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Mapfre Re, Compania de Reaseguros, S.A.

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Mapfre Re, Compañia de Reaseguros, S.A.

Major Rating Factors

Strengths:

- Core to the Mapfre group.
- Strong operating performance, despite increasing exposure to catastrophe risk.
- Strong competitive position in Spain and Latin America, and increasingly in the international reinsurance market.
- Strong capitalization, in line with the group.

Weaknesses:

- Moderate size in a consolidating global industry.
- High dependence on retrocession capacities, which stem from its role as reinsurer of the Mapfre group.
- Heightened country and investment risk exposure, resulting from the significant exposure to Spanish securities and Spanish business.

**Operating Company Covered
By This Report**

Financial Strength Rating

Local Currency

A-/Negative/--

Rationale

The ratings on Spain-based reinsurer Mapfre Re, Compañía de Reaseguros, S.A. (Mapfre Re; A-/Negative/--) reflect its status as a core subsidiary of Spanish insurance group Mapfre (main operating entities are rated A-/Negative), which 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. Mapfre Re's predominantly proportional book of business is deemed to affect the entire Mapfre group's risk profile only marginally, while bringing valuable diversification in non-Spanish property businesses.

Mapfre Re acts as the sole reinsurer for the whole Mapfre Group, with obvious benefits in terms of risk management and costs and is regarded as a center of excellence within the group. We believe Mapfre Re could not be disposed of over the medium term without causing significant disruption to the ability of the Mapfre group to reach its strategic objectives. Although legally separated, it effectively operates as a division in relation to the group business and is highly integrated with the group.

Mapfre Re has a strong competitive position that is derived 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. A stable 37% of Mapfre Re's business is intra-group. Strong cedant relationships, built via strong underwriting, underpin its mostly proportional-based treaties. Mapfre Re's strong competitive position is offset by its relatively modest size in a global, consolidating reinsurance industry. Furthermore, with some 20% of its business written in Spain and Portugal and 26% in countries rated lower than Spain, Mapfre Re is exposed to significant, although lower than the Mapfre group, country risk.

Mapfre Re benefits from strong capitalization. Capital adequacy is sound, in line with the group's consolidated level of capitalization, and is expected to remain so as long as growth continues to be financed by a high level 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. In our opinion and in line with the Mapfre group, Mapfre Re's credit risk exposure has increased over the past 12 months, however. At June 2012, we estimate Mapfre Re had some €0.76 billion invested in Spanish sovereign and financial institution debt (35% of its fixed-income portfolio or 0.9x its shareholders' funds). Notwithstanding that the reinsurer is slowly reducing this concentration, it continues to be exposed to the risks associated with the deterioration of Spanish government and financial institution credit quality. Mapfre Re's quality of capital is strong, reflecting the absence of financial leverage, the predominantly short-tail book of business, Mapfre Re's favorable reserve development, and the generally conservative risk retentions. The reinsurance utilization ratio remains higher than peers at 32%.

We consider Mapfre Re's operating performance to be strong and generally more stable than the rest of the industry over a 10-year period. Mapfre Re is not heavily exposed to catastrophe risks in Spain, which are largely covered by the Consorcio de Compensación de Seguros, and where, together with Portugal, it has produced an average combined ratio below 90% from 1999 to 2011. Mapfre Re is, however, increasing its exposure to major corporate risks and natural catastrophes as, in line with the Mapfre group, it increases its geographic diversification outside Spain. Mapfre Re is, however, demonstrating a strong ability to withstand the impact of losses from catastrophic events, as witnessed over the years 2011 and 2010. In 2011, Mapfre Re's net non-life combined ratio weakened to 101.3% from 95.5% in 2010 (Mapfre group 97.5% in 2011 and 96.5% in 2010). We believe, however, Mapfre Re's performance in 2011 remained strong when taking into account the record €270 million net losses derived from the 2011 natural catastrophe. As a result, in 2011 reported net income decreased by 37% to €78.6 million, with an ROE at 9.3%. In our base-case scenario we expect sound underwriting discipline and lower levels of natural catastrophe to drive an end-of-the year combined ratio below 98% in 2012 and ROE in line with the 12% target.

Outlook

The negative outlook on Mapfre Re reflects that 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.

The negative outlook on Mapfre group's core operating entities reflects that on Spain and our view of the potential weakening in Mapfre's business and financial risk profiles if the operating, economic, and financial environment in Spain were to deteriorate further.

We could lower the ratings on Mapfre's core operating subsidiaries if we were to lower the ratings on Spain. We could also lower the ratings on Mapfre if the country risk exposure were to significantly increase as a result of increased exposure to Spain and/or increasing difficult operating conditions in Spain; or if the level or quality of capital and the investment portfolio were to deteriorate further. Conversely, we could revise the outlook to stable following a similar rating action on Spain and if pressure on Mapfre's capital and investment quality were to ease.

Corporate Profile: Main Reinsurer Of The Mapfre Group, And An Increasingly Global Franchise In The Open Market

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, Mapfre Re has significantly developed its profile as an international reinsurer. It reported €2.6 billion gross and €1.8 billion net written premiums in 2011. In 2010 it ranked as the 15th largest reinsurer in the world, based on net inward reinsurance premiums written (total market share is estimated at around 1%). It mostly operates via branches and offices, with subsidiaries only in Chile and Brazil.

