestic market, which accounts for about 45% of business written as at the second quarter of 2010. In addition, 70% of assets are held by companies that are domiciled in Spain and, whilst these assets are internationally diversified, Spain continues to represent the largest single concentration of assets, representing approximately 40% of the group's total investment portfolio. Therefore, in our view, Mapfre is highly exposed to potential negative trends affecting the Spanish sovereign rating. We could downgrade the ratings on Mapfre's core operating subsidiaries if we were to lower the ratings on Spain or if there to be a weakening in Mapfre's earnings quality or capitalization to any significant degree. Conversely, we would most likely revise the outlook to stable following a similar outlook change on the sovereign and if pressure on Mapfre's investment quality eases. We regard any upside to the ratings beyond an outlook revision as unlikely.

Corporate Profile: An Increasingly Diversified Multinational Group

Mapfre Mutualidad de Seguros y Reaseguros a Prima Fija (Mapfre Mutualidad) was established in 1933 as a mutual to provide coverage for work-related accidents. Following a corporate restructuring at the end of 2006, Mapfre Mutualidad transferred its shareholdings in some operating subsidiaries and in Corporación Mapfre S.A., the quoted holding company, to a new holding company, Cartera Mapfre, S.L., which is the parent company of the group and is fully owned by Fundación Mapfre, a charitable foundation. Corporación Mapfre was renamed Mapfre S.A. (A+/Negative/--) and remains the group's listed entity. As a result of this restructuring, Mapfre S.A. now controls all the operating companies of the group, and is itself ultimately 64.2%-owned by Cartera Mapfre, with 14.9% owned by Caja de Ahorros y Monte de Piedad de Madrid (Caja Madrid; A/Watch Neg/A-1). Caja Madrid as also holds a 12.5% stake in Mapfre Internacional, the holding company for the international direct insurance subsidiaries operating outside of Latin America, including the Commerce Group (Commerce; major operating entities are rated A/Stable/--) in the U.S. Consequently, Mapfre S.A. now owns all of the group's operating companies in Spain, including Mapfre Vida (not rated), Mapfre Empresas, and Mapfre Familiar (formed from a merger of Mapfre Seguros Generales, Mapfre Caja Salud, and Mapfre Automóviles; all not rated), which is the largest writer of motor and homeowners business in Spain. Mapfre S.A. also owns Mapfre Global Risks (AA/Negative/--), Mapfre Re Compañía de Reaseguros S.A. (Mapfre Re; AA/Negative/--), Mapfre America (not rated), and Mapfre Asistencia (not rated).

Competitive Position: Geographical Diversification Helped By Recent Acquisitions

Table 1

Mapfre S.A. Competitive Position

	--Year-ended Dec. 31--				
(Mil. €)	**2009**	**2008**	**2007**	**2006**	**2005**
Total revenue	15,359.4	14,142.1	11,905.7	10,572.4	6,926.8
P/C: Annual change in gross premiums written (%)	10.0	17.0	10.0	59.9	18.6
Life: Gross premiums written	3,530.5	3,322.2	2,926.3	2,401.0	1,923.0
Life: Annual change in gross premiums written (%)	6.3	13.5	21.9	24.9	0.5
P/C: Net premiums written	10,575.4	9,572.3	8,165.6	7,400.4	4,285.1
Life: Net premiums written	3,392.9	3,218.6	2,839.4	2,321.1	1,871.2
Annual change in net premiums written (%)	9.2	16.2	13.2	57.9	13.8
Total assets under management	31,488.1	30,999.9	29,019.4	26,520.8	21,703.0
Growth in assets under management (%)	1.6	6.8	9.4	22.2	10.8

The Mapfre group has a very strong competitive position (see table 1). It is currently present in 43 countries and is the leading Spanish insurance group, with an overall market share of 13% at the 2009 year-end. Mapfre is also one of the strongest groups in Latin America, where it has a presence in 17 countries. Underpinning the Mapfre group's very strong competitive position are: its strong and diversified distribution network in Spain, a sizable distribution network in Latin America, and its increasing expansion outside its traditional markets. As at the second quarter of 2010, the proportion of GPW derived from business outside Spain exceeded 50% for the first time ever.

