

## Various Rating Actions Taken On Spanish Insurers Following Sovereign Upgrade

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- On March 23, 2018, we raised our unsolicited sovereign credit ratings on Spain to 'A-' from 'BBB+' on economic growth and budgetary consolidation, and assigned a positive outlook.
- Spain's insurance sector is set to benefit from the country's sustained GDP growth and improved credit risk associated with Spanish sovereign bonds.
- As a result, our assessment of insurance industry and country risk for the Spanish property/casualty sector has improved to low from intermediate. We maintain our assessment of intermediate risk for the life sector.
- In light of these developments, we are raising our ratings on one Spanish insurer, revising the outlook to positive from stable for two insurers that are part of the same group, and affirming the ratings on two others.

MADRID (S&P Global Ratings) March 27, 2018--S&P Global Ratings said today that it took various rating actions on Spanish insurers. Specifically we:

- Raised our long-term issuer credit and insurer financial strength ratings on Compania Espanola de Seguros de Credito a la Exportacion S.A. (CESCE) to 'A-' from 'BBB+'. The outlook is stable. At the same time, we affirmed our 'A-2' short-term issuer credit rating on CESCE.
- Revised the outlook to positive from stable on the core entities of Mapfre Group--Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A. and Mapfre Re, Compania de Reaseguros, S.A.--as well as the group's holding company Mapfre S.A. At the same time, we affirmed our

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'A' long-term issuer credit and financial strength ratings on Mapfre Global Risks and Mapfre Re and our 'BBB+' long-term issuer credit ratings on Mapfre S.A.

- Affirmed our 'BBB+' long-term issuer credit and insurer financial strength ratings on FIATC Mutua de Seguros y Reaseguros a Prima Fija y Sociedades Filiales (FIATC). The outlook remains stable.
- Affirmed our 'A-' long-term issuer credit and insurer financial strength ratings on Nacional de Reaseguros S.A. (NR). The outlook remains positive.

### RATIONALE

The rating actions follow our recent upgrade of Spain (unsolicited sovereign rating; see "Spain Long-Term Ratings Raised To 'A-' On Economic Growth And Budgetary Consolidation; Outlook Positive," published March 23, 2018, on RatingsDirect), and reflect that we expect insurers will benefit from Spain's economic growth prospects as well as improved credit quality. In light of our upgrade of Spain, we reviewed our insurance industry and country risk assessments (IICRAs) for Spain. Additionally, Spanish insurers have a significant share of investments in Spanish sovereign bonds, and the sovereign upgrade has a positive impact on our assessment of insurers' credit risk within our view of capital adequacy.

We consider that risk for the Spanish property/casualty (P/C) sector has improved to low from intermediate, as a result of upgrade of Spain and the improvements that led to the upgrade. The factors have been combined with our positive view of the Spanish P/C sector's profitability, which we revised in December (see "Insurance Industry And Country Risk Assessment: Spain Property/Casualty," published Dec. 13, 2017). The market's 10-year average combined ratio of just above 93%, with very little volatility, makes it one of the most profitable globally. The higher cost of the most severe bodily injuries resulting from the update of Spain's system for assessing damages in personal injury claims (Baremo), effective since January 2016, has been successfully absorbed by tariff hikes and reserve strengthening as well as by the downward revision of the cost of smaller injuries under the updated Baremo. Baremo provides a solid and effective framework in order to anticipate claims amounts. Also P/C market growth of 4.5% in 2016 and almost 4.0% in 2017 is stronger than Spanish GDP growth. For 2018, we expect growth to continue above 3%. Finally, Spain is one of the few countries with a national scheme to cover natural catastrophe events (Consortio). Consortio takes in the losses on all claims arising from such events. This lessens the volatility of the technical results of all the players in the industry.

We continue to assess industry and country risk for the Spanish life sector as intermediate. The prolonged period of low interest rates has put pressure to investment margins, although the sector's overall profitability is proving resilient. Our view of life product risk is less positive than our assessment for P/C product risk, as life insurance policies contain relatively high guarantees (mostly at maturity) on the back book. However, industry continues to match very close assets and liabilities, minimizing the risk for interest

rate sensitivities. It also reflects the concentrated investment portfolio in mostly Spanish sovereign bonds. Insurance penetration remains low with premiums averaging 2.8% of GDP in 2016 versus the average of over 4% in Europe. Growth trends are very volatile, after over 20% growth in 2016, premiums contracted by over 5% in 2017 and remain very dependent on banks, the main life product distributors, prioritizing the insurance versus alternative savings.

Our improved assessment of Spanish insurers' capital adequacy and of the P/C IICRA are supporting for our ratings on Spanish insurers, but do not automatically drive up the ratings on most of them. Indeed, we already rated both Mapfre and NR higher than Spain prior to the sovereign upgrade, and the rating on FIATC was not capped by that on Spain. We explain the individual factors driving the ratings actions on the abovementioned entities below and in the respective reports published on RatingsDirect (see Related Research).

#### CESCE

The upgrade of CESCE reflects that our ratings are no longer capped by the rating on Spain, since we upgraded the sovereign to 'A-'. Additionally, given that CESCE's assets are concentrated in Spanish assets, mostly government bonds, we consider that the group's average credit quality of its invested assets has improved as result of the upgrade.

