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Mapfre Ratings Unaffected By Proposed Acquisition Of Massachusetts-Based Insurer Commerce

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LONDON (Standard & Poor's) Oct. 31, 2007--Standard & Poor's Ratings Services said today that its ratings and outlook on the Spanish Mapfre insurance group (core operating entities Mapfre Empresas, Compania de Seguros y Reaseguros, S.A. and Mapfre Re Compañía de Reaseguros, S.A. are rated AA/Stable/--) are unaffected by the group's proposed acquisition of 100% of the shares of Commerce Group Inc. (Commerce; BBB/Stable/--), including its insurance subsidiaries Commerce Insurance Co. and Citation Insurance Co. (M.A.) (both are rated A/Stable/--), together with American Commerce Insurance Co., Commerce West Insurance Co., and State-Wide Insurance Co. (all not rated). (For more information, see "Commerce Group Inc. And Operating Companies Ratings Affirmed; Outlook Remains Stable" published on Oct. 31, 2007, on RatingsDirect.) It is proposed that the transaction should be financed via a combination of new equity and hybrid capital, together with the Mapfre group's existing resources.

While the ratings and outlook on Mapfre remain unchanged, Standard & Poor's, nevertheless, has some concerns surrounding the proposed transaction. These relate to the limited immediate strategic fit of Commerce within Mapfre and the group's ability to replicate the success of the acquired business model outside of its home state of Massachusetts and into new customer groups. This is particularly in respect of its affinity relationship with the American

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Automobile Assoc. (not rated); the deterioration in capitalization resulting from the substantial goodwill; and the execution risk inherent in the transaction. These concerns are offset by Standard & Poor's view of Commerce, in particular its extremely strong capitalization, strong competitive position, and strong earnings record.

Commerce, which is the largest independent agency autowriter in Massachusetts, has consistently outperformed its U.S.-industry peers. It is therefore Standard & Poor's expectation that, in conjunction with other recently announced acquisitions, this transaction should enable Mapfre to quickly rebuild its capitalization to the point that consolidated risk-adjusted capital adequacy returns to the high end of the 'A' range by the end of 2008. Should this expectation not materialize, or in the event that Standard & Poor's concerns as expressed above assume greater importance, then this could lead to a negative rating action. A positive rating action is viewed as unlikely over the rating horizon.

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