Spanish operations

Mapfre is very strong in the Spanish non-life market, which it leads with a share of about 16.5%, more than twice the share of its nearest competitor. Mapfre Vida ranked as the fourth-largest life insurer in Spain in 2009, with a market share of about 9% and is also the largest asset manager among Spanish insurers. Mapfre Familiar is the largest underwriter of motor business in Spain of which it has a market share in excess of 20%, and it is also the Spanish leader in nonmotor lines. This leadership in personal and small commercial lines is reinforced by market-leading positions in large corporate/industrial business through Mapfre Global Risks and Mapfre Empresas. The competitive position is further strengthened by the power of the Mapfre brand, which has seen the group expand its activities into add-on services, such as domestic and roadside assistance, and a gradual entry into care homes and vehicle sales and leasing.

Distribution

Historically, the group's geographic coverage of the entire Spanish territory has been a distinct competitive advantage, reinforced by a single extensive distribution network of over 3,200 offices for the sales activities of the various Mapfre businesses. Life products are also distributed via joint ventures and agreements with an increasing number of Spanish savings banks, most notably Caja Madrid. The recently announced transaction with Caixa d'Estalvis de Catalunya (Caixa Catalunya) has considerably strengthened Mapfre's presence in that region, to a level more commensurate with its size at a national level. Distribution of life products could benefit from more effective cross-selling initiatives to Mapfre Familiar's massive client base.

International business

The Mapfre group is one of the largest players in Latin America. Further expansion of Mapfre's tied agent network, together with distribution agreements with financial and nonfinancial entities, contributed to growth of 19% in Latin American premium volumes in 2009, consolidating its position as the largest non-life insurer in the region, with a 6.9% share (2008 figures). The most international of the Mapfre group companies is Mapfre Asistencia, which has a direct presence in 40 countries. Commerce is a significant and entrenched player in Massachusetts with privileged access to various American Automobile Association organizations. Other acquisitions have been made in Turkey and, in 2010, in Portugal. Further geographical and business diversification is provided by Mapfre Re, the group's reinsurance arm.

Prospective

We anticipate that Mapfre group will maintain its very strong competitive position by consolidating its market-leading positions in Spain and Latin America, as well as by making further bancassurance acquisitions, although not necessarily on the scale of the recent sizable Caixa Catalunya transaction. Domestically, whilst a protracted recession of the Spanish economy might hinder volume growth prospects, we believe that Mapfre should still outperform the market if it leverages on its main competitive advantages and if it exploits the full potential of cross-selling to its large customer base. Internationally, the recent period of expansion is expected to remain largely one of consolidation as the recently announced joint venture with Banco Do Brasil S.A. (foreign currency BBB-/Stable/A-3; local currency BBB-/Stable/--) and acquired businesses of Grupo Mundial in Latin America are brought into the Mapfre fold. Longer term, we anticipate that the Commerce operation will be used as a springboard for cautious expansion in personal lines in certain U.S. states. We foresee further international growth derived from leveraging Mapfre's expertise in bancassurance and Global Risks business. We believe that in the medium term, Mapfre's increasing focus on international operations will result in a higher contribution of these businesses to top- and bottom-line growth.

Despite the constrained organic growth prospects in its domestic market, Standard & Poor's nevertheless expects underlying growth in GPW of over 6% in 2010 and 2011. In practice, the acquisitions mentioned above are expected to increase GPW by about €3 million to over €18 billion in 2010.

Management And Corporate Strategy: Proven Track Record, But Acquisition Risks Are Being Managed

We view Mapfre's management as positive for the rating. It has demonstrated its ability to grow, both organically and by acquisition, without losing its focus on profitability and customer service. This reputation has been put to the test by its acquisition strategy outside Mapfre's traditional core regions in recent years, with the associated risks that such a strategy entails.

