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# Mapfre Re, Compañia de Reaseguros, S.A.

**Primary Credit Analyst:**

Mark Coleman, London (44) 20-7176-7006; mark\_coleman@standardandpoors.com

**Secondary Credit Analyst:**

Peter McClean, London (44) 20-7176-7075; peter\_mcclean@standardandpoors.com

## Table Of Contents

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Major Rating Factors

Rationale

Outlook

Corporate Profile: Main Reinsurer Of Mapfre Group, And \$900 Million Portfolio Of International Open Market Business

Competitive Position: Strong Presence In Spanish-Speaking Markets, And Leading Provider Of Proportional Capacity

Management And Corporate Strategy: Strong And Increasingly Integrated With Mapfre Group

Accounting: Few TAC Adjustments To IFRS Numbers

Operating Performance: Strong And Very Stable Results That Exhibit Less Volatility Than Peers

Investments: Strong, But Higher Market Risk Tolerance

Liquidity: Very Strong Coverage Of Liabilities, Strong Cashflows

## Table Of Contents (cont.)

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Capitalization: Strong, But Weakened By Sustained Growth

Financial Flexibility: Strong History Of Support From Parent

# Mapfre Re, Compañia de Reaseguros, S.A.

## Major Rating Factors

### Strengths:

- Core to the Mapfre group
- Strong operating performance
- Strong competitive position in Spain and Latin America, and increasingly in the international reinsurance market
- Strong capitalization

### Weaknesses:

- Moderate size in a consolidating global industry
- High dependence on retrocession capacities arising from its role as the Mapfre group reinsurer

### Financial Strength Rating

Local Currency

AA/Stable/--

## Rationale

The ratings on Spain-based reinsurer Mapfre Re, Compañía de Reaseguros, S.A. (Mapfre Re) reflect its status as a core subsidiary of Spanish insurance group Mapfre S.A. (A+/Stable; main operating entities rated AA/Stable)--the Mapfre group or Mapfre--which is derived from Mapfre Re's increased role as the group's exclusive treaty reinsurer, management's strengthening links with other parts of the Mapfre group, and the track record of capital injections from the parent to fund the company's growth. Mapfre Re's predominantly proportional book of business is deemed to affect the risk profile of the entire Mapfre group only marginally, while bringing valuable diversification in non-Spanish property businesses. Mapfre Re is also regarded as a center of excellence within the group.

On a stand-alone basis, the ratings on Mapfre Re also reflect the company's strong operating performance, strong competitive position in the Spanish-speaking world, and strong capitalization. Offsetting these positive factors are the company's modest size in a global, consolidating reinsurance industry and its relative dependence on retrocession capacities arising from its role as the Mapfre group reinsurer.

## Outlook

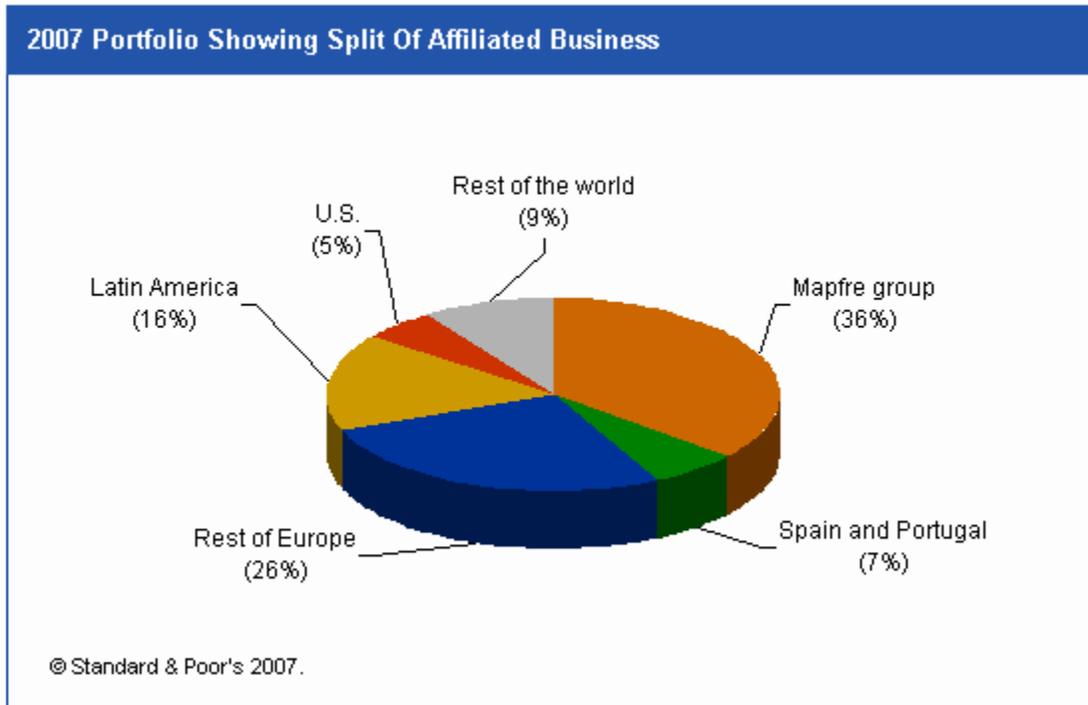
The stable outlook on Mapfre Re reflects the stable outlook on Mapfre S.A. As a core subsidiary of Mapfre S.A., the ratings on Mapfre Re will move in tandem with those on its majority shareholder.

