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Ratings On Four Spain-Based Insurers Affirmed On Improved Domestic Country Risk

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- Access to affordable capital markets funding has greatly improved in Spain and we expect the European Central Bank's (ECB) quantitative easing program to continue to support favorable market conditions for Spanish corporates.
- Spain's economy is recovering strongly, in our view, and we have recently revised our growth projections upward to an average of 3% in 2015 and 2.6% for 2016 from our March 2015 projections of 2.2% for 2015 and 2.4% in 2016. Spain's economy currently leads the eurozone in terms of the acceleration in forecast growth.
- As a result, we consider that industry and country risk for insurers operating in the Spanish life and property/casualty insurance sectors has improved.
- We are affirming the ratings on four insurers. The outlooks on all entities remain stable.

LONDON (Standard & Poor's) July 16, 2015--Standard & Poor's Ratings Services today affirmed its counterparty credit and insurer financial strength ratings on four insurers based in Spain:

- The core subsidiaries of Mapfre group (Mapfre Re, Compania de Reaseguros, S.A. and Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A.) and Mapfre S.A., the group's nonoperating holding company;
- Nacional de Reaseguros S.A. (Nacional);
- Compania Espanola de Seguros de Credito a la Exportacion S.A. (CESCE); and
- FIATC Mutua de Seguros y Reaseguros a Prima Fija y Sociedades Filiales

(FIATC).

In our view, lower financial system risk has improved the assessment of country risk for Spanish insurers to intermediate from moderate. Access to affordable capital markets funding has greatly improved in Spain and we expect the European Central Bank's (ECB's) quantitative easing program to support favorable market conditions for Spanish corporates at least until end-2016. We expect yields on 10-year Spanish government bonds, which strongly influence funding costs, to average below 2% in 2015 and 2.3% in 2016, far more affordable than the peak yield of over 7% reported in July 2012. We anticipate that these trends will increase Spanish insurers' access to credit and benefit their domestic investments.

Earlier this month we revised our projections for Spain's economic growth upward by a higher margin than any other eurozone economy. We now expect growth to average 3% in 2015 and 2.6% in 2016, compared with our March 2015 projections of 2.2% for 2015 and 2.4% in 2016. What's more, the Spanish upturn is broad-based, supported by a gradual recovery in employment growth across a broadening range of sectors, from tourism to manufacturing. We expect this to support a return to growth in insurance premium volumes, following years of decline.

We still assess industry risk for the Spanish life and property/casualty (P/C) sectors as intermediate. We expect the Spanish insurance market to maintain strong earnings, despite increased pressure deriving from low investment yields, still-modest growth, and the increasing frequency of claims in motor. Life insurers have historically had closely matched assets and liabilities, supported by the regulatory framework. We consider that this mitigates the risks associated with low interest rates.

We assess both country risk and industry risk as intermediate for both the Spanish P/C and life insurance sectors; therefore, our combined insurance industry and country risk assessment (IICRA) for these sectors is also intermediate.

MAPFRE

We are affirming our 'A' long-term ratings on Mapfre's core operating entities, still three notches above the sovereign rating on Spain. Despite the more-benign domestic country risks, Mapfre group's 'a' indicative stand-alone credit profile (SACP) has not changed because the benefits are offset by risks derived from the group's ambitious growth strategy while some key emerging markets are experiencing a slowdown. In addition, the group is exposed to some vulnerable countries.

Mapfre continues to pass our sovereign default stress test, indicating that it would not exhaust its regulatory solvency capital in a hypothetical scenario in which Spain were to default. In our view, Mapfre remains predominantly an international non-life insurer (73% of its 2014 gross written premium stemmed from outside Spain) but one with significant Spanish life reserves (40% of

liabilities). This results in a moderate to high sensitivity to Spanish country risk, allowing us to rate it up to three notches above that on Spain.

We consider that the strategic focus on accelerating growth in Mapfre's major emerging markets while many of them are displaying weakening economic trends carries additional risks. Mapfre's material exposure to countries with speculative-grade foreign currency sovereign ratings that are also on negative outlook--totaling about 10% of its premiums--also generates vulnerability to country risk.

