

### Research Update:

# Ratings On Mapfre S.A. And Subsidiaries Lowered Following Downgrade Of Spain; Outlook Remains Negative

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## Overview

- In our view, the deterioration of creditworthiness of the Kingdom of Spain (AA-/Negative/A-1+) heightens the "country risk" for the Spain-based insurers and reinsurers, Mapfre Global Risks, Compañía Internacional de Seguros y Reaseguros S.A., and Mapfre Re Compañía de Reaseguros S.A., regarded as core operating entities in the Mapfre Group (defined below).
- We are therefore lowering our long-term rating on each of the above-named core operating entities to 'AA-' from 'AA' and our long-term rating on the Mapfre Group's holding company, Mapfre S.A., to 'A' from 'A+'. The outlook on each of these ratings remains negative.
- We are revising to negative our outlook on the ratings on Mapfre USA Corp., Commerce Insurance Co., and Citation Insurance Co, regarded as strategically important entities in the Mapfre Group.
- The negative outlook on the ratings on Mapfre S.A. and the entities in the Mapfre Group reflects that on the ratings on Spain.

## Rating Action

On Oct. 17, 2011, Standard & Poor's Ratings Services lowered the insurer financial strength and long-term counterparty credit ratings to 'AA-' from 'AA' on the operating entities (Mapfre Global Risks, Compañía Internacional de Seguros y Reaseguros S.A., and Mapfre Re Compañía de Reaseguros S.A.) that we regard as core to Spain-based Mapfre insurance group (Mapfre Group). At the same time, we lowered the long-term counterparty credit rating on Mapfre Group's holding company, Mapfre S.A. to 'A' from 'A+'. The outlook on the ratings on Mapfre S.A. and the entities in the Mapfre Group remains negative.

We also lowered our long-term ratings on the junior subordinated debt of Mapfre S.A. to 'BBB+' from 'A-'.

We revised to negative our outlook on the insurer financial strength and long-term counterparty credit ratings on the Mapfre Group's subsidiaries that we regard as strategically important--Commerce Insurance Co. and Citation Insurance Co--and on the ratings on their intermediate holding company, Mapfre USA Corp. This is because their ratings, benefiting from two notches of support from their membership of the Mapfre Group, are, under our criteria, capped at one notch below the ratings on the core operating companies of Mapfre Group. We have affirmed the 'A+' long-term counterparty credit and insurer financial strength ratings on Commerce Insurance Co. and Citation

Insurance Co., and the 'BBB+' long-term counterparty credit ratings on Mapfre USA Corp.

## **Rationale**

The foregoing rating actions follow the lowering of the long- and short-term ratings on the Kingdom of Spain (Spain; AA-/Negative/A-1+).

Under our criteria, an insurer's ratings are constrained by our view of country risk (see "Factoring Country Risk Into Insurer Financial Strength Ratings," published Feb. 11, 2003). With over 45% of the business written in its domestic market and a further estimated 40% in markets carrying lower sovereign ratings than Spain, the exposure of Mapfre S.A. and the Mapfre Group to country risk has, in our view, increased and is high relative to peer Europe-based global insurance groups.

Furthermore, we estimate that over 80% of the Mapfre Group's investments and policyholder liabilities are held by entities domiciled in Spain or in lower-rated countries. While these assets are geographically diversified, we estimate Spain and such lower-rated countries represent more than 75% of Mapfre Group's total investment portfolio.

The Mapfre Group's assets comprise mostly government debt and bank deposits. As of end-June 2011, the Mapfre Group had a €7.4 billion exposure to Spanish government debt--about 20% of invested assets or 83% of total shareholder funds. The Mapfre Group's exposure to Italian, Greek, Irish, and Portuguese government debt amounted to €1.8 billion. By our estimation, this is similar to the Mapfre Group's exposure to Latin American sovereign debt.

The ratings on the Mapfre Group's operating entities that we regard as core continue to reflect what we see as their very strong competitive position in Spain and Latin America, and their very strong capitalization and operating performance. The ratings also reflect our view of the Mapfre Group's management track record, which we consider a positive factor for the ratings. These factors are partially offset by the difficult economic and financial climate in Spain, the Mapfre Group's core market.

## **Outlook**

The negative outlook reflects that on our long-term ratings on the Kingdom of Spain. A downgrade of Spain could prompt us to lower the ratings on Mapfre S.A. and the entities in the Mapfre Group. Conversely, the outlook could be revised to stable following a similar outlook revision to Spain's sovereign ratings.

## **Related Criteria And Research**

- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Interactive Ratings Methodology, April 22, 2009

- Holding Company Analysis, June 11, 2009
- Group Methodology, April 22, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Criteria Update: Factoring Country Risk Into Insurer Financial Strength Ratings, Feb. 11, 2003

## Ratings List

### Downgraded

	To	From
Mapfre S.A.		
Counterparty Credit Rating		
Local Currency	A/Negative/--	A+/Negative/--
Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A.		
Mapfre Re, Compania de Reaseguros, S.A.		
Counterparty Credit Rating		
Local Currency	AA-/Negative/--	AA/Negative/--
Financial Strength Rating		
Local Currency	AA-/Negative/--	AA/Negative/--
Mapfre S.A.		
Subordinated	BBB+	A-

### Ratings Affirmed

Mapfre U.S.A. Corp.	
Senior Unsecured	BBB+

### Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Citation Insurance Co. (MA)		
Commerce Insurance Co.		
Counterparty Credit Rating		
Local Currency	A+/Negative/--	A+/Stable/--
Financial Strength Rating		
Local Currency	A+/Negative/--	A+/Stable/--
Mapfre U.S.A. Corp.		
Counterparty Credit Rating		
Local Currency	BBB+/Negative/--	BBB+/Stable/--

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