## Corporate Profile: Main Reinsurer Of Mapfre Group, And \$900 Million Portfolio Of International Open Market Business

Mapfre Re was initially established to underwrite the reinsurance needs of the Mapfre group and to act as its international arm. Since becoming autonomous in 1988, it has significantly developed its profile as an international reinsurer, writing business on behalf of the Mapfre group and in the open market. In 2000, it acquired Chatham Reinsurance Corp. (subsequently renamed Mapfre Reinsurance Corp.; MRC) in the U.S., but in 2006, all new and renewal reinsurance business underwritten by this entity was transferred to a U.S. reinsurance trust of Mapfre Re,

while Canadian business was transferred to a newly created branch office in Canada. Mapfre S.A. is the majority 88% shareholder in Mapfre Re, with the remaining stakes held by several international insurers.

Chart 1



## Competitive Position: Strong Presence In Spanish-Speaking Markets, And Leading Provider Of Proportional Capacity

Table 1

Mapfre Re, Compañía de Reaseguros, S.A. (Consolidated)/Business Statistics					
	--Year-ended Dec. 31--				
(Mil. €)	2006	2005	2004	2003	2002
<b>Gross premiums written</b>					
Non-life gross premiums written	1,337	1,242	1,060	836	736
Life gross premiums written	101.0	95.7	72.4	30.7	24.0
Total gross premiums written	1,437.7	1,337.4	1,132.6	866.4	760.1
Non-life gross premiums written--annual change (%)	7.6	17.1	26.9	13.5	11.1
Life gross premiums written--annual change (%)	5.5	32.2	135.5	28.2	(6.3)
Total gross premiums written--annual change (%)	7.5	18.1	31	14.0	10.5
<b>Net premiums written</b>					
Non-life: net premiums written	894.8	830.8	710.4	549.3	452.6
Total net premiums written--annual change (%)	7.7	18.3	33.2	21.8	5.5

Mapfre Re has a strong competitive position that is derived from two facets; its exclusive role as treaty reinsurer to

the Mapfre group which provides a fast-growing and profitable revenue stream and international recognition; and a growing and diversified presence in the international reinsurance market which leverages the financial strength of its parent, but also reflects the strength of its cedent relationships that underpins its mostly proportional-based treaties. This strong competitive position is partly offset by Mapfre Re's relatively modest size in a global, consolidating reinsurance industry that is entering a softer phase of the pricing cycle, which will constrain Mapfre Re's growth ambitions.

### **Historical**

From its origins as a writer of mainly Mapfre group reinsurance, Mapfre Re has developed a strong stand-alone competitive position. Nonaffiliated business has been stable at about 64% of total premiums written over several years, as the pace of Mapfre group's international expansion has been matched by Mapfre Re. Including intragroup cessions, it is the market leader in Spain by virtue of Mapfre group's position. Spain and Portugal accounted for 41% of total premium income in 2006, but this is likely to reduce to about one-third of the total portfolio owing to international expansion, particularly in Latin America which is expected to provide one-quarter of total revenues in 2007. Internationally, Mapfre Re operates in 96 countries, with a strong franchise in Spain, Europe, and Latin America, together with smaller operations in the Middle East and Asia. Mapfre Re is able to write specialist products in these markets by utilizing the product expertise of the Mapfre group. The European operations are well spread and a new branch office has been opened in Munich to develop Mapfre Re's presence in Central and Eastern Europe, including Russia. This will position it against the dominant continental reinsurers, but it already underwrites approximately €60 million of premium in Germany and several experienced underwriters have been brought in.