Finally, in our opinion, Mapfre's objective of significantly expanding its U.S., German, and Italian P/C operations generates execution and underwriting risks. The three entities are relatively small and modestly profitable, and the German and Italian entities were only recently acquired in June 2015 from Directline.

NACIONAL

We are affirming our 'A-' ratings on Spanish reinsurer Nacional. We consider that Nacional's business risk profile has improved because of the lower IICRA in Spain. The affirmation reflects the difficult international reinsurance market in which Nacional is rapidly expanding, and the reduction in its excess capital at the 'AAA' level, mostly caused by rapid and prospective growth in 2014-2016. We continue to rate Nacional above the Spanish sovereign.

In our view, Nacional's business credit profile is correlated with the Spanish economy because Nacional derives 73% of its premiums from Spain. However, despite strong retained earnings, capital adequacy weakened within the 'AAA' level as a result of strong business growth and greater investment risk. Fierce competition in the international reinsurance market, where Nacional is rapidly expanding, also presents a challenge because Nacional is still a new and relatively small player in this market and it lacks clear competitive advantages.

Nacional continues to pass the hypothetical Spanish sovereign default stress test and we continue to rate it above our sovereign rating on Spain. During 2014, Nacional expanded geographically and diversified its asset holdings further. Spanish investment represented only about 36% of total investments in 2014, down from 42% in 2013. Meanwhile, foreign business volumes grew by 25%, while volumes in Spain grew at a lower, but still important, rate (6%).

CESCE

We are affirming CESCE's 'BBB' long-term and 'A-2' short-term ratings. The ratings on CESCE remain constrained by those on Spain. We regard CESCE as a government-related entity (GRE) that is not insulated from potential intervention by the Spanish government. CESCE is majority-owned by the Spanish government and its asset portfolio is also highly concentrated in Spanish investments, mainly in Spanish sovereign debt and financial institutions.

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We consider CESCE's business and indicative credit risk profiles to be highly sensitive to the Spanish economy, where it derives 70% of its premiums. We have accordingly raised our indicative SACP on CESCE to 'bbb+' from 'bbb'. CESCE's privatization process continues to weigh on our view of some components of its SACP.

FIATC

We are affirming our 'BBB' ratings on FIATC. FIATC is the leading mutual insurer in the Spanish region of Catalonia, where it benefits from a strong position in the niche health insurance and related sectors, which are less cyclical than other insurance sectors.

We think that the improved country risk in Spain has helped FIATC strengthen its business and indicative credit risk profiles, which are correlated to developments in the Spanish economy, where it derives all of its premiums. We have accordingly raised the indicative SACP on FIATC to 'bbb+' from 'bbb'. However, the ratings remain constrained by those on Spain as domestic investments account for about 90% of FIATC's portfolio.

OUTLOOK

MAPFRE

The stable outlook reflects that on Spain, as Mapfre's core operating entities are unlikely to be rated more than three notches above Spain. We also expect Mapfre to retain its capital adequacy near the 'A' threshold under our methodology and wide access to capital markets; these factors are the cornerstones of its strong financial risk profile.

We could raise the ratings on Mapfre's core entities if, following a similar action on Spain, we consider the group's business risk profile has strengthened over the next two years. Such an improvement would include evidence that Mapfre's ambitious expansion strategy has successfully increased business volumes and earnings diversification in key major markets outside Spain (Brazil, Mexico, the U.S., and other European countries). At the same time, we would expect to see that the group had preserved its net combined (loss and expense) ratio at 96% or below, its return on equity at 10% or above, and its strong financial risk profile.

We could lower the rating on Mapfre's core entities if we lowered the rating on Spain. We could also lower the rating if:

- Capital adequacy unexpectedly dropped materially to levels significantly below the 'A' threshold. This could result from a severe combined global and domestic financial market stress; or
- We did not expect Mapfre to pass the sovereign default test, which could result from an unexpected drop in regulatory capital or an increase in Spanish assets relative to regulatory capital.