Strategy

Mapfre's long-term strategy continues to be centered on strengthening the group, which has largely moved away from its mutualist origins. The 2008 acquisitions in the U.S. and Turkey provide ready evidence of a widening of Mapfre's geographic focus beyond its traditional core regions of the Iberian Peninsula and Latin America, although more recent acquisitions demonstrate the continuing importance of these regions. The creation of Mapfre Global Risks reflects the group's intention to compete in the international large corporate insurance market. Standard & Poor's sees little strategic risk in further small-scale acquisitions in Spain and Latin America. However, we believe that the acquisition of Commerce, with the associated risks of operating in a highly regulated, unfamiliar market, represents Mapfre's greatest challenge yet in terms of strategy, although we believe its integration is proceeding successfully.

Operational management

Mapfre's corporate structure has been rationalized over the past few years, improving both operational efficiency and market transparency. This should enable Mapfre to build on its existing operating strengths in tight cost-control policies: centralized reporting of underwriting, investment, and planning. These, along with other group strengths such as training, transfer of expertise, and pricing, have been put to the test by the acquisitions in the U.S. and Turkey. Nevertheless, we have noted some significant progress in the integration of newly acquired businesses in areas such as financial reporting and controls, internal audit, and IT.

Financial management

We believe that capital is now being managed more actively than was historically the case. The increased level of debt to finance the acquisitions pushed the financial leverage ratio as high as 26.5% at the 2008 year-end, placing it slightly outside the rating category tolerance range. Nevertheless, we view favorably Mapfre's conscious efforts to reduce its outstanding debt, which saw this ratio reduce to 17% by the end of 2009. The group maintains a good level of capitalization for all subsidiaries, and is enhancing this process via capital allocation based on internal capital models. Although Mapfre's strength in Latin America exposes it to sovereign risk, its exposure to any one single country is small and it keeps only a small excess over the minimum regulatory capital requirements in most of these countries, while balance sheet currency risk is well managed.

Enterprise Risk Management: Adequate With Strong Risk Controls

We consider enterprise risk management (ERM) in the Mapfre group as adequate overall, with strong risk controls for most of its major risks. ERM is currently of moderate importance to the group's overall rating; however, its importance is increasing in line with the group's more active capital management strategy and expansion into new markets and product lines. Insurance risks are the most important risk exposure for the group and these are generally controlled with strong or well-developed risk controls. Investment risk is the second most important exposure for the group and we assess this as strong. The group's risk culture is robust, but our assessment is currently held back to adequate as it has not articulated its risk appetite in a comprehensive framework. We also have some concerns about a General Manager's fulfilling the role of CRO on a continuing basis in a group of Mapfre's size. However, we acknowledge that this is likely to contribute positively to the group's ability to spread the positive risk management culture across all entities in the group, particularly following the appointment of risk managers in each subsidiary and the implementation of ERM training programs. An economic capital framework has been successfully piloted in Mapfre Re and is presently being rolled out to some other group subsidiaries. The group already uses return on risk-adjusted capital (RORAC) approaches in its pricing and planning processes; however, as these are currently still broadly based on the Standard & Poor's risk-based capital (RBC) model rather than on its internal assessment of risk, this holds back its Strategic Risk Management (SRM) score to adequate. The group is acquisitive and risk concerns are a key part of these considerations. However, there are signs that Mapfre is beginning to use SRM to manage parts of its business.

The controls over the group's underwriting processes are generally regarded as strong and are based on a clear articulation of limits, authorizations, and so on against the group's minimum standards. Local underwriters can write most business locally; however, more complex and large cases are assessed centrally. A similar process operates for life assurance underwriting. Reserving is carried out using traditional tools. Reserves for complex and large cases are managed centrally. The group uses regular external actuarial reviews to ensure that reserves are appropriate and makes substantial use of Mapfre Re for all reinsurance needs. We consider Mapfre Re's process for assessing its outward programs to be strong as it uses its internal capital model to decide on the best program that will bring the best return for the group.

Accounting: Analytical Adjustments Made To IFRS Numbers For EEV, Goodwill, And Discounting In Capital Analysis

Mapfre S.A. 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. We have used economic capital available (ECA) as a basis for our debt leverage calculations and total adjusted capital available (TAC) in our risk-based capital model.

Standard & Poor's capital computation involves various adjustments to the group's 2009 reported (IFRS) amounts, the most material changes included:

- Equity credit given to the off-balance-sheet value of business in-force before minorities;
- Credit for off-balance-sheet unrealized gains and losses on real estate investments; and
- Adding the discount of non-life loss reserves to ECA.

