

August 4, 2009

Research Update:

**QBE del Istmo Mexico, Cia. de
Reaseguros S.A. de C.V. 'BBB-'
Ratings Affirmed; Outlook Remains
Stable**

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QBE del Istmo Mexico, Cia. de Reaseguros S.A. de C.V. 'BBB-' Ratings Affirmed; Outlook Remains Stable

Overview

- QBE del Istmo México, Cía. de Reaseguros S.A. de C.V. (QBEMEX) registered a 49.8% combined ratio in June 2009, which is in line with our expectations.
- We are affirming our 'BBB-' ratings on QBEMEX.
- The outlook remains stable. It mirrors the outlook on the parent company, QBERIO, reflecting our view of QBEMEX as a core subsidiary.

Rating Action

On Aug. 4, 2009, Standard & Poor's Ratings Services affirmed its 'BBB-' long-term counterparty credit and financial ratings on QBE del Istmo México, Cía. de Reaseguros S.A. de C.V. (QBEMEX). We also affirmed our 'mxAA' Mexico national scale rating on QBEMEX. The outlook remains stable.

Rationale

The ratings reflect our view of QBEMEX as a core subsidiary of QBE del Istmo, Cía. de Reaseguros Inc. (QBERIO; BBB-/Stable/--). The company's core group status is based on a variety of factors. QBEMEX operates property and casualty lines, which are compatible with QBERIO's mainstream business.

The QBE del Istmo brand is maintained, leveraging on the group's name. QBEMEX operates more as a division within the enterprise and exhibits the same types of business and is aligned with the group's focus in Latin America.

The Mexican operation was established specifically to serve the second-largest market in Latin America and to take advantage of potential growth opportunities. QBERIO's senior managers are deeply involved in QBEMEX's day-to-day operations. However, QBEMEX has its own management team and operating capabilities. The Mexican subsidiary is adequately capitalized to QBERIO's levels. We believe it is highly unlikely that QBEMEX will be sold, given its significant size within the group and the strategic target of maintaining a local operation in Mexico.

QBEMEX registered a 49.8% combined ratio in June 2009, which is in line with our expectations. We expect an increase in claims during the second quarter of the year related to the hurricane season, but the company's combined ratio should remain at less than 100%. By the end of second-quarter 2009, the Mexican subsidiary registered 121% growth in its net income compared with the same period in 2008. The strong performance of the reinsurance company results mainly from a good claims performance.

Outlook

The stable outlook on QBEMEX reflects that on its parent company, QBERIO. We believe it will achieve further diversification of its product base, lines of business, and clients. The company's strong capital levels will continue to support the growth of the reinsurance company under conservative underwriting practices. Further improvements in the risk profile of QBERIO's business mix, along with maintenance of good profitability and capital, could benefit the ratings. On the contrary, if underwriting performance or capitalization deteriorate substantially, we could lower the ratings.

Related Research

"Table Of Contents: Standard & Poor's Insurance Ratings Criteria," July 7, 2009

Ratings List

Ratings Affirmed

QBE del Istmo Mexico, Cia de Reaseguros, S.A. de C.V.
Counterparty Credit Rating
Local Currency BBB-/Stable/--
Financial Strength Rating
Local Currency BBB-/Stable/--
Mexico National Scale Rating mxAA/Stable

QBE del Istmo, Cia. de Reaseguros, Inc.
Financial Strength Rating
Local Currency BBB-/Stable/--
Counterparty Credit Rating
Local Currency BBB-/Stable/--

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