

### Research Update:

# Mapfre Group Core Operating Entities And Holding Company Long-Term Ratings Lowered By One Notch; Outlook Negative

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## Research Update:

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## Overview

- On April 26, 2012, we downgraded the Kingdom of Spain to 'BBB+/A-2' from 'A/A-1', and maintained a negative outlook.
- Under our criteria, the ratings on Spain-based insurance group Mapfre's core operating entities can be one notch higher than those on Spain, because of the group's business and asset diversification to Brazil, the U.S., and other countries rated 'A-' or higher.
- We are lowering our long-term rating on Mapfre's core operating entities to 'A-' from 'A' and our long-term rating on the Mapfre group's holding company, Mapfre S.A., to 'BBB' from 'BBB+'. The outlook on each of these ratings is negative.
- We are revising to negative our outlook on the ratings on Mapfre USA Corp., Commerce Insurance Co., and Citation Insurance Co., which we regard as strategically important entities in the Mapfre group.
- The negative outlooks reflect that on the long-term rating on Spain.

## Rating Action

On April 30, 2012, Standard & Poor's Ratings Services lowered to 'A-' from 'A' the long-term counterparty credit and insurer financial strength ratings on the two operating entities that we regard as core to Spain-based Mapfre insurance group: Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A., and Mapfre Re Compañía de Reaseguros S.A.

At the same time, we lowered the long-term counterparty credit rating on the group's holding company, Mapfre S.A., to 'BBB' from 'BBB+'. We also lowered our long-term issue ratings on the subordinated debt of Mapfre S.A. to 'BB+' from 'BBB-'. The outlook on the ratings on Mapfre S.A. and the core operating entities is negative.

We regard Mapfre's U.S. operations--Commerce Insurance Co. and Citation Insurance Co. and their intermediate holding company, Mapfre USA Corp.--as "strategically important". Commerce and Citation have stand-alone credit profiles of 'a-', and we have affirmed the 'A-' long-term counterparty credit and insurer financial strength ratings on these entities. We have also affirmed our 'BBB' long-term counterparty credit rating on Mapfre USA. We have revised to negative our outlook on all three U.S. entities.

## Rationale

The rating actions on the various Mapfre Group entities follow our lowering of the long- and short-term ratings on the Kingdom of Spain (BBB+/Negative/A-2).

Under our criteria, our view of country risk generally constrains our ratings on an insurer. Following the sovereign rating action, Mapfre Group's country risk has, in our view, increased. Over 40% of the €19.6 billion business written by the group is in its domestic market and over 50% of its €38.0 billion reported invested assets are invested there.

However, we estimate that Mapfre's exposure, in terms of revenues and assets, to the U.S., Brazil, and other countries with sovereign local currency ratings of 'A-' or higher is close to 40%. We estimate a further 35% of the Mapfre group's policyholder liabilities are held by entities domiciled outside Spain.

Accordingly, although we continue to assess Mapfre group's exposure to Spanish country risk as high, under our criteria (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions", published on June 14, 2011), we allow a one-notch rating differential between the ratings on Mapfre and the Spanish sovereign ratings. This is based on the current rating level of Spain, current Mapfre's geographic diversification in countries rated higher than Spain, and the sensitivity of the insurance sector to country risk, which we regard as high.

The ratings on the Mapfre Group's core operating entities reflect the group's leading competitive position in Spain and Latin America, its strong operating performance, and its strong capitalization, the last of which has not been much affected by the sovereign downgrade. The ratings also reflect our view that the Mapfre Group's management track record is a positive factor for the ratings.

These factors are partially offset by the difficult economic and financial climate in Spain.

## Outlook

The negative outlook reflects that on our long-term rating on Spain and our view that Mapfre's country risk could weaken further if we were to lower the sovereign rating further.

We could lower the ratings on Mapfre's core operating subsidiaries if we were to lower the ratings on Spain or if there were a significant weakening in Mapfre's business risk and financial risk profile. Conversely, we would most likely revise the outlook to stable if the outlook on the Kingdom of Spain were to be revised to stable. We currently regard positive rating action as unlikely.

## Related Criteria And Research

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

- Ratings On Spain Lowered To 'BBB+/A-2' On Debt Concerns; Outlook Negative, April 26, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- 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
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Ratings List

### Downgraded

	To	From
Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A. Mapfre Re, Compania de Reaseguros, S.A.		
Counterparty Credit Rating	A-/Negative/--	A/Negative/--
Financial Strength Rating	A-/Negative/--	A/Negative/--
Mapfre S.A.		
Counterparty Credit Rating Subordinated	BBB/Negative/-- BBB+	BBB+/Negative/-- BBB-
Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Citation Insurance Co. (MA) Commerce Insurance Co.		
Counterparty Credit Rating	A-/Negative/--	A-/Stable/--
Financial Strength Rating	A-/Negative/--	A-/Stable/--
Mapfre U.S.A. Corp.		
Counterparty Credit Rating Senior Unsecured	BBB-/Negative/-- BBB-	BBB-/Stable/--

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Complete ratings information is available to subscribers of RatingsDirect on

the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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