NACIONAL

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The stable outlook on Nacional reflects our expectation that the company will maintain its strong competitive position in Spain supported by stable profit metrics. Other factors supporting the outlook are Nacional's concentration in Spain, its relative small position in the highly competitive and difficult international reinsurance market, and our expectation that capital adequacy will remain at the 'AAA' level, albeit weakened as a result of elevated business growth.

We could raise the ratings on Nacional if:

- The company's capital adequacy were to sustainably improve and stabilize at extremely strong levels, despite the strong business and asset growth; or
- We perceived that its international expansion in a difficult market carried lower risks. This could occur if the company achieved a longer track record of sustainable, profitable growth, without compromising its capital adequacy and risk position.

We do not expect to lower the rating at this stage unless we consider that Nacional's sensitivity to country risk has increased, meaning that its exposure to Spanish assets has increased to the extent that Nacional might not pass our sovereign default stress.

CESCE

The stable outlook on CESCE reflects that on Spain, as CESCE is unlikely to be rated above the sovereign. We could lower our ratings on CESCE if we lowered the ratings on Spain.

Conversely, we could raise the ratings on CESCE if we raised the ratings on Spain and we also observed stability in the company's stand-alone fundamentals, including limited impact from any privatization.

FIATC

The stable outlook reflects that on Spain as FIATC is unlikely to be rated above the sovereign. We could lower the ratings on FIATC if we lowered the ratings on Spain.

Conversely, we could raise the ratings on FIATC if we raised the ratings on Spain and we also observed stability in the company's stand-alone fundamentals including capital and earnings remaining moderately strong.

RATINGS SCORE SNAPSHOT

MAPFRE

To

From

Ratings On Four Spain-Based Insurers Affirmed On Improved Domestic Country Risk

| | | |
|----------------------------|--|--|
| Holding Company Rating | BBB+/Stable | BBB+/Stable |
| Financial Strength Rating | A/Stable | A/Stable |
| Indicative SACP | a | a |
| Anchor | a | a |
| Business Risk Profile | Strong | Strong |
| IICRA | Intermediate Risk | Moderate Risk |
| Competitive Position | Very Strong | Very Strong |
| Financial Risk Profile | Strong | Strong |
| Capital and Earnings | Moderately Strong | Moderately Strong |
| Risk Position | Intermediate Risk | Intermediate Risk |
| Financial Flexibility | Strong | Strong |
| Modifiers | 0 | 0 |
| ERM and Management | 0 | 0 |
| Enterprise Risk Management | Adequate with Strong Risk Controls | Adequate with Strong Risk Controls |
| Management and Governance | Satisfactory | Satisfactory |
| Holistic Analysis | 0 | 0 |
| Liquidity | Exceptional | Exceptional |
| Sovereign Risk | 0 | 0 |
| NACIONAL | | |
| | To | From |
| Financial Strength Rating | A-/Stable | A-/Stable |
| Indicative SACP | a- | a- |
| Anchor | a | a- |
| Business Risk Profile | Strong | Satisfactory |
| IICRA | Intermediate Risk | Moderate Risk |
| Competitive Position | Strong | Strong |
| Financial Risk Profile | Very Strong | Very Strong |
| Capital and Earnings | Very Strong | Very Strong |
| Risk Position | Intermediate Risk | Intermediate Risk |
| Financial Flexibility | Adequate | Adequate |
| Modifiers | 0 | 0 |
| ERM and Management | 0 | 0 |
| Enterprise Risk Management | Adequate | Adequate |
| Management and Governance | Satisfactory | Satisfactory |
| Holistic Analysis | -1 | 0 |
| Liquidity | Exceptional | Exceptional |
| Sovereign Risk | 0 | 0 |