Premium growth slowed to 7.5% on a gross basis in 2006 following an exceptional period of growth linked to Mapfre Re's higher international market profile in recent years. Standard & Poor's Ratings Services views positively the fact that most of its growth continues to be derived from existing cedents.

The company has a strong relationship with its cedents, reflected in its very high client retention ratio (approximately 90%) and the fact that 76% of its premiums are written directly (although a gradually increasing percentage is from brokers and this figure includes affiliated business).

Contrary to market trends, Mapfre continues to offer coverage mostly on a proportional basis (76% of the portfolio in 2006). This enables Mapfre to avoid competing with many of its larger peers, and reflects both the strength of its cedent relationships in Spain and the structure of the reinsurance arrangements with the Mapfre group, although some affiliated treaties have changed to excess of loss in 2006. Facultative coverage is mainly provided for external clients, and nonproportional treaties mostly for risks in Continental Europe, the U.K., and the U.S, but in the main are not underwritten from a lead position. Property is the dominant class of business overall, representing 60% of total premium in 2006, but motor, accident, and health and credit reinsurance provide a reasonable level of diversification overall.

### **Prospective**

Mapfre Re is expected to maintain its strong competitive position in the Iberian and Latin American markets while further increasing its presence in the international reinsurance markets by leveraging the financial strength of the parent, Mapfre group, and its existing strong cedent relationships. Growth is expected to moderate in 2007 to below 10% as pricing in both the primary and reinsurance markets is flat or softening, and Mapfre Re could start to face more competition for proportional business in Europe if nonproportional capacity is reallocated. Forecast

growth in the U.S. may also be difficult to achieve given Mapfre Re's recent cautious underwriting policy in this market and current pricing trends. Mapfre group is expected to remain a reliable source of revenue growth over the rating horizon, given its expansion in Latin America and recent acquisitions in Turkey, Italy, and Spain. The liberalization of the reinsurance market in Brazil should also provide growth opportunities for Mapfre Re in the long term, particularly in light of the Mapfre group's strong presence in this country.

## Management And Corporate Strategy: Strong And Increasingly Integrated With Mapfre Group

Mapfre Re's management and strategy are regarded as strong. The management team is long-standing and knowledgeable, focused on achieving long-term profitability through the company's quality of business, customer service, and prudent international expansion. Mapfre Re remains a center of excellence within Mapfre group, and the senior management team has assumed increased responsibility for running the international operations of the parent in recent years. Mapfre Re is also the "test-bed" for the development of economic capital models within the Mapfre group.

### Operational management

Mapfre Re has a tightly centralized underwriting policy, operating through branches rather than local companies, which is also more cost efficient. The only exception was MRC; however, U.S. business is now being underwritten from Madrid through a reinsurance trust. Local offices are restricted to underwriting only and are permanently linked to a central IT system in Madrid. This enables a detailed understanding of the make-up of Mapfre Re's business, and facilitates a good balance of the portfolio as viewed by territory, line of business, and type of reinsurance contract. Mapfre Re's strengthening market profile has enabled it to attract high-quality personnel from its competitors to achieve a wider understanding of other markets and practices.

### Financial management

Mapfre Re's financial strategy is conservative and focused on long-term goals, particularly with regard to international development. Capital management is strong, with capital and ROE allocated by management center, by country, and by line of business. The implementation of an economic capital model in line with Solvency II is expected to further strengthen Mapfre Re's capabilities in this discipline. Capital injections from the parent have been a feature of recent years, but in all cases have been made to finance future growth. An ROE of 13% in 2007 and an annual combined ratio below 100% are the main financial targets against which performance is assessed, which should be achievable. Mapfre Re is not expected to exhibit the level of earnings volatility of other reinsurers as the Mapfre group would not want its consolidated results to be an outlier relative to its insurance peers.

## Accounting: Few TAC Adjustments To IFRS Numbers

Effective 2005, the Mapfre group has changed the basis of its financial reporting from Spanish GAAP to IFRS. Principal differences are due to valuation of investments (IAS 39) and technical reserves (IFRS 4). Total adjusted capital in the Standard & Poor's capital model has been increased for the discounted value of loss reserves, and reduced by €48.8 million of assets that are not eligible for capital purposes, the largest of which is €29.4 million deferred acquisition costs. A deduction has also been made for Mapfre's estimate of its annual aggregate 1-in-250 year catastrophe loss.

