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Mapfre Group

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Table Of Contents

Major Rating Factors

Rationale

Outlook

Corporate Profile: An Increasingly Diversified Multinational Group

Competitive Position: Geographical Diversification Helped By Acquisitions

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

Enterprise Risk Management: Adequate With Strong Risk Controls

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

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

Investments: Very Strong And Conservative

Liquidity: Very Strong

Capitalization: Very Strong Level Maintained, Although Quality Is Weakened

Financial Flexibility: Proven Ability To Source Capital Relative To Needs

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.
- Management's good track record.

Weaknesses:

- Difficult 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

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

The Mapfre group has a very strong competitive position. The group business and risk profiles benefit from increasing geographic diversification, enhanced by leading and profitable positions in most of the countries in its core markets of Spain and Latin America. It is currently present in 43 countries. It is the leading Spanish insurance group and the third-largest in Latin America. In 2010, the proportion of gross premium written (GPW) derived from business outside Spain exceeded 50% for the first time ever. With non-life business representing over 75% of its total business, Mapfre shows a relatively low diversification between life and non-life compared with peers. Furthermore, Mapfre's increasing diversification into large commercial lines exposes the group to higher levels of large corporate and catastrophic risk.

We consider the Mapfre group's consolidated capitalization to be very strong, enhanced by sound capital adequacy, adequate reserving, and effective use of reinsurance. That said, we consider that the level and quality of capital adequacy have weakened; in 2010, Mapfre acquired a 50% stake in Catalunya Caixa's insurance arms and made other acquisitions that included goodwill, which is deducted from the total adjusted capital (TAC) available in our risk-based capital model. Mapfre's strong earnings track-record reinforces our view of its capitalization. However, the deteriorating credit quality of European government bonds and further midsize acquisitions could further weaken Mapfre's capital adequacy.

Mapfre's operating performance continues to be stable and very strong, benefiting from the group's successful geographic diversification and mix of organic and external growth. Despite the difficulty of operating in Spain and the impact on the group's 2010 results of the Chile earthquake, underwriting results weakened only slightly in 2010 compared with the previous year. The non-life combined ratio remained strong at 96.5% (95.7% in 2009). However, life business in Spain is showing deteriorating margins and weak organic growth. These are partly offset by the business mix resulting from this, which is more profitable (total margins weakened to 5.4% in 2010 versus 5.6% in 2009). Although the economic and financial climate in Spain continues to constrain our view of prospective earnings, we anticipate that the increasing focus on cross-selling in the domestic market and the growing contributions from the Latin American business and from recent acquisitions will enable Mapfre to record a post-tax result of approximately €1 billion in 2011.

We consider management to be 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. Mapfre has maintained its reputation despite its recent strategy of increasing acquisitions outside its traditional core regions. Mapfre's financial management would be expected to evolve in tandem with group financial and business risk profiles. However, in our view, it does not appear to have kept pace with the more sophisticated full internal model approach used by its peers.

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, in our view it still has significant exposure to its domestic market, which accounted for about 46% of business at year-end 2010. In addition, 70% of assets are held by companies that are domiciled in Spain and, while these assets are internationally diversified, Spanish investments continue to represent the largest single concentration of assets, representing approximately 40% of the group's total investment portfolio.

We could downgrade the ratings on Mapfre's core operating subsidiaries if we were to lower the ratings on Spain or if there were to be a further significant weakening in Mapfre's business risk profile as well as in the level or quality of capital adequacy, particularly derived from further acquisitions. Conversely, we would most likely revise the outlook to stable if pressure on Mapfre's competitive position and investment quality eases. We currently regard positive rating action as unlikely.

Corporate Profile: An Increasingly Diversified Multinational Group

Established in 1933 in Spain under the name of Mapfre Mutualidad as a mutual providing coverage for work-related accidents, Mapfre is today a multinational insurance group. In 2010, its premiums totaled €17.0 billion and shareholders' funds totaled €7.8 billion. The group writes most lines of insurance business and operates in 43 countries. Mapfre groups its operations into three main business divisions:

- Spanish direct insurance business. The group wrote €7.4 billion in gross premium in 2010 and operates in its local market via three unrated entities: Mapfre Familiar for individual non-life insurance, Mapfre Vida for life insurance, and Mapfre Empresas for commercial insurance.

