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Summary:

Mapfre Re, Compania de Reaseguros, S.A.

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Local Currency	
Credit Rating:	BBB+/Negative/--

Rationale

The ratings on Spain-based reinsurer Mapfre Re, Compañia de Reaseguros, S.A. (Mapfre Re; BBB+/Negative/--) reflect its status as a core subsidiary of Spanish insurance group Mapfre (the group; main operating entities are rated BBB+/Negative). This is derived from Mapfre Re's role as the group's exclusive treaty reinsurer, management's strong links with other parts of the Mapfre group, and the parent's track record of capital management to fund Mapfre Re's growth.

The ratings on Mapfre's core operating entities reflect our view of the group's strong business and financial risk profiles, which result in an 'a' anchor, and are constrained by the exposure to Spanish sovereign risk.

Mapfre Re acts as the sole reinsurer for the whole group, with obvious benefits in terms of risk management and costs and is regarded as a center of excellence within the group. Although legally separated, it effectively operates as a division in relation to the group business and is highly integrated with the group.

Mapfre Re benefits from its exclusive role as treaty reinsurer to the Mapfre group, which provides a fast-growing, profitable revenue stream, and international brand recognition. With a strong presence in Spain, Europe, and Latin America, Mapfre Re operates in geographic regions that are integral to the overall group strategy. In 2012, Mapfre Re reported €2.84 billion gross written premiums, 40% of which was intra-group business, and €1.85 billion net retained premium. Strong cedant relationships, built via strong underwriting, underpin its mostly proportional-based treaties. Mapfre Re's size, however, remains relatively modest in the global, consolidating reinsurance industry. Furthermore, with some 50% of its business written in Spain and Portugal and countries rated lower than Spain, Mapfre Re is exposed to significant, although lower than the Mapfre group, country risk.

Mapfre Re accounts for almost 10% of the group's total consolidated capital and benefits from very strong capital adequacy, built via historically high levels of earnings retention. The Mapfre group has affirmed its support for Mapfre Re's growth by adapting its dividend policy to capital requirements, and with various capital injections made between 2002 and 2006.

The reinsurer is slowly reducing its exposure to domestic investments. At June 2013, we estimate Mapfre Re had some €0.5 billion invested in Spanish sovereign and financial institution debt (23% of its fixed-income portfolio or 0.6x its shareholders' funds). Mapfre Re's quality of capital is strong, reflecting the absence of financial leverage, the predominantly short-tail book of business, favorable reserve development, and generally conservative risk retentions. The reinsurance utilization ratio remains higher than peers' at 35%, due to Mapfre Re's role as reinsurance purchaser

for the whole group.

Mapfre Re's strong track record of earnings performance is in line with the group's management targets and earnings. It is not heavily exposed to catastrophe risk in Spain; this type of risk is largely covered by the Consorcio de Compensación de Seguros. In Spain and Portugal, Mapfre Re reported an average combined ratio below 90% from 1999 to 2012.

Mapfre Re earnings have generally been more stable than the rest of the global reinsurance industry over the past 10 years. However, Mapfre Re is increasing its exposure to major corporate risks and natural catastrophes as it increases its geographic diversification, in line with the Mapfre group.

At the same time, Mapfre Re is demonstrating a strong ability to withstand the impact of losses from catastrophic events: we saw this in 2011 and 2010. In 2012, Mapfre Re's net non-life combined ratio improved to 97%, from 101% in 2011, when the reinsurer experienced a record €270 million in net losses derived from natural catastrophes in 2011. In 2012, Mapfre Re reported a 10% increase in net income to €87.1 million (return on equity: 10%), which accounted for more than 10% of the group's total consolidated earnings that year. In our base-case scenario we expect sound underwriting discipline and lower levels of asset impairments to drive net earnings above €90 million by year-end 2013.

Outlook

The negative outlook on Mapfre Re reflects that on Mapfre's core operating entities, which in turn mirrors that on Spain; any rating action on Spain is likely to trigger a similar action on Mapfre's core operating entities, including Mapfre Re.

We would likely lower the ratings on Mapfre's core operating subsidiaries by two notches if we were to lower the ratings on Spain by one notch, as, under our criteria, the maximum rating differential would be limited to one notch if the sovereign rating were to fall below 'BBB-'.

We could also lower the ratings on Mapfre's core operating entities by one notch if Mapfre's business, assets, or liability exposure to Spain and lower-rated countries were to increase to levels that no longer supported the two-notch differential under our criteria.

Conversely, we could revise the outlook to stable or raise the ratings on Mapfre's core operating entities following a similar rating action on Spain.

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