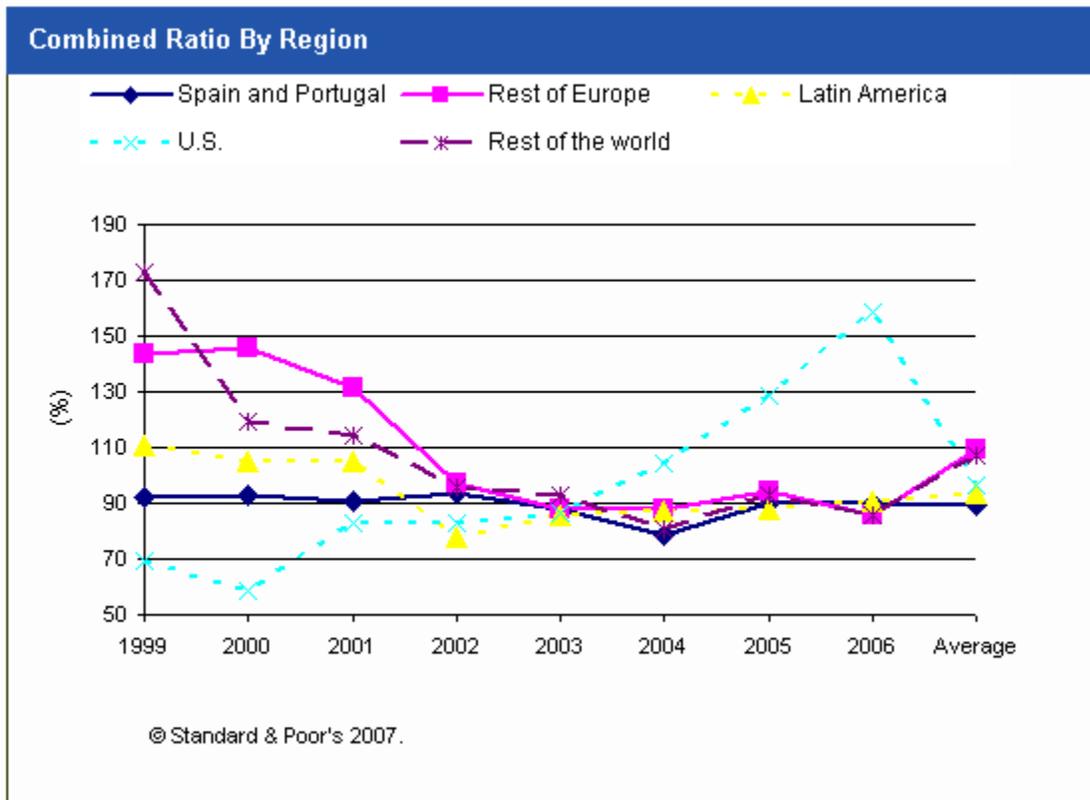
## Operating Performance: Strong And Very Stable Results That Exhibit Less Volatility Than Peers

Table 2

<b>Mapfre Re, Compañía de Reaseguros, S.A. (Consolidated)/Operating Statistics</b>					
<b>(Mil. €)</b>	<b>--Year-ended Dec. 31--</b>				
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
EBITDA	115.8	54.4	72.0	66.3	38.4
Net income	77.2	32.2	45.6	53.8	30.9
Non-life: gross loss ratio (%)	56.9	77.3	52.3	55.2	58.5
Non-life: gross combined ratio (%)	88.3	77.9	83.7	86.7	90.0
Non-life: net loss ratio (%)	57.6	67.6	58.5	58.4	60.9
Non-life: net expense ratio (%)	34.8	32.1	33.2	34.1	37.4
Non-life: net combined ratio (%)	92.3	99.7	91.7	92.5	98.3
Non-life: three-year average combined ratio	80.4	94.6	94.2	100.7	105.6
Non-life: five-year standard deviation net combined ratio (%)	3.8	7.9	8.8	9.3	6.3
Non-life: reinsurance result	(77.7)	83.4	(95.5)	(62.9)	(58.3)
Non-life: ROR (%)	7.7	7.0	12.2	11.5	8.3
Direct yield on invested assets (%)	3.6	3.8	3.7	3.9	5.1
Yield (incl. realized) (%)	3.6	4.5	3.3	4.4	6.1
Non-life: operating ratio (%)	92.3	53.2	87.8	88.5	91.7
Total investment return (incl. unrealized and realized) (%)	3.6	4.5	3.3	4.4	5.5
ROE--adjusted equity (%)	12.2	5.6	10.1	16.5	10.9
Five-year average ROE--reported equity (%)	11.6	9.2	8.9	6.0	3.4
Consolidated: ROR (%)	12.5	5.0	11.3	11.7	7.9
Consolidated: EBITDA (excl. nonrecurring)/total capitalization (%)	18.2	10.9	15.9	20.2	13.4