- International direct business. This division, which accounted for €7.0 billion GPW in 2010, embraces two main entities: Mapfre America (not rated) is the holding company for the subsidiaries operating in 17 countries in Latin America, while the remaining international direct operations are grouped under Mapfre Internacional (not rated). These include U.S.-based Commerce Insurance Co. and Citation Insurance Co. (both rated A+/Stable/--, and collectively referred to as Commerce).
- Global insurance business. This area includes Mapfre's operations providing global solutions, mostly via local representative offices: Mapfre Global Risks (AA/Negative/--), Mapfre Re Compañía de Reaseguros S.A. (Mapfre Re; AA/Negative/--), and Mapfre Asistencia (not rated). This area accounted for €3.7 billion GPW in 2010.

Mapfre S.A. (A+/Negative/--) has been the holding company controlling all the group's operating entities since 2006. Mapfre S.A. is itself ultimately 64.2%-owned by Cartera Mapfre, S.L., which is fully owned by Fundación Mapfre, a charitable foundation. Banco Financiero y de Ahorros S.A. (BFA; BBB-/Stable/A-3), parent company of Bankia S.A.U. (Bankia; A-/Stable/A-2) owns 14.9% of Mapfre S.A., and the remaining 20.9% is widely held as the entity is listed on the Madrid and Barcelona stock exchanges.

Competitive Position: Geographical Diversification Helped By Acquisitions

Table 1

Mapfre S.A. Competitive Position

	--Year-ended Dec. 31--				
(Mil. €)	**2010**	**2009**	**2008**	**2007**	**2006**
Gross premium written	16,973	15,607	14,305	12,310	10,933
Net premium earned	14,823	13,714	12,473	10,606	9,343
Annual change in net premium earned (%)	8.1	9.9	17.6	13.5	59.2
NL: Gross premium written	13,053	12,076	10,983	9,384	8,532
NL: Annual change in gross premium written (%)	8.1	10.0	17.0	10.0	59.9
Life: Gross premium written	3,920	3,531	3,322	2,926	2,401
Life: Annual change in gross premium written (%)	11.0	6.3	13.5	21.9	24.9
Total assets under management	34,957	31,488	31,000	29,019	26,521
Growth in assets under management (%)	11.0	1.6	6.8	9.4	22.2

NL--Non-life.

The Mapfre group's overall competitive position is regarded as very strong. The group business and risk profiles benefit from increasing geographic diversification, enhanced by leading and profitable positions in its core markets of Spain and Latin America, a balanced exposure between mature and fast growing countries, and no over-reliance on any single country other than Spain. Underpinning these leading positions are diversified and sizable distribution networks, client service focus, and successful sharing of best practices.

The group's overall business risk profile is constrained by relative concentration on non-life insurance, which still represents over 75% of the total business, and increasing exposure to large corporate risks, as well as natural catastrophe and severe weather-related claims. Competitive position is also constrained by the current Spanish economic and financial climate, which is likely to hinder business growth.

Direct Spanish operations

Mapfre is the undisputed leader of the Spanish non-life sector; it had a 16.3% market share at the end of 2010. Mapfre Familiar is the largest underwriter of Spanish motor business, a sector in which its market share exceeds 20%. Mapfre Vida ranked as the third-largest life insurer in Spain in 2010. It had a market share of about 13% and was also the largest asset manager among Spanish insurers. This leadership in personal and small commercial lines is reinforced by market-leading positions in large corporate/industrial business through Mapfre Global Risks (see below) and Mapfre Empresas. Historically, Mapfre has not exploited cross-selling opportunities much. Its move to exploit them is allowing it to grow above the market average, despite the uncertain economic and financial climate.

The group benefits from the power of the Mapfre brand, which has seen the group expand its activities into add-on services, such as domestic and roadside assistance, which have also boosted technical performance. The group's major strength is its wide geographic coverage, reinforced by an extensive network of over 3,200 offices. This is complemented by a distribution capacity of 4,900 bank branches provided by joint ventures and agreements with an increasing number of Spanish savings banks, most notably Bankia, formerly Caja Madrid (since 2000), and Catalunya Caixa (since 2010). With the launch in 2010 of Verti, a direct sales company operating via the Internet and by telephone, the group now aims to capture a significant share of the online insurance market.