In adjusting the 2009 ECA to TAC, the most material changes include:

- Deduction of goodwill included in the balance sheet (€1.6 billion);
- Deduction of 50% of the off-balance-sheet value in force before minorities; and
- Adjustment for the capital tied up in the group's participating life business, which we regard as partly nonfungible.

Operating Performance: Very Strong Earnings Maintained, Despite Large Losses From Chile Earthquake

Table 2

Mapfre S.A. Operating Performance					
	--Year-ended Dec. 31--				
(Mil. €)	2009	2008	2007	2006	2005
P/C: Return on revenue (%)	11.8	7.3	8.5	8.3	4.1
P/C: Return on revenue including realized and unrealized gains/(losses) (%)	11.6	7.3	8.5	8.3	4.1
Return on equity (%)	16.2	17.6	18.3	19.5	N/A
Return on adjusted equity (%)	14.7	16.9	16.8	17.3	17.3
P/C: Net loss ratio (%)	70.7	68.8	68.1	69.1	69.5
P/C: Total net expense ratio (%)	24.2	24.2	23.4	22.9	26.4
P/C: Net combined ratio (%)	94.9	93.0	91.5	91.9	96.0
Life: Net acquisition expense ratio (%)	10.6	9.4	9.6	9.8	0.0

Table 2

Mapfre S.A. Operating Performance (cont.)					
Life: Net administrative expense ratio (%)	3.9	3.4	3.1	3.4	6.8
Life: General expense ratio (%)	15.0	13.4	13.0	13.5	6.6
Life: Change in administrative expenses (%)	21.0	25.0	10.7	(37.6)	12.6
Life: Administrative expenses to reserves (%)	0.8	0.6	0.5	0.5	0.9

N/A--Not applicable.

Mapfre's operating performance continues to be very strong, despite the challenging operating environment in Spain and the expected impact on its 2010 results of the Chile earthquake, the largest loss event in the company's history. 2009 underwriting results weakened slightly compared with 2008, with the non-life combined ratio up only slightly to 95.7% from 93.9% in 2008. The quality of earnings continues to improve, as evidenced by the substantially increased contribution from operations outside Spain. Although the economic and financial climate in Spain constrains our view of prospective earnings, we anticipate that Mapfre will benefit from the growing contribution of the Latin American business and from recent acquisitions. We believe that these will contribute to Mapfre posting a pretax result in the region of €1.5 billion in 2010. On a consolidated basis, we further expect a non-life combined ratio below 96% in 2010 and 2011, with underlying ROE remaining above 14% in both years.

Underwriting earnings

We believe that the group's earnings reflected another impressive performance in 2009, with the non-life combined ratio up only slightly to 95.7% from 93.9% in 2008. The results are even more remarkable given the softening market conditions in both motor and commercial insurance in the Spanish non-life operations, which contributed about 55% of total earnings. All major operating units recorded an underwriting profit, with the exception of Latin America, which saw a 3% increase in the loss ratio to 71% offset by a corresponding reduction in the expense ratio to 33%. In life business, an increasing contribution from the bancassurance acquisitions maintained new business margins at a high 5.6% (5.5% in 2008) on Present Value of Future profits, while value added by new business primarily contributed to an increase in the return on European Embedded Value (EEV) to 19.3% from 9.4% in 2008. EEV itself decreased fractionally to €2,179 million from €2,192 million in 2008, mainly reflecting the exclusion of a Brazilian subsidiary from the scope of the 2009 EEV calculation. Within the international unit, the first full year's integration of Commerce saw its combined ratio increasing slightly to 98.1% from 96.5%, while Mapfre Genel Sigorta in Turkey just moved into underwriting profit.

Quality of earnings

Quality of earnings is very strong and is reinforced by the increasing diversification derived from the various acquisitions. Return on revenue (ROR) increased marginally to 14.0% in 2009, from 13.2% in 2008, raising the five-year average to a high 11.3%, which in our view is evidence of the continuity of Mapfre's results. At the 2009 year-end, Mapfre generated over 30% of its profits from operations outside Spain (including reinsurance), a substantial increase in non-Spanish earnings compared with 25% in 2008. The benefits of a prudent investment strategy are reflected in the investment yield which, although decreasing slightly to 5% from 5.4%, we still consider more than respectable in an environment of lower interest rates.