Operating performance is considered strong. Mapfre Re's core business in Spain and Portugal has consistently produced very strong returns, underscored by the 89.5% average combined ratio between 1999-2006, with a standard deviation of less than 5% during this period. With the exception of the U.S. in 2004 and 2005, international underwriting performance has been strong since 2002, with each of the main divisions reporting a five-year average combined ratio below 91%.

Chart 2



Earnings quality is good, with results expected to be less volatile than most peers writing international reinsurance business and benefiting from profits in the life portfolio, which have accounted for 8% of total pretax profits in the past two years.

Mapfre Re incurred €88 million of net losses from the 2005 U.S. hurricanes. This contributed more than 11 percentage points of the 99.7% non-life combined ratio in 2005, but relative to peers this indicates a moderate risk profile. Mapfre Re's U.S. business has underperformed, however, due to its high windstorm exposure.

In 2006, Mapfre Re reported net income of €77.2 million, a combined ratio of 92.3%, and ROR of 12.5%. Expenses are high, and increased to 34.8% of net premium earned in 2006, but are partly reflective of the proportional market, the need for local representation, and the group's growth in new markets.

### Prospective

Prospective earnings are expected to remain strong. General pricing trends in the reinsurance market are negative, but are less pervasive in the proportional markets in which Mapfre Re competes. An ROR just above 10% is expected in 2007, with the combined ratio remaining below 95%, inclusive of windstorm Kyril, the U.K. floods, and the earthquake in Peru.

## Investments: Strong, But Higher Market Risk Tolerance

**Table 3**

<b>Mapfre Re, Compañía de Reaseguros, S.A. (Consolidated)/Investment Statistics</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(Mil. €)</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Total investments	1,569	1,463	1,183	812	679
Investment in affiliates (%)	0.8	0.9	0.9	1.3	1.7
Bonds and other fixed-interest securities (%)	78	82	79	63	66
Equities and other variable-interest securities (%)	13.0	7.1	8.9	6.1	7.2
Property (%)	4.5	5.1	6.4	9.4	7.7
Cash and bank deposits (%)	2.9	4.0	3.3	18.8	15.9
Other investments (%)	1.0	1.1	1.8	1.3	1.2
Bonds & other fixed-interest securities	1,223	1,195	932	513	449
Bond credit risk profile: AAA (%)	45.7	42	47		
Bond credit risk profile: 'A' or better (%)	53.9	54	49		
Bond credit risk profile: 'BBB' (%)	0.4	0.4	1.5		
Bond credit risk profile: unrated (%)		4.0	2.1		
(Insurance & reinsurance receivables) /total assets (%)	6.9	7.3	6.6	9.3	10.1
Liquid assets/technical reserves (%)	130	131	135	119	116

### Strategy

Standard & Poor's regards Mapfre Re's investments as strong. Credit risk remains very low, but market risk increased in 2006 with the increased equity allocation in the investment portfolio. Active responsibility for all Mapfre group investments is centralized within Mapfre's investment management division.

### Credit risk

Credit risk is low, with about 90% of the predominantly government and supranational bond-based portfolio rated 'AA' or higher. The €339 million corporate bond portfolio is heavily weighted to financial services issuers, but is globally diversified.

### Market risk

Market risk has increased in 2006 following an increase of the equities exposure cap to 20% of the portfolio value. The bulk (78.0%) of the portfolio remains invested in bonds, but equities have nearly doubled to 13.0% of total investments in 2006. The portfolio comprises mostly Euro stocks, with a large weighting (44.0%) in Spanish equities. The remainder is held in property (4.5%) and cash (2.9%).

### Asset-liability management

The largely short-tail nature of Mapfre Re's portfolio means that asset-liability management is not regarded as a major issue.

