



Fitch Maintains Tranquilidade's 'BBB-' IFS on RWN

28 Sep 2011 10:05 AM (EDT) Fitch Ratings-London-28 September 2011: Fitch Ratings has maintained Portuguese insurer, Companhia de Seguros Tranquilidade S.A.'s (Tranquilidade) 'BBB-' Insurer Financial Strength (IFS) rating on Rating Watch Negative (RWN).

On 1 April 2011, Fitch downgraded Portugal's sovereign rating Long-term foreign and local currency Issuer Default Ratings (IDR), to 'BBB-' from 'A-' and placed all ratings on RWN (see 'Fitch Downgrades Portugal to 'BBB-'; On RWN' dated 01 April 2011 on www.fitchratings.com). Fitch subsequently downgraded Tranquilidade's ratings, reflecting the significant business and investment concentration Tranquilidade has as a large domestic Portuguese insurer. Fitch plans to resolve the RWN status on both Portugal's sovereign rating and Tranquilidade during Q411.

Favourably, Tranquilidade has a strong franchise and market position within the Portuguese insurance market, an experienced management team, and financial flexibility due to being part of the Espírito Santo Financial Group. Tranquilidade also operates under the integrated 'Assurfinance' model, cooperating with Banco Espírito Santo in a two-way relationship to realise cross-selling potential.

The company has historically demonstrated strong levels of performance although recently the highly competitive nature of the domestic market has posed significant operating challenges for the company. Fitch's rating expectations anticipated a favourable trend in underwriting results that has not materialised to date. In particular, the calendar year combined ratio has been above 100% since 2007 and recent accident year results have been materially worse. Positively, the agency anticipates that technical results for FY2011 will show improvement. Portugal's challenging domestic economy will likely be a further strain on profitability in the near term.

Tranquilidade uses an active management investment strategy for its investments. The portfolio is characterised by a bond portfolio that has an average rating of 'BBB' and low exposure to riskier asset classes including equities. However, at year-end 2010, the company had a EUR390m exposure to peripheral euro zone countries (Portugal, Spain, Italy, Greece and Ireland). Approximately two-thirds of this exposure was invested in Portugal with approximately 60% of Portugal exposure related to corporate debt. While this exposure is typical for a domestic Portugal insurer, it nonetheless further exposes the company to the Portuguese economy.

The culmination of the troubled domestic economy coupled with asset concentration in Portugal poses significant event risk that causes Tranquilidade's ratings to be reviewed in conjunction with the Portugal sovereign rating.

A further deterioration of the Portugal sovereign rating could lead to a rating downgrade. A material loss of profitability or underperformance relative to peers, or a failure to maintain a disciplined underwriting approach in the current competitive domestic market environment could lead to negative rating pressure.

The agency would view cautiously a significant expansion into a market, either geographical or product, where management has little expertise.

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Additional information is available on www.fitchratings.com
Applicable criteria, 'Insurance Rating Methodology' dated 22 September 2011 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Insurance Rating Methodology

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