International business: direct and global

Brazil and the U.S., as Mapfre's second- and third-largest markets, provided €2.1 billion and €1.4 billion premiums, respectively, in 2010. The Mapfre group is the third-largest insurance player in Latin America, an expanding market. It has signed distribution agreements with financial and nonfinancial entities. Organic growth and good distribution helped Mapfre's Latin American premium volumes to increase by 20% in 2010 (19% in 2009), consolidating its position as the largest non-life insurer in the region. Its market share was 7.9% in 2009. In the U.S., Commerce is a significant and entrenched player in Massachusetts and has privileged access to various American Automobile Association organizations.

The most international of the Mapfre group companies is Mapfre Asistencia, which has a direct presence in 40 countries. Further geographical and business diversification is provided by Mapfre Re, the group's reinsurance arm, and Mapfre Global Risks, a specialized unit focused on the coverage of large and global commercial risks.

Prospective

We anticipate that Mapfre group will maintain its very strong competitive position by consolidating its market-leading positions in Spain and Latin America. It will also sustain its position through small-to-midsize acquisitions and joint ventures.

Domestically, protracted economic and financial uncertainty in Spain is likely to continue to hinder volume growth prospects. That said, we anticipate that Mapfre will continue to outperform the market by building on its main competitive advantages and increasing its focus on fully exploiting the potential of cross-selling to its large customer base. In our opinion, Mapfre is also well placed to become the exclusive insurance partner of Bankia, the entity resulting from the merger of Caja Madrid, Bancaja, and five other savings banks. This would give Mapfre access to some 1,100 further bank branches.

Internationally, the joint ventures with Banco Do Brasil S.A. (foreign currency BBB-/Stable/A-3; local currency BBB-/Stable/--) are predicted to significantly increase premium volumes in the region, while its acquisition of the Grupo Mundial businesses in Central America should enhance the group's competitive position there. We foresee further international growth derived from exploiting Mapfre's expertise in global risks business.

Despite the constrained organic growth prospects in its domestic market, we expect reported premiums to increase at a compound annual growth rate of almost 10% in 2010 and 2011. Growth will mostly be based on strong organic growth in South America, particularly the gradual inclusion of recently signed joint ventures and acquired companies in the consolidated figures, offset by weaker growth in Spain and the U.S.

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. Mapfre has maintained its reputation despite its recent strategy of increasing acquisitions outside its traditional core regions. However, financial management does not appear to have kept pace with the more sophisticated full internal model approach used by its peers.

Strategy

Mapfre's long-term strategy continues to be centered on strengthening the group, which has largely moved away from its mutualist origins, and focusing on its core insurance business. 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. We consider that the acquisition of Commerce, which brought the associated risks of operating in a highly regulated, unfamiliar market, has represented Mapfre's greatest challenge yet in terms of strategy, although we understand that 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. The group has successfully adapted strategies to organizational capabilities and vice versa, as demonstrated most recently by the latest group reorganization into three major divisions (see "Corporate Profile").

The reorganization should enable Mapfre to build on its existing operating strengths in tight cost-control policies: centralized reporting of underwriting, investment, and planning. Mapfre's acquisitions in the U.S. and Turkey put its operating strengths and its other group strengths--e.g., training, transfer of expertise, and pricing--to the test. Mapfre has a disciplined approach to sharing best practices and dealing with underperforming units, as demonstrated by the recent disposal of Quavitae and its 49% share in Banco de Servicios Financieros, its former banking joint-venture with Caja Madrid.

Financial management

We understand that capital is being managed more actively than it has been in the past. The increased level of debt needed to finance the acquisitions pushed the financial leverage ratio (including short-term debt) as high as 36.7% at the 2008 year-end, placing it slightly outside the rating category tolerance range. Mapfre made conscious efforts to reduce its outstanding debt and thus this ratio fell to 23.5% by the end of 2010. The group maintains a good level of capitalization for all subsidiaries, although its approach to assessing capital requirements and allocating capital, which would be expected to evolve in tandem with group financial and business risk profiles, still appears to lack the sophistication of the full internal model approach used by its peers. Although Mapfre's strength in Latin America exposes it to sovereign risk, the concentration risk is mitigated by its exposure to 17 countries. Capital adequacy at subsidiary level and overall balance-sheet currency risk are both 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. Historically of moderate importance to the group's overall rating, ERM's importance is increasing in line with the group's more active capital management strategy and the increasingly complex and diversified business risk profile.