## Liquidity: Very Strong Coverage Of Liabilities, Strong Cashflows

Liquidity is very strong, with 70.0% of assets held in highly liquid assets, which exceeded net technical reserves by 1.3x in 2006. On a gross basis, the ratio is 0.9x, as approximately 20% of reported assets are recoverable from reinsurers. Net cashflow was stable at €150.3 million in 2006, reflecting the strong revenue growth and profitability.

## Capitalization: Strong, But Weakened By Sustained Growth

Table 4

Mapfre Re, Compañía de Reaseguros, S.A. (Consolidated)/Financial Statistics					
	--Year-ended Dec. 31--				
(Mil. €)	2006	2005	2004	2003	2002
Total assets	2,135	2,002	1,620	1,184	1,018
Total adjusted equity	647	623	537	368	285
Change in adjusted equity (%)	3.9	15.9	46	29	1.8
Reinsurance exposure ratio (%)	37.4	50.7	24.5	36.1	59.0
Non-life: reinsurance utilization ratio (%)	33.1	33.1	33.0	34.3	38.5
Investment leverage (incl. all quasi capital) (%)	44.1	30.8	35.6	36.9	39.5
Non-life: net technical reserves/gross technical reserves (%)	65.8	62.9	70.8	68.5	63.7
Non-life: loss reserves/net premiums written (%)	52.3	57.9	47.6	47.9	59.2
Non-life: net claims reserves/net claims incurred (%)	102.1	92.8	97.7	93.7	111.6
Non-life: net claims paid/net claims incurred (%)	100.0	100.0	84.4	93.8	129.5

Mapfre Re has strong capitalization. Capital adequacy is strong, but has weakened due to the consistently high levels of premium growth. The quality of capital is strong, given the absence of financial leverage, predominantly short-tail book of business, stable reserve development, and generally conservative risk-retentions, although reinsurance dependence is high.

### Reserves

Mapfre Re's reserves are regarded as adequate. The mostly short-tail book of business has produced small run-off profits over a long period of time. On new international lines of business with a longer tail, such as motor, tail reserves are calculated based on the yearly estimated ultimate loss ratio until development patterns can be observed over at least five years.

### Retrocession

Mapfre group business is protected by a retrocession program down to a low retention level. Nonaffiliated business is in contrast underwritten without retrocession, except for a catastrophe cover.

The retrocessionnaires used by Mapfre Re are of strong quality, with 89% of covers placed with companies rated in the 'A' range or higher. The reinsurance utilization ratio remains higher than peers at 33%, but this reflects the group's role as reinsurer to the Mapfre group, through which risks are passed into the global reinsurance market. The reinsurance exposure ratio is moderate at 37.4% of capital.

Mapfre Re has the advantage of not being heavily exposed to catastrophe risks in Spain, which are covered by the

Consortio de Compensación de Seguros, a government-backed guarantee fund. European windstorm, U.S. windstorm, and earthquake represent the major perils in the international portfolio. The outwards catastrophe program would only provide cover up to a one-in-100 year event for certain perils in 2007 due to the availability of cover in the retrocession market at an economic price.

### Prospective

Standard & Poor's expects capitalization to remain strong as 2007 earnings are retained in full to finance anticipated growth.

## Financial Flexibility: Strong History Of Support From Parent

Mapfre Re's financial flexibility (defined as the ability to source capital relative to capital requirements) is strong (see table 4). Capital injections may be required to support further growth, or alternatively to help fund an acquisition. The parent group's commitment to funding growth has been demonstrated over recent years and Mapfre Re is expected to continue receiving capital support when required, owing to its increasing strategic position within the Mapfre group.

<b>Ratings Detail</b> (As Of August 31, 2007)*	
<b>Mapfre Re, Compañia de Reaseguros, S.A.</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Counterparty Credit Rating	
<i>Local Currency</i>	AA/Stable/--
<b>Related Entities</b>	
<b>Mapfre Empresas, Compañia de Seguros y Reaseguros, S.A.</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	AA/Stable/--
<b>Mapfre S.A.</b>	
Issuer Credit Rating	
<i>Local Currency</i>	A+/Stable/--
Senior Unsecured	
<i>Local Currency</i>	A+
Subordinated	
<i>Local Currency</i>	A-
<b>Holding Company</b>	Mapfre S.A.
<b>Domicile</b>	Spain

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

### Additional Contact:

Insurance Ratings Europe; [InsuranceInteractive\\_Europe@standardandpoors.com](mailto:InsuranceInteractive_Europe@standardandpoors.com)

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