Mapfre S.A. is the majority 91.5% shareholder in Mapfre Re, with the remaining stakes held by several international insurers. Within the Mapfre group, Mapfre Re forms part of the Global Businesses division, together with Mapfre Global Risks and Mapfre Asistencia.

In 2011 it generated €1,662.5 million of non-group premiums (8.5% of total Mapfre group consolidated premiums) and €78.6 million of net profits (8% of the total Mapfre group). With €0.85 billion shareholder funds, Mapfre Re also accounted for 8% of the group's net assets.

Table 1

Mapfre Re, Compañia de Reaseguros, S.A. -- Competitive Position					
€ Mil	year end Dec. 31				
	2011	2010	2009	2008	2007
Gross premium written	2,631	2,372	2,054	1,779	1,601
Annual change in gross premium written (%)	10.92	15.48	15.47	11.08	11.37
Net premium written	1,784	1,604	1,400	1,195	1,066
Annual change in net premium written (%)	11.26	14.53	17.20	12.01	8.35
Total invested assets	2,569	2,355	2,162	1,899	1,739
Growth in invested assets (%)	9.13	8.92	13.84	9.23	10.83

Table 2

Mapfre Re, Compañia de Reaseguros, S.A. -- Operating Performance					
€ Mil	year end Dec. 31				
	2011	2010	2009	2008	2007
Return on revenue (%)	4.8	9.76	11.51	10.74	12.46
Return on revenue (including realized & unrealized gains/losses) (%)	5.75	10.96	11.42	11.95	12.58
Life: Return on revenue including realized & unrealized gains/(losses) (%)	12.12	13.25	12.34	12.76	5.84
PC: Return on revenue including realized & unrealized gains/(losses) (%)	4.47	10.63	11.31	11.86	13.35
Return on equity (%)	9.27	14.71	14.22	14.11	12.79
Net loss ratio (%)	72	66.74	64.38	65.24	61.69
Total net expense ratio (%)	28.88	28.52	29.6	30.4	31.56
Net combined ratio (%)	100.88	95.25	93.98	95.64	93.25
PC: Gross loss ratio (%)	69.23	84.74	58.41	61.77	53.1

Table 2

Mapfre Re, Compañia de Reaseguros, S.A. -- Operating Performance (cont.)					
PC: Net loss ratio (%)	72.06	66.48	63.57	65.06	60.03
PC: Total net expense ratio (%)	29.23	29.04	30.1	30.71	32.18
PC: Net combined ratio (%)	101.3	95.53	93.67	95.77	92.2
Life: General expense ratio (%)	28.27	24.6	22.29	28.9	21.86
Net investment yield (%)	4.24	3.64	4.01	4.46	3.94
Net investment yield including all capital gains/ (losses) (%)	5.15	4.44	4.17	3.79	4.75

Table 3

Mapfre Re, Compañia de Reaseguros, S.A. -- Investments and Liquidity					
€ Mil	year end Dec. 31				
	2011	2010	2009	2008	2007
Illiquid invested assets / Total invested assets (%)	6.61	6.79	9.02	13.87	5.29
High risk assets / Total invested assets (%)	16.46	16.01	17.28	23.75	18.88
Common equity investments / Capital (%)	29.91	25.64	21.29	25.35	32.68
Real estate investments / Capital (%)	1.65	8.40	7.90	8.24	9.11
Liquidity ratio (x)	8.85	7.49	6.75	7.55	7.81
Invested assets / Loss & unearned premium reserve (%)	138.56	145.87	154.25	151.09	157.55
P/C: Liquid assets to technical reserves	129.40	135.97	140.33	130.14	149.21
Investment Portfolio Composition					
Cash & cash equivalents (%)	5.83	5.45	3.04	1.78	1.85
Total bonds (%)	77.71	78.54	79.68	74.46	79.27
Common stock (%)	9.85	9.22	8.25	9.89	13.59
Real estate (%)	0.54	3.02	3.06	3.21	3.79
Investments in affiliates (%)	0.42	0.66	0.60	0.59	0.75
Other investments (%)	5.64	3.10	5.36	10.06	0.76
Total portfolio composition (%)	100	100	100	100	100

Table 4

Mapfre Re, Compañia de Reaseguros, S.A. -- Capitalization					
€ Mil	year end Dec. 31				
	2011	2010	2009	2008	2007
High risk assets / Total adjusted capital (%)	50.00	44.51	44.57	60.91	45.41
PC: Net loss reserves / Gross loss reserves (%)	61.82	57.15	74.20	69.15	71.82
PC: Loss reserves / Total adjusted equity (%)	120.11	94.08	81.53	83.09	71.97
PC: Loss reserves / Net premium written (%)	68.20	57.12	54.87	56.56	54.26
PC: Loss & unearned premium reserve / Net premium written (%)	124.00	115.00	112.00	115.00	115.00
Reinsurance utilization (%)	32.18	32.38	31.83	32.83	33.39

Ratings Detail (As Of August 10, 2012)

Operating Company Covered By This Report

Mapfre Re, Compañia de Reaseguros, S.A.

Financial Strength Rating

Local Currency

A-/Negative/--

Ratings Detail (As Of August 10, 2012) (cont.)

Counterparty Credit Rating

Local Currency

A-/Negative/--

Domicile

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.

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