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CESCE

| | To | From |
|----------------------------|-------------------|-------------------|
| Financial Strength Rating | BBB/Stable | BBB/Stable |
| Indicative SACP | bbb+ | bbb |
| Anchor | a- | bbb |
| Business Risk Profile | Satisfactory | Fair |
| IICRA | Intermediate Risk | Moderate Risk |
| Competitive Position | Adequate | Adequate |
| Financial Risk Profile | Strong | Strong |
| Capital and Earnings | Strong | Strong |
| Risk Position | Intermediate Risk | Intermediate Risk |
| Financial Flexibility | Adequate | Adequate |
| Modifiers | 0 | 0 |
| ERM and Management | 0 | 0 |
| Enterprise Risk Management | Adequate | Adequate |
| Management and Governance | Satisfactory | Satisfactory |
| Holistic Analysis | -1 | 0 |
| Liquidity | Strong | Strong |
| Sovereign Risk | -1 | 0 |

FIATC

| | To | From |
|----------------------------|-------------------|-------------------|
| Financial Strength Rating | BBB/Stable | BBB/Stable |
| Indicative SACP | bbb+ | bbb |
| Anchor | bbb+ | bbb |
| Business Risk Profile | Satisfactory | Fair |
| IICRA* | Intermediate Risk | Moderate Risk |
| Competitive Position | Adequate | Adequate |
| Financial Risk Profile | Moderately Strong | Moderately Strong |
| Capital and Earnings | Moderately Strong | Moderately Strong |
| Risk Position | Intermediate Risk | Intermediate Risk |
| Financial Flexibility | Adequate | Adequate |
| Modifiers | 0 | 0 |
| ERM and Management | 0 | 0 |
| Enterprise Risk Management | Adequate | Adequate |
| Management and Governance | Satisfactory | Satisfactory |
| Holistic Analysis | 0 | 0 |

Ratings On Four Spain-Based Insurers Affirmed On Improved Domestic Country Risk

| | | |
|----------------|--------|--------|
| Liquidity | Strong | Strong |
| Sovereign Risk | -1 | 0 |

IICRA--Insurance Industry And Country Risk Assessment.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Trade Credit Insurance Capital Requirements Under Standard & Poor's Capital Adequacy Model, Dec. 6, 2013
- Group Rating Methodology, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- Various Rating Actions On Three Spanish Utilities On Decreased Country Risk In Spain, July 16, 2015
- Economic Research: Eurozone Economic Outlook: Will The Catch-Up Lead To A Let-Down?, July 1, 2015
- Banking Industry Country Risk Assessment: Spain, April 22, 2015
- Research Update: Ratings On Spain Affirmed At 'BBB/A-2'; Outlook Stable, April 10, 2015

RATINGS LIST

Affirmed

| | To | From |
|---|----------------|----------------|
| Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A. Mapfre Re, Compania de Reaseguros, S.A. | | |
| Counterparty Credit Rating | A/Stable/-- | A/Stable/-- |
| Financial Strength Rating | A/Stable/-- | A/Stable/-- |
| Mapfre S.A. | | |
| Counterparty Credit Rating | BBB+/Stable/-- | BBB+/Stable/-- |
| Senior Unsecured | BBB+ | BBB+ |
| Subordinated | BBB- | BBB- |

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Nacional de Reaseguros S.A.

| | | |
|----------------------------|--------------|--------------|
| Counterparty Credit Rating | A-/Stable/-- | A-/Stable/-- |
| Financial Strength Rating | A-/Stable/-- | A-/Stable/-- |

Compania Espanola de Seguros de Credito a la Exportacion S.A.

| | | |
|----------------------------|----------------|----------------|
| Counterparty Credit Rating | BBB/Stable/A-2 | BBB/Stable/A-2 |
| Financial Strength Rating | BBB/Stable/-- | BBB/Stable/-- |

FIATC Mutua de Seguros y Reaseguros a Prima Fija y Sociedades Filiales

| | | |
|----------------------------|---------------|---------------|
| Counterparty Credit Rating | BBB/Stable/-- | BBB/Stable/-- |
| Financial Strength Rating | BBB/Stable/-- | BBB/Stable/-- |

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