Prospective

Standard & Poor's expects the Mapfre group's operating performance to remain very strong. This is despite the impact of the Chile earthquake, the largest loss event in the company's history, which is expected to cost the group some €200 million gross and €100 million net, including reinstatements. This expectation is currently borne out by the positive €500 million net result as at the second quarter of 2010, which was only €30 million less than the same period in 2009, despite the losses in Chile. While we believe that 2010 full-year earnings will recover from these losses, we view the outlook as mixed. On the one hand, we foresee a stabilization in the performance of the Spanish operations, with signs that the weakening margins in the large motor portfolio are reaching their inflection point. Offsetting this is the economic and financial climate in Spain, where the government's recently announced cost-cutting measures are likely to dampen consumer spending and, by implication, premium volumes. That said, volumes and results of the life business in Spain and elsewhere are holding up remarkably well. We anticipate that both the life and non-life businesses will benefit from the growing contribution of the Latin American business, notably in Brazil, and from the recent acquisitions.

On a consolidated basis, Standard & Poor's expects a non-life combined ratio below 96% in 2010 and 2011, with underlying ROE remaining above 14% in both years. These figures exclude the impact of the Caixa Catalunya and Banco de Brasil transactions.

Investments: Very Strong And Conservative

Table 3

Mapfre S.A. Liquidity And Investments

	--Year-ended Dec. 31--				
(Mil. €)	**2009**	**2008**	**2007**	**2006**	**2005**
High-risk assets to total invested assets (%)	13.2	16.1	18.3	17.8	12.1
Illiquid invested assets to total invested assets (%)	9.6	11.3	9.8	8.9	5.8
Net investment yield (%)	5.0	5.5	4.7	5.1	5.2
Net investment yield including all capital gains/(losses) (%)	5.0	5.0	4.7	5.2	5.3
Investment portfolio composition					
Cash and cash equivalents (%)	2.8	4.6	5.7	5.4	4.5
Bonds (%)	84.0	79.3	75.9	76.8	83.4
Common stock (%)	3.6	4.8	8.5	8.9	6.3
Real estate (%)	6.2	6.1	6.1	6.0	3.4
Investments in affiliates (%)	1.4	1.1	1.2	1.0	0.5
Other investments (%)	2.0	4.1	2.5	1.8	1.9
Total portfolio composition (%)	100.0	100.0	100.0	100.0	100.0

Strategy

Standard & Poor's regards Mapfre's investments as very strong (see table 3). Investment strategy has traditionally been very conservative with a focus on quality and liquidity, and low credit and market risks.

Credit risk

Credit risk is low, with about 70% of the bond portfolio rated 'AA' or higher. Apart from credit and sovereign ratings, the group uses indicators such as breakdown by geography, type of entity, and sector to control credit risk.

Market risk

Market risk has decreased following a gradual divestment of equities from 9% in 2006 to less than 4% of the total invested assets at the 2009 year-end. The concentration risk arising from holdings in fixed-income investments in eurozone sovereign paper (other than Spain) has been reduced.

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Asset-liability management

Given the strong regulatory control in this area, we do not consider asset-liability management to be a major issue, except to a small extent in the life and funeral expense classes, where the average duration of assets exceeds liabilities by about two years. There is a theoretical exposure to interest rate risk arising from life insurance contracts carrying guaranteed rates of return above the risk-free rate of 3%, but these liabilities represent only a very small proportion of the total and in any case are matched by corresponding assets. Liabilities deriving from the pensions' externalization process are matched through swaps.

Liquidity: Very Strong

Liquidity is very good, given the high percentage of readily realizable assets. Mapfre invests mainly in highly liquid government and corporate bonds. The ratio of liquid assets to technical reserves remained stable at 105% in 2009, although the group's holdings in cash and cash equivalents fell to around €0.9 billion from €1.5 billion in 2008. The profitability of the group continues to generate strong cash flows, albeit not at the same high levels as in previous years. Mapfre has ready access to bank facilities, as evidenced by the syndicated loan facility provided for the acquisition of Commerce, as well as committed credit lines.