Additionally in December 2017, the extraordinary dividends CESCE paid were lower than we expected at €18 million, strengthening our view of the group's capital adequacy, which we expect will stabilize at levels above the 'AAA' benchmark. Finally, we understand the business contraction CESCE experienced over the past years slowed down during 2017, and we expect it will halt altogether in 2018.

The stable outlook reflects our expectation that CESCE will maintain capital adequacy at extremely strong levels, while an upside scenario is unlikely, since it would require a significant improvement in the company's competitive position.

#### MAPFRE GROUP

The outlook revision on the core entities of Spain-based insurer Mapfre Group--Mapfre Global Risks and Mapfre RE--as well as the group's holding company Mapfre S.A. reflects restructuring measures undertaken by the group in 2016-2017 to address underperformance in Europe, the U.S., and certain Latin American countries. We also consider that Mapfre's capital adequacy has strengthened following our upgrade of Spain.

The positive outlook indicates that we could raise the ratings in the next 18-24 months if we saw the group sustainably improve its performance in countries where it has recently expanded or underperformed, and if profitability in Spain, Brazil, and its reinsurance business remains

resilient. For an upgrade, we would notably expect increased profits from operations in Latin America (excluding Brazil), the U.S., and Europe to support the group's target of achieving a return on equity of 10%. At the same time, we would expect Mapfre's acquisitions and dividend policy not to dilute its level of capital adequacy, which we estimate will remain at least in the high 'A' range.

#### FIATC

We consider that the recent upgrade of Spain and our improved view of the industry and country risk for insurance companies operating in the Spanish P/C sector represent positive developments for FIATC's credit profile.

The affirmation of our 'BBB+' ratings on FIATC reflects our view that these developments, although positive, are not material enough to change our view on FIATC's capital adequacy. We also continue to view FIATC's overall business risk profile as satisfactory, reflecting the insurer's relative small market share at national level. The stable outlook on FIATC reflects our expectation that FIATC will continue to benefit from its leading position in Catalonia and very strong capital adequacy. An upgrade of FIATC would depend on the insurer improving and stabilizing its capital position at an extremely strong level, through the direct contribution to FIATC's mutual fund and sustainably improved retained earnings.

#### NACIONAL DE REASEGUROS

The recent upgrade of Spain and our improved view of industry and country risk for insurance companies operating in the Spanish P/C represent positive developments for NR's credit profile. However, this has not triggered an automatic upgrade of NR, because the ratings are not capped by the sovereign rating. NR comfortably passes our hypothetical sovereign default stress test, which allow us to rate it higher than Spain.

The outlook on the ratings continue to be positive, indicating that we could raise them during the next 12 months if the company continues to successfully and profitably expand its business outside Spain. An upgrade would depend on NR leveraging its expertise in serving small, midsize, and mutual clients outside Spain to maintain its strong operating performance.

#### RELATED CRITERIA

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Insurance - Specialty: Trade Credit Insurance Capital Requirements Under Standard & Poor's Capital Adequacy Model, Dec. 6, 2013
- Criteria - Insurance - Property/Casualty: Assessing Property/Casualty

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Insurers' Loss Reserves, Nov. 26, 2013

- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

### RELATED RESEARCH

- Spanish Insurer FIATC Ratings Affirmed At 'BBB+' After Sovereign Upgrade; Outlook Stable, March 27, 2018
- Spain-Based Mapfre Group Outlook Revised To Positive On Improved Earnings Prospects; Ratings Affirmed, March 27, 2018
- Spanish Government-Owned Insurer CESCE Upgraded To 'A-'; Outlook Stable, March 27, 2018
- Spanish Reinsurer Nacional de Reaseguros Affirmed At 'A-'; Outlook Remains Positive, March 27, 2018
- Spain Long-Term Ratings Raised To 'A-' On Economic Growth And Budgetary Consolidation; Outlook Positive, March 23, 2018
- Insurance Industry And Country Risk Assessment: Spain Property/Casualty, Dec. 13, 2017

### RATINGS LIST

#### Upgraded

	To	From
Compania Espanola de Seguros de Credito a la Exportacion S.A. Financial Strength Rating	A-/Stable/--	BBB+/Positive/--

#### Upgraded; Ratings Affirmed

	To	From
Compania Espanola de Seguros de Credito a la Exportacion S.A. Issuer Credit Rating	A-/Stable/A-2	BBB+/Positive/A-2

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Outlook Action; Ratings Affirmed

	To	From
Mapfre S.A.		
Issuer Credit Rating	BBB+/Positive/--	BBB+/Stable/--

Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A.

Mapfre Re, Compania de Reaseguros, S.A.

Issuer Credit Rating	A/Positive/--	A/Stable/--
Financial Strength Rating	A/Positive/--	A/Stable/--

Ratings Affirmed

Mapfre S.A.

Senior Unsecured	BBB+
Subordinated	BBB-

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

Issuer Credit Rating	BBB+/Stable/--
Financial Strength Rating	BBB+/Stable/--

Nacional de Reaseguros S.A.

Issuer Credit Rating	A-/Positive/--
Financial Strength Rating	A-/Positive/--

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