Insurance risks are the most important risk exposure for the group and these are generally controlled using 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 continues to be held back to adequate as Mapfre has not yet articulated its risk appetite in a comprehensive framework.

Following the appointment of Mapfre's general manager (finance) as chief risk officer in 2009, reporting directly to the board of directors, ERM is increasingly embedded in the strategic decision-making process. We consider that this has helped 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, although the group is not yet planning its wider full implementation at other subsidiaries or at group level. The group already uses return on risk-adjusted capital (RORAC) approaches in its pricing and planning processes; however, these are currently still broadly based on 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, we see 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 (at both group and subsidiaries level) 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 which program will bring the best return for the group.

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

Mapfre 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. The figures in our tables are derived from the IFRS annual accounts, which merge figures for direct non-life, indirect non-life, and indirect life insurance.

Our non-life net expense and combined ratios of 25.9% and 96.5% respectively in 2010, differ from those reported by the company (25.2% and 95.8%). In determining the total expenses base, we have included €44 million net other non-technical charges, disregarding €37 million other underwriting income.

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

Standard & Poor's computations involve various adjustments to the group's 2010 reported (IFRS) amounts. In adjusting the 2010 reported shareholders funds to TAC, the most material changes were:

- Partial 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, net of corporate taxes;
- Partial credit for discounted non-life unearned reserves; and
- Deduction of intangible assets included in the balance sheet (€3.2 billion) net of corporate tax.

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

Table 2

Mapfre S.A. Operating Performance

	--Year-ended Dec. 31--				
(Mil. €)	**2010**	**2009**	**2008**	**2007**	**2006**
Return on revenue (%)	7.3	8.5	9.4	10.1	10.0
NL: Return on revenue (%)	6.7	5.7	6.9	3.6	4.2
Life: Return on revenue life (%)	9.7	9.8	11.5	12.8	11.2
Return on equity (%)	14.3	16.2	17.6	18.2	19.5
EBIT adjusted to total equity adjusted (%)	16.0	20.2	23.4	22.2	25.2
EBITDA adjusted to capital (%)	14.0	15.5	17.3	17.8	22.0
EBITDA	1,474	1,466	1,429	1,370	1,156
EBITDA adjusted	1,238	1,312	1,371	1,186	1,035
NL: Net loss ratio (%)	70.5	70.7	68.8	68.1	69.1
NL: Net expense ratio (%)	25.9	24.9	25.3	25.2	24.6
NL: Net combined ratio (%)	96.5	95.7	94.1	93.4	93.7
Life: general expense ratio (%)	16.1	15.2	13.8	13.5	13.7
Net investment yield (%)	4.7	4.5	5.1	4.0	4.3

NL--Non-life.

Mapfre's operating performance continues to be stable and very strong, benefiting from the group's successful geographic diversification and mix of organic and external growth. Despite the difficulty of operating in Spain and the impact on its 2010 results of the Chile earthquake (the largest loss event in the company's history), underwriting results weakened only slightly in 2010 compared with the previous year. The 2010 non-life combined ratio was still strong at 96.5% (95.7% in 2009). The quality of earnings benefits from the substantial increase in contributions from operations outside Spain, and life operations. That said, life business in Spain is showing deteriorating margins and weak organic growth, partially offset by the more profitable business mix that has resulted from this.

Underwriting earnings

We believe that the group's earnings reflected another impressive performance in 2010. Despite the difficult global economic and financial environment, Mapfre has consistently reported an end of year net income above €900 million since 2008. A mix of organic growth, conservative investment strategy and underwriting discipline has boosted this income. The 2010 non-life combined ratio was up only slightly to 96.5% from 95.7% in 2009. The results are remarkable given the softening market conditions in both motor and commercial insurance in Spanish non-life. This sector contributed about 54% of total earnings, a figure in line with 2009. All major operating units recorded an underwriting profit, except for the international direct business and Mapfre Global Risk. The latter saw the loss ratio increasing substantially by 6%, to 81%, as a result of the Chile earthquake. At group level, the Chile earthquake cost some €106 million net, including reinstatements.

New business margins further weakened to 5.4% (5.6% in 2009). New business value grew to €220.6 million (up 5.1% compared with 2009), triggered by the consolidation of the Catalunya Caixa business. Excluding the Catalunya Caixa business, the new business value would have dropped by 4.4%. Accordingly, the return on European embedded value (EEV) fell to a marginal 4.9% from 19.3% in 2009. EEV itself increased to €2,490 million from €2,179 million in 2009. Again, this mainly reflects the inclusion of Catalunya Caixa in the scope of the 2010 EEV calculation.

