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Research Update:

Mapfre Insurance Group Core Entities 'BBB+' Ratings Affirmed Following Review; Off Watch Neg; Outlook Negative

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Overview

- On Oct. 15, 2012, we lowered our long-term ratings on Mapfre's core and strategically important operating entities to 'BBB+' from 'A-', and placed them on CreditWatch with negative implications, following the downgrade of the Kingdom of Spain to 'BBB-/A-3' from 'BBB+/A-2'.
- Following a review of Mapfre's current and expected diversification of exposures outside of Spain, both in terms of business and assets, we recognize a two-notch differential with the ratings on Spain.
- We are therefore affirming our long-term rating on Mapfre's core and strategically important operating entities at 'BBB+'. We are also affirming our long-term rating on the Mapfre group's holding company, Mapfre S.A., at 'BBB-' and on the intermediate holding company Mapfre U.S.A. Corp. at 'BB+'.
- The negative outlook on these long-term ratings reflects that on Spain, and our view of the potential risk if the Spanish economic and financial environments, and banking industry, were to deteriorate further.

Rating Action

On Oct. 25, 2012, Standard & Poor's Ratings Services affirmed its 'BBB+' long-term counterparty credit and insurer financial strength ratings on the core operating entities of Spain-based Mapfre insurance group: Mapfre Global Risks, Compañía Internacional de Seguros y Reaseguros S.A., and Mapfre Re Compañía de Reaseguros S.A.

At the same time, we affirmed the 'BBB-' long-term counterparty credit rating on the group's holding company, Mapfre S.A. We also affirmed the 'BB' long-term issue ratings on Mapfre S.A.'s subordinated debt.

We regard Mapfre's U.S. operations--Commerce Insurance Co. and Citation Insurance Co. and their intermediate holding company, Mapfre U.S.A. Corp.--as "strategically important." We have therefore affirmed our 'BBB+' long-term counterparty credit and insurer financial strength ratings on Commerce Insurance Co. and Citation Insurance Co., according to our group rating methodology. We have also affirmed the 'BB+' long-term counterparty credit rating on Mapfre U.S.A. Corp.

We have also removed all these ratings from CreditWatch with negative implications, where they were placed on Oct. 15, 2012. The outlook on all

these entities is negative.

Rationale

The rating actions on the various Mapfre Group entities follow our review of Mapfre's exposure to country risk and the sensitivity of its profile to the deteriorating credit quality of Spain.

Under our criteria (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on June 14, 2011), we allow a two-notch rating differential between the ratings on Mapfre and the ratings on Spain. This is based on the current investment-grade rating on Spain, Mapfre's current geographic diversification outside its domestic market, and the sensitivity of the insurance sector to country risk, which we consider to be high.

By year-end 2012, over 50% of the group's invested assets and over 35% of its policyholder liabilities are expected to come from outside of Spain. In our opinion, diversification outside Spain is likely to increase; more than 60% of the group's business is likely to be written in nondomestic markets. We consider that operations in the U.S., Brazil, and other countries with sovereign local currency ratings of 'BBB+' or higher diversify Mapfre's exposure to domestic country risk. However, we consider that the group's likely increased geographic diversification is the result of relative organic growth trends in Spain, Latin America, and the U.S., rather than a firm and structured response to increasing country risk in its domestic market based on well-defined risk tolerances and preferences.

We recognize that Mapfre retains significant exposure to Spanish bonds given the strength and size of its domestic franchise combined with its asset-liability management (ALM) strategy. On June 30, 2012, we estimate that Mapfre had about €8.2 billion invested in Spanish government debt (28% of its fixed-income portfolio or 0.9x of shareholders' funds) and a further €5.4 billion in Spanish financial institutions (19% of its fixed-income portfolio or 0.6x of shareholders' funds). We also estimate at the same date about 70% of its €0.9 billion bank deposits were held in Spanish financial institutions. The deterioration of Spanish government and financial institution credit quality during 2012 is constraining the insurer's investment, and wider financial risk, profile. In our opinion, Mapfre's credit risk exposure is the major relative weakness for its ratings. In our opinion, exposure to riskier assets such as subordinated debt and equities issued by Spanish banks remains relatively conservative, however.

We consider that Mapfre's liquidity is constrained by volatile yields on Spanish bonds and associated unrealized losses, as well as expected negative life net inflows in 2012. This is due to the strong contraction of the Spanish life business sold by the bancassurance channel. This risk is partly mitigated, however, by expected strong consolidated operating cash flows, particularly non-life; the current levels of cash holdings; and the fact that part of its fixed-income portfolio is made up of readily realizable bonds,

which do not carry any unrealized loss. Furthermore, we expect management to try and improve liquidity at the holding company level by also lowering its reliance on bank credit facilities.

We believe Mapfre's capital adequacy levels and quality have weakened over the past three years as a result of strong business growth, its acquisitive strategy, dividend payments, and the deterioration of the credit risk in its investment portfolio. We believe Mapfre's good capital adequacy would be resilient to some further modest weakening in the credit quality of Spanish bonds. Furthermore, as a result of very strict ALM practices, as required under Spanish regulation, Mapfre's exposure to market risk is manageable, in our view.

The ratings on Mapfre's operating entities reflect our view of the group's strong operating performance; increasing geographic diversification, enhanced by leading positions in Latin America; strong domestic franchise in Spain; and track record of good management. We consider these positive factors to be partially offset by the deteriorating credit quality of the investment portfolio, increasing country risk exposure, and weakening capital adequacy levels and quality.

Outlook

The negative outlook reflects that on the long-term rating on Spain, as well as our view of the potential weakening in Mapfre's business and financial risk profiles if the Spanish economic and financial environments, and banking industry, were to deteriorate further.

We will likely lower the ratings on Mapfre by two notches if we lower the long-term ratings on Spain by one notch, as, under our criteria, the maximum rating differential would be limited to one notch if the sovereign rating moves into speculative grade.

We could also lower the ratings by one notch if Mapfre's exposure to country and investment risk were to significantly increase, which could result from the ongoing difficult operating and financial conditions in Spain.

We could revise the outlook on Mapfre to stable if we revised the outlook on Spain to stable.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal.

- Spain Ratings Lowered To 'BBB-/A-3' On Mounting Economic And Political Risks; Outlook Negative, Oct. 10, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And

Assumptions, June 14, 2011

- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Group Methodology, April 22, 2009
- Holding Company Analysis, June 11, 2009
- Interactive Ratings Methodology, April 22, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Counterparty Credit Ratings And The Credit Framework, April 14, 2004
- Criteria Update: Factoring Country Risk Into Insurer Financial Strength Ratings, Feb. 11, 2003

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A. Mapfre Re, Compania de Reaseguros, S.A. Commerce Insurance Co. Citation Insurance Co. (MA) Counterparty Credit Rating Local Currency	BBB+/Negative/--	BBB+/Watch Neg/--
Financial Strength Rating Local Currency	BBB+/Negative/--	BBB+/Watch Neg/--
Mapfre S.A. Counterparty Credit Rating Local Currency	BBB-/Negative/--	BBB-/Watch Neg/--
Mapfre U.S.A. Corp. Counterparty Credit Rating Local Currency	BB+/Negative/--	BB+/Watch Neg/--
Mapfre S.A. Subordinated	BB	BB/Watch Neg
Mapfre U.S.A. Corp. Senior Unsecured	BB+	BB+/Watch Neg

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