Capitalization: Very Strong Level Maintained

Table 4

Mapfre S.A. Capitalization

	--Year-ended Dec. 31--				
(Mil. €)	**2009**	**2008**	**2007**	**2006**	**2005**
Reinsurance utilization (%)	10.5	10.6	10.6	11.1	15.2

Standard & Poor's views Mapfre's capitalization as very strong. According to Standard & Poor's risk-based capital model, capital adequacy remains supportive of the ratings. We believe that the quality of capital remains very strong, with its high equity component, improved fungibility of capital, adequate reserving, and a low reliance on reinsurance. In our opinion, the de-risking and capital management actions that Mapfre initiated in 2008, together with retained earnings, have together restored capital to its historically very strong levels.

Capital adequacy

The capital adequacy according to Standard & Poor's risk-based model has strengthened to the high end of the 'AA' range. We believe that risk mitigation and capital preservation actions undertaken by Mapfre's management have made significant progress toward improving the group's capital position.

Quality of capital

Quality of capital is very strong, with a high equity component and high fungibility of capital. Quality of capital is further strengthened by the relative lack of exposure to equity market volatility and to catastrophe risks in Spain, its largest market, although the increasing geographical expansion of Mapfre is raising the previously relatively low exposure to such risks elsewhere. Mapfre should also be credited for its significantly reduction in outstanding debt levels, including the total amortization of the €1 billion loan for the acquisition of Commerce, since June 2008.

Reserves

Standard & Poor's considers the group's reserves to be adequate, particularly for its Spanish business. The ratio of non-life technical reserves to net premiums written was about 93% at the 2009 year-end. While this figure may not appear at first sight to be particularly high, this can be explained by Mapfre's predominantly short-tail book of business and the speed of its claims settlement; the reserving policy is in fact conservative, as confirmed by external actuarial reviews.

Reinsurance

The Mapfre group's reliance on reinsurance is low, with Mapfre Re being the group's reinsurer. The reinsurance utilization ratio remained extremely stable at 10.5% in 2009. The ultimate net retention level is conservative, and the retrocessionaires used by Mapfre Re are of excellent quality.

Prospective

We expect capital to remain at very strong levels in the next few years. Standard & Poor's view of capitalization is reinforced by Mapfre's strong earnings track-record and capital management transactions such as the dividend reinvestment plan. Total debt issued is expected to fall within the existing debt tolerances and we do not anticipate any additional material acquisitions.

Financial Flexibility: Very Strong

Table 5

Mapfre S.A. Financial Flexibility

	--Year-ended Dec. 31--				
(Mil. €)	**2009**	**2008**	**2007**	**2006**	**2005**
Debt leverage including additional pension deficit as debt (%)	23.8	36.7	25.5	15.6	14.2

We consider Mapfre's financial flexibility (defined as the ability to source capital relative to capital requirements) as very strong, although slightly weakened in the current capital market environment. Over recent years, Mapfre S.A. has demonstrated its ability to raise capital more effectively than under its previous mutual-based structure. Financial flexibility is also enhanced by the agreement with Caja Madrid, which may be a source of additional capital if needed. An additional potential source of capital is Fundación Mapfre, the ultimate shareholder, which has the ability to subscribe to any further share issue.

Ratings Detail (As Of August 6, 2010)*	
Holding Company: Mapfre S.A.	
Issuer Credit Rating	
Local Currency	A+/Negative/--
Senior Unsecured (1 Issue)	A+
Subordinated (1 Issue)	A-
Operating Companies Covered By This Report	
Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A.	
Financial Strength Rating	
Local Currency	AA/Negative/--
Counterparty Credit Rating	
Local Currency	AA/Negative/--

Ratings Detail (As Of August 6, 2010)*(cont.)	
Mapfre Re, Compania de Reaseguros, S.A.	
Financial Strength Rating	
Local Currency	AA/Negative/--
Issuer Credit Rating	
Local Currency	AA/Negative/--
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.

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

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