Quality of earnings

Quality of earnings is very strong, reinforced by the increasing geographic and business diversification derived from the various acquisitions. The overall return on revenue (ROR) slightly weakened to 7.3% (8.5% in 2009). In our view, this level provides further evidence of the continuity of Mapfre's very strong results. At the 2010 year-end, over 40% of Mapfre's profits were generated by direct foreign and global operations, representing a substantial increase in non-Spanish earnings compared with less than 30% just two years before. The life business accounted for 23% of the total technical results in 2010. The group continues to report a very stable investment yield of just above 5% in 2010, which we consider more than respectable considering the current financial environment and the group's prudent investment strategy.

Prospective

Standard & Poor's expects Mapfre's operating performance to remain very strong. The group reported a €543.2 million net result at the end of the first half of 2011, 8.6% more than the same period in 2010, which included the losses in Chile. We foresee that the performance of the Spanish operations will stabilize; there are signs that the softening tariffs in the Spanish motor market are reaching their inflection point. On the other hand, the difficult Spanish economic and financial climate is likely to hinder growth in premium volumes, in particular the life business sold via the bancassurance channels. That said, Mapfre's volumes and results in Spain and elsewhere are holding up remarkably well.

We anticipate that both the life and non-life businesses will benefit from increasing focus on cross-selling in the domestic market, the growing contribution of the Latin American business, notably in Brazil, and from the recent acquisitions. We expect these factors to allow Mapfre to achieve a post-tax result of approximately €1 billion in 2011. On a consolidated basis, we expect the non-life combined ratio to remain stable at around 96% in 2011 and

2012.

Investments: Very Strong And Conservative

(Mil. €)	2010	2009	2008	2007	2006
Invested assets to total assets (%)	72.9	75.5	78.0	80.8	82.3
Invested assets to loss and unearned premium reserve (%)	342.5	330.5	349.2	389.3	398.9
Common equity investments to capital (%)	60.7	38.1	241.8	84.2	65.5
Real estate investments to capital (%)	98.1	65.8	304.6	60.5	44.5
Total invested assets adjusted	33,241	30,689	30,528	28,657	26,265
Separate accounts/unit linked assets	1,717	799	472	362	256
Investment portfolio composition					
Cash and cash equivalents (%)	4.5	2.8	4.6	5.7	5.4
Total bonds (%)	80.3	84.0	79.3	75.9	76.8
Common stock (%)	4.6	3.6	4.8	8.5	8.9
Real estate (%)	7.4	6.2	6.1	6.1	6.0
Investments in affiliates (%)	1.2	1.4	1.1	1.2	1.0
Other investments (%)	2.0	2.0	4.1	2.5	1.8
Total portfolio composition (%)	100	100	100	100	100

*In partnerships, joint ventures, and other alternative investments.

Strategy

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

Credit risk

Credit risk is low; about 66% of the bond portfolio is 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.

At year-end 2010, the group had €6.3 billion invested in Spanish sovereign debt (23% of its fixed-income portfolio or 80% of the shareholders' funds): over half of these investments are matched with life reserves. Mapfre also invests €2.2 billion in Italian, Portuguese, Irish, and Greek government bonds (8% of its fixed income portfolio or 28% of the shareholders' funds).

Market risk

Market risk has decreased following a gradual divestment of equities from 9% in 2006 to less than 5% of the total invested assets at the 2010 year-end. Real estate investments represent over 7% of the total invested portfolio. This figure is not likely to increase over time as the group focuses on the management, rather than the expansion of the existing portfolio.

Asset-liability management

Given the strong regulatory control in this area, we do not consider asset-liability management to be a major issue, as the average duration of assets matches liabilities in almost all the classes. 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 total technical reserves remained slightly weakened at 98% in 2010. The group returned to generating strong cash flows in 2010 and holdings in cash and cash equivalents recovered to €1.5 billion, after falling to around €0.9 billion in 2009. 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, Although Quality Is Weakened

Standard & Poor's views Mapfre's capitalization as very strong. We consider, however, that the acquisitions made in 2010 and the resulting goodwill have caused both the level and quality of capital adequacy to weaken slightly. Capitalization benefits from adequate reserving, and a low reliance on reinsurance. We believe that deteriorating credit quality of European government bonds and further midsize acquisitions could weaken Mapfre's capitalization.

Table 4

Mapfre S.A. Capitalization

	--Year-ended Dec. 31--				
(Mil. €)	**2010**	**2009**	**2008**	**2007**	**2006**
Economic capital available	6,898	6,617	5,253	6,029	4,977
High risk assets/total adjusted capital (%)	108.8	81.6	134.4	118.7	106.9
NL: Net loss reserves/gross loss reserves (%)	71.4	76.1	73.3	72.8	76.1
NL: Loss reserves/NPW (%)	49.1	47.8	51.0	52.1	51.9
Reinsurance utilization (%)	10.6	10.5	10.6	10.6	11.1
NL: Loss & unearned premium reserve/NPW (%)	91.8	92.9	96.8	96.7	95.2

NL--Non-life. NPW--Net premium written.

Capital adequacy

According to Standard & Poor's risk-based model, Mapfre continues to show sound levels of capital adequacy. However, we believe that the acquisitions made in 2010 and the resulting goodwill have caused the level and quality of capital adequacy to weaken. Standard & Poor's view of capitalization is reinforced by Mapfre's strong earnings track record and capital management. Widening spreads and the deteriorating credit quality of European government bonds, potential new midsize joint ventures and acquisitions, and the potential need for capital of bancassurance partners could weaken Mapfre's capital adequacy.

Quality of capital

Mapfre's historically very strong quality of capital is being weakened by the increasing level of intangible assets, which at H1 2011 accounted for 42% of total shareholders' funds. Quality of capital continues to benefit from 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 significant reduction in outstanding debt levels, which had increased when it acquired Commerce. Mapfre's financial leverage (including short-term debt) was 23.5% as of year-end 2010, well below the 36.7% in 2008. We expect it to be further reduced in 2011 as the group has not renewed €275 million senior debt that has matured in 2011.

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 premium written remained stable at about 92% at the 2010 year-end. This figure may not appear to be particularly high, but Mapfre book of business is predominantly short-tail and its claims are settled speedily.

Reinsurance

The Mapfre group's reliance on reinsurance is low. Mapfre Re acts as the group's reinsurer. The reinsurance utilization ratio remained extremely stable at 10.6% in 2010. The ultimate net retention level is conservative, and the retrocessionaires used by Mapfre Re are of excellent quality.

Financial Flexibility: Proven Ability To Source Capital Relative To Needs

We consider Mapfre's financial flexibility (defined as the ability to source capital relative to capital requirements) as very strong, although slightly weakened given the current state of the capital markets.

Table 5

Mapfre S.A. Financial Flexibility

	--Year-ended Dec. 31--				
(Mil. €)	**2010**	**2009**	**2008**	**2007**	**2006**
Debt leverage including additional pension deficit as debt (%)	23.5	23.8	36.7	20.1	14.0
Dividend cover (x)	2.7	3.0	3.4	3.7	6.4
Debt/EBITDA (including capital gains/losses) (x)	1.4	1.4	2.1	1.1	0.7

Mapfre's capital needs over the next two years are expected to derive mostly from the strong organic growth in South America, increasing exposure to large commercial and catastrophic risks as well as to severe weather-related claims, and potential small-to-midsize acquisitions.

The group's main sources of financial flexibility remain its sound track record of very strong operating performance, and flexible capital allocation strategy. Effective reinsurance covers also play an increasingly important role in smoothing major losses. We believe there is little extra capital left in excess of its 'AA' level.

In recent years, Mapfre S.A. has also demonstrated its ability to raise capital more effectively than under its previous mutual-based structure. Fundación Mapfre, the ultimate shareholder, remains an important potential source of capital. The acquisition of Commerce in 2008 was initially financed via a bridging loan, repaid in 2010. In 2008, Mapfre successfully raised a further €700 million via a hybrid debt issuance. Since then Mapfre has repeatedly increased its capital via annual dividend reinvestment plans, which have always encountered widespread shareholders' participation.

Ratings Detail (As Of August 4, 2011)*

Holding Company: Mapfre S.A.

Ratings Detail (As Of August 4, 2011)*(cont.)	
Issuer Credit Rating	
Local Currency	A+/Negative